

Boosting employment in post-COVID Finland

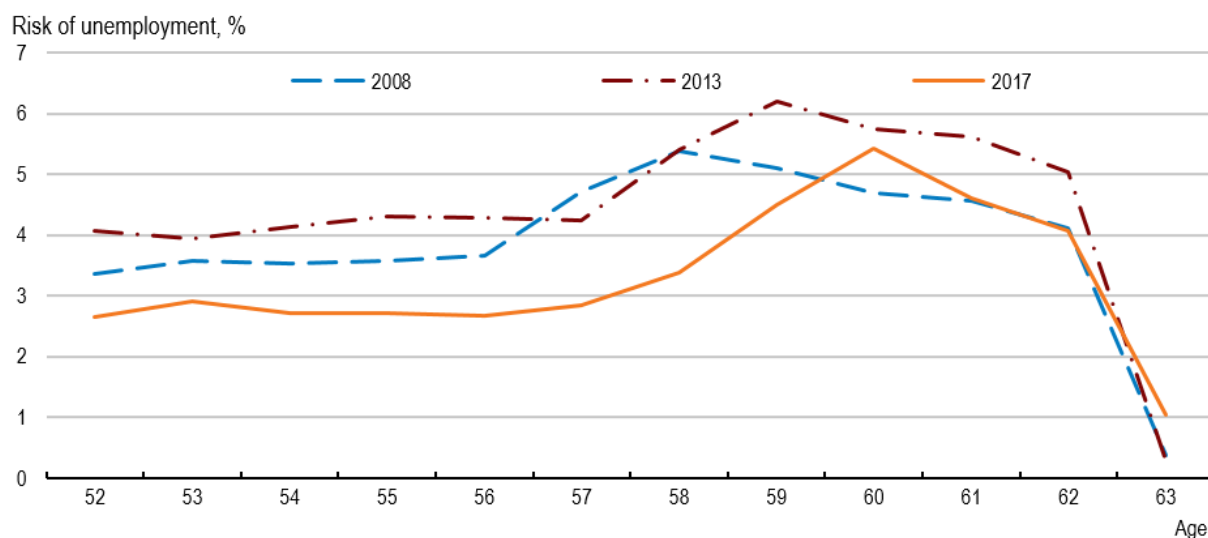
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In the context of the large economic contraction and debt build-up in the wake of the COVID-19 pandemic, the government of Finland is formulating reforms to raise employment by 80 000 persons by 2029. Achieving this would raise the employment rate from the estimated 70.8% in 2020 to 73.7% in 2029, reversing the labour market damage caused by COVID-19 and reducing, but not eliminating the structural budget deficit.

Before the pandemic, Finland's employment rate was 73% in 2019, lagging behind the average of Scandinavian Nordics (76%). The largest contribution to the employment rate gap was made by the 60-64 year-old age group. Finland grants to older workers with sufficiently long working period unemployment benefit entitlements that are not only longer than those for younger workers but can also be extended from the age of 61 up to the statutory retirement age. This extension, often dubbed the unemployment tunnel, provides strong disincentives to continue working. It also induces employers to target older workers in redundancies, even though large employers are obliged to finance a part of the unemployment benefits claimed by their former employees who entered the tunnel. The risk of unemployment increases markedly as workers near the age at which they become eligible to the unemployment tunnel (Figure 1). Past reforms that raised the eligibility age in steps from 59 to 61 have pushed back the timing of the sharp rise in unemployment risks each time, effectively lengthening the working lives of older workers (Figure 1). The 2020 Economic

Survey of Finland, published in 10 December 2020, recommended abolishing the unemployment tunnel. A week later, the government announced its decision to abolish the tunnel by 2025.

Figure 1. Unemployment risk spikes near the eligibility age for the unemployment tunnel



Source: Ministry of Finance, Ministry of Economic Affairs and Employment and Ministry of Social Affairs and Health (2019), *Selvitys eläkeuudistuksessa sovittujen lisäpäiväoikeuteen ja ikääntyneiden aktivointiin tehtyjen muutosten vaikutuksista*.

In Finland, inflow into disability benefits has often increased when access to other early retirement pathways was tightened by policy changes. Early retirement via disability benefits is facilitated by more lenient eligibility criteria for awarding disability benefits applied to individuals aged 60 and over, which include non-medical factors. The Survey recommends aligning the criteria between older and younger individuals, namely by not taking into account non-medical factors. This is important for avoiding the surge of inflow into disability benefits as the unemployment tunnel is being phased out.

In order to ensure that these supply-side reforms result in higher employment, additional policy efforts to place older workers in jobs are needed. Activation requirements for the

older unemployed should be applied with the same vigour as for other unemployed persons. The capacity of the public employment service needs to be strengthened by focusing resources on providing essential services like face-to-face counselling while making more use of private providers expertise and digital technologies. Ample upskilling opportunities should be provided to workers with higher risks of jobs loss at old age, such as those with jobs exposed to automation risks (Yashiro et al., 2021). Although the participation in adult education in Finland is relatively high, old and unskilled workers participate much less, as in other OECD countries. Finland's adult education is biased toward formal education at higher education institutions, making it less attractive to the low skilled. The government should bolster targeted trainings, referencing successful examples in other OECD countries, such as the *Unionlearn* scheme in the United Kingdom where Union Learning Representatives help workers identify their training needs and arrange learning opportunities within their companies.

Another population group contributing to Finland's relatively low employment rate vis-à-vis its Scandinavian peers is young women (30 to 34). However, the lower employment rate among this group is mainly due to differences in the statistical treatment of maternity leave between Finland and Sweden. The work attendance rates, which measure the share of persons who were at work during the surveyed week, are about the same between the two countries. However, the attendance rates are still considerably lower in Finland among mothers of children aged up to three years old, owing to the generous social benefit granted for taking care of children at home instead of using childcare services provided by municipalities. Removing this financial disincentive would encourage return to work by young mothers, thereby avoiding their career development being hampered by a long absence from work, which would help reduce the large gender pay gap.

Further reading:

OECD (2020), *OECD Economic Surveys: Finland 2020*, OECD Publishing, Paris.

REFERENCE

Yashiro et al. (2021), "Technology, labour market institutions and early retirement: evidence from Finland", *OECD Economics Department Working Papers*, Forthcoming, OECD Publishing, Paris.