

Assessment and recommendations

The Finnish economy is recovering from a decade of serious economic shocks. In addition to the global economic crisis of 2008-09, the country faced major difficulties in the electronic and forest industries and was affected by a severe recession in neighbouring Russia. A wide range of structural reforms and an ambitious competitiveness programme helped weather the impact of those shocks and the economy re-gained strong momentum in 2016, with an average GDP growth of 2.6% between 2016 and 2018.

Nevertheless, employment recovery has been slow and unemployment remains relatively high, not only for young people, but for all age groups. While persistently weak labour market performance partly reflects a lagged response to recent economic recovery, policy settings play an equally important role in holding back labour supply. The combination of quite generous working-age benefits and high income taxes reduces work incentives and, consequently, employment. The compressed wage distribution further reduces incentives to hire low-productivity workers, affecting people with low education or low skills in particular. As a result, Finland's labour market performance has always been markedly weak compared with other Nordic countries, with employment and unemployment rates performing barely above OECD averages.

How do Finnish youth fare in the labour market?

The employment rate of young Finns aged 15 to 29 stood at 54.6% in 2017, slightly above the OECD average of 53.3%, but well below the rates observed in Norway and Sweden. Finnish young women tend to perform better than their counterparts in other OECD countries, while Finnish young men perform worse than their peers. Relatively high shares of Finnish youth hold temporary jobs (44% of the age group 15-24) or would like to work full-time but only find part-time jobs (24% of all part-timers); both indicators are significantly higher than the respective OECD averages (25% and 14%).

Youth unemployment rates for the age group 15 to 29 reached 14.7% in 2017, placing Finland seventh highest in the OECD ranking, just behind France and Portugal. The high unemployment rate is not only the result of the economic recession; the large number of students searching for part-time employment in Finland contributes to this relatively high youth unemployment rate, as in other Nordic countries. An alternative indicator for youth labour market performance is the share of young people who are not in employment, education or training (NEETs). While unemployed students are not included in this rate since they are in education, the NEET rate does cover young people who are inactive, a group the unemployment rate does not capture.

In 2017, 11.9% of the Finnish youth population aged 15-29 were NEET, a rate below the OECD average of 13.4%. The majority of NEETs (60%) are currently not looking for work (they are considered inactive NEETs) – a share close to the OECD average – but only one third will remain NEET for more than one year – well below the one in two on average across European OECD countries. The difficult economic conditions of the past

decade had only a limited impact on the risk to become NEET: between 2007 and 2017, the NEET rate rose by 2.4 percentage points. For comparison, the unemployment rate rose by 3 percentage points.

Who are NEETs in Finland, and what are the risk factors?

- Low educational attainment is the most important driver of the NEET status in Finland. Youth who failed to complete upper secondary education account for nearly half of all NEETs, and they are three times more likely to be NEET than those with tertiary education. Even so, as a result of the high quality standards in the Finnish education system, Finnish NEETs tend to have much higher skills proficiency than their counterparts in most other OECD countries.
- The likelihood to become NEET in Finland is equal among young women and young men, but their reasons differ. Inactive female NEETs state caring and family responsibilities as a primary reason for inactivity (50%), while inactive male NEETs declare illness and disability (37%) as principal reasons.
- (Mental) health concerns and substance abuse are widespread among NEETs, and the situation is worse in Finland than in many other OECD countries. NEETs are much more likely to feel depressed than their peers, and secondary in- and out-patient mental health service and psychiatric drug use is common. The use of such services also increases significantly with the length of NEET spells.
- Disadvantage and the risk of exclusion grows as the length of NEET spells increase. While many youth may find themselves NEETs at some point, (mental) health and social issues are particularly important among young individuals with long NEET spells. The transmission of disadvantage and parents' (lower) socio-economic background is especially marked among long-term NEETs.

Improving the transition from school to work

Finland is renowned for the excellent results in its compulsory schools and receives daily visits from education specialists from all over the world who would like to learn from Finland's success. In the latest PISA survey on skills of the 15-year-olds, Finland ranked second among OECD countries in science, third in reading, fifth in problem solving and sixth in mathematics. Finland's success in compulsory schooling is partly because teachers are valued by society and enjoy good working conditions, relatively high salaries, smaller classes and fewer teaching hours than the OECD average. Another feature of Finnish schools is the well-developed system to detect pupils with special needs early and provide timely interventions. Teachers are well trained in identifying learning difficulties and in adapting their instruction accordingly.

Despite the outstanding performance of Finland's education system, the transition from school to work is not straightforward for many young Finns. Low-skilled youth face severe constraints in finding a job in an economy dominated by high-skilled jobs, while a very selective higher education system delays the entry into tertiary education. These barriers do not only contribute to high unemployment rates, but also translate into a qualification mismatch. Nine out of ten jobs in shortage in Finland are of the high-skilled type, and more than one out of five Finnish workers have qualifications that are below those usually held by workers in their jobs – one of the highest shares in the OECD. With

a comparative advantage in knowledge-intensive industries, the economy displays a strong need for high-skilled workers, which the education system seems unable to deliver.

Raising completion rates in upper secondary education

Nearly all Finnish children graduate from compulsory education and more than 95% of them make the transition from compulsory to upper-secondary school. Approximately 55% chose the general curriculum, while the remaining 45% enrol in vocational education and training. Even though overall completion rates in upper secondary education are quite high in Finland compared with many other OECD countries, one in four vocational students do not obtain their upper secondary degree within two years after expected graduation. A major reform of the vocational upper secondary education system in 2018 aims to create a more customer-oriented and competence-based system and to improve efficiency. The funding model will encourage education providers to adopt measures to raise completion rates and reduce school dropout, but there may be additional ways to reach this goal. To start, Finland could further close the gap between students' expectations and curriculum by introducing cross-age peer counselling, as in Denmark and the United States, whereby upper secondary students mentor last-year lower secondary students.

Second, the vocational reform encourages education providers to better support students throughout their studies, as a substantial part of the funding will depend on graduation rates and outcomes in the labour market. However, a downside of the new financing model is that schools are discouraged from taking in low-performing students, since their probability to complete their education programme is lower. The impact of the new financing model on the performance of students with additional needs should be closely monitored. If needed, the financing model could be adjusted with a budget multiplier for each student who received intensified or special support during compulsory education. The alternative is a separate budget for special support services.

Third, Finland may also want to raise the compulsory schooling age to 18 years to limit the impact of myopic behaviour among youth. Compulsory schooling laws are indeed a common policy tool to achieve greater participation in education, particularly from marginalised groups. Since raising completion rates is a priority of the reforms in upper secondary education, many of the costs related to increased participation will be incurred anyway, even if the compulsory schooling age is not increased. In fact, the main extra cost induced by a reform of compulsory schooling age would consist in providing learning materials and books for free, a requirement for compulsory schooling in Finland. In turn, free upper-secondary education could further encourage the poorest segments of the population to continue their education.

Fourth, support networks outside of schools – e.g. social and health services, public employment services and, possibly, non-governmental organisations – play an important role in addressing more severe or long-lasting problems that schools are incapable of dealing with on their own. The range of such services available to youth in Finland is remarkable, including youth outreach workers to reconnect youth with education or employment, youth workshops for on-the-job training and career guidance, integrated services for youth at risk of social exclusion, and comprehensive support for young men excluded from compulsory military service. Even so, not all regions are properly served and digital services should be developed to reach young people living in distant areas.

Easing the transition from upper secondary to tertiary education

Finland has one of the most selective higher education system in the OECD, with 67% of applicants rejected each year, compared with an OECD average of 30%. This high selectivity delays the start of studies, forcing applicants to take unwanted gap years and repeat the tests. Only 25% of upper secondary graduates manage to continue their tertiary studies immediately after graduation and the average age at which Finnish students enter tertiary education for the first time is amongst the highest in the OECD. Given the strong demand for high-skilled workers and persistent shortages in high-skilled jobs, the high selectivity and limited capacity of the higher education system do not seem appropriate and could be harmful for the Finnish economy.

To improve the transition from secondary to tertiary education, universities and polytechnics agreed to modify their admission procedures. By 2020, matriculation examination results will be the main entry path into tertiary education. The admission system could be further improved by developing flexible ways for students who wish to switch between programmes or complement their studies with selected parts from other programmes and to allow for recognition of prior learning to encourage participation of non-traditional learners. Finland may also want to expand the capacity of the higher education system to fill the shortages in high-skilled occupations.

A reform of the study financial aid system in 2017 shifted the focus from study grants to student loans and an increase in the take-up of loans in the year following the reform suggests that students effectively compensated the lower grant amounts with student loans. According to statistics from Finnish Social Insurance Institution, three in four students aged 20-24 received a study grant during the school year 2017/18 and more than 90% of them complemented their grant with a loan. However, it is unclear to what extent the lower study grant has discouraged students from enrolling in education, as there has been a notable decrease in the share of 20-24-year olds enrolled in education.

With Finland's generous social assistance system, there is a considerable trade-off for young people, in particular those coming from poorer families, between paying for higher education or opting for generous social assistance benefits. The trend in education enrolment should therefore be carefully monitored. If the enrolment rate continues to drop, Finland could consider exempting people whose taxable income is too low from repaying their student loan, and not only interest rates as is currently the case. A similar approach has proven successful in the United Kingdom, not only to keep enrolment in tertiary education high, but especially to encourage participation from the poorer segments of the population.

Improving the pathway from vocational education to employment

The vocational education reform aims to increase learning in the workplace by allowing for different forms of learning at work and making apprenticeships more attractive. While the stronger focus on workplace learning should be conducive to a better alignment of labour supply with labour demand, employers' interest in apprenticeships has always been limited in Finland. The main question therefore is how to better engage employers. In 2016, only one out of eleven upper secondary students did an apprenticeship in Finland, despite the country's high share of vocational students.

To promote collaboration between the vocational education system and employers, it is essential to involve social partners in the design and implementation of workplace learning schemes. Employers are in a strong position to see if qualifications and curricula

meet current labour market needs and they can guide their adaptation to changing requirements. It would also be worth undertaking a cost-benefit analysis to better understand the cost-benefit balance for employers of the different workplace learning options. Such empirical evidence could then underpin policy choices to improve employer engagement. While it is important to support employers, the government should be cautious with universal tax breaks or subsidies aimed at employers. With the possible exception of well-designed and well-implemented employer-driven levy systems, the government would be better served by targeting funding at measures designed to help improve the quality of in-company training and reduce administrative costs. Such measures are especially important for smaller employers.

Even though the Finnish vocational education system has further and specialist vocational qualifications beyond upper secondary vocational qualifications, these postsecondary options are mainly intended for people with work experience rather than for upper secondary school-leavers. The development of short postsecondary vocational programmes for upper secondary graduates would provide an effective way to help vocational graduates to gain more technical expertise, management and other skills, and improve their prospects on the labour market. For instance, Sweden successfully created such a programme from scratch that rapidly attracted growing numbers of students. Postsecondary vocational options would also be a way to reduce the waiting lists for the highly selective tertiary education system and speed up the labour market entry for many youth.

Strengthening support for young people

Finland is making considerable investments in social benefits that provide youth with stable income and in services that help them complete meaningful education, address social and health problems, and access employment. Support also targets and reaches disadvantaged youth. However, overall social and labour market outcomes for young people in Finland do not fully reflect the size of the investments made: youth poverty and youth unemployment rates are high. These outcomes are related to institutional factors, which include benefits and services that are generous but fragmented and disconnected, weak activation and a limited focus on assessing the effectiveness of services.

Responding to the fragmentation of the benefit system

The large number of different benefits that youth in Finland can access and the different rules regulating benefit eligibility and benefit levels lead to high benefit receipt rates, considerable benefit dependency, and substantial and highly variable disincentives to work. A more streamlined system with fewer benefits available for youth would address some of these issues and a single working-age payment, as proposed in previous OECD work, would be the best option for the future.

Removing benefit traps and making work pay for every young person, including those with lower skills and thus poorer earnings potential, is paramount. Work incentives should be the same, irrespective of the type of benefit received. This requires changes in benefit levels and/or in-work payments and/or phase-out ranges to reduce marginal tax rates for those starting work.

Moreover, for a benefit system as generous and accessible as Finland's, strong activation is essential to ensure young people actively engage in further education and rehabilitation and seek work. Activation requirements must be stronger on all types of payments –

including through clear participation conditions for those receiving benefits, strong monitoring of the compliance with those requirements, and clear and significant sanctions in case of non-compliance.

Finally, the child home care allowance, which is granted when a child under three years of age is looked after at home, can render staying at home more financially advantageous than engaging in training or paid employment. According to the EU Statistics on Income and Living Conditions Survey data, nearly half of all young mothers aged 15-29 with young children were NEETs in 2017.

Strengthening the integration of services

The range of services available for youth in Finland is considerable. However, different services offered by the public employment service, the social insurance institution and the municipalities tend to operate in isolation; integrated services that address different needs concurrently are the exception, not the norm. Such integrated services are especially important for the most disadvantaged among the youth population.

Finland invests considerable amounts in its active labour market programmes but the share of young people under age 30 referred to a programme is low and subsequent employment outcomes are relatively poor. In any year, one in three of this age are in a programme (which is the same figure as for jobseekers aged 30-54) and six months after participation in an activation programme, about one in four are in employment (one in three in case of training programmes). These outcomes are disappointing in view of the strong youth focus of the public employment service. Several steps could be undertaken to improve the employment impacts of its services, including: i) engaging with schools to help in the transition to higher education, vocational education or employment; ii) putting more emphasis on assessing and recognising the skills of jobseekers; iii) using information on previous experience with the public employment service in the profiling process; and iv) providing follow-up support to those leaving the service.

Finland must also do more to measure the outcomes and assess the effectiveness of the many initiatives, projects and programmes offered by public authorities. This recommendation holds for the employment and training measures of the public employment service, but also for the rehabilitation programmes of the social insurance institution, the social services provided by the municipalities and the guidance services provided by the Ohjaamo youth one-stop centres. Good evaluations are critical to promote evidence-based policy-making. On this aspect, Finland could learn from the United States where the laws providing funding for a particular programme include requirements for programme performance tracking and impact evaluation.

The 2015 act on multi-sectoral joint service, which created a permanent network bringing together a range of municipal, employment and social insurance services, was Finland's biggest step towards the provision of joint and fully integrated services organised around a multi-sectoral employment plan. It will be important to implement and monitor this change rigorously, as it should be the basis and a model for the provision of fully integrated services for all people facing multiple problems.

In the effort to expand integrated services, attention to health is particularly important. Mental health issues, often undiagnosed, are a considerable barrier to better education and employment outcomes. Mental health is a complex challenge: on the one hand, mental health problems too often remain unidentified and unaddressed while, on the other hand, the work capacity of those with a diagnosed mental health issue is often underestimated.

Caseworkers from all public authorities need better mental health training to be able to recognise problems and refer their clients quickly to the right types of supports and services. Accordingly, mental health should also become a category in the profiling tool used by the public employment service, e.g. by using validated survey instruments that identify a person's mental health status in an indirect manner.

Using the government reform as a vehicle to address fragmentation and activation challenges

While Finland must work towards well-integrated benefits and well-integrated services for youth (and the population more generally), the government was preparing a major administrative and regional government reform. The so-called SOTE reform planned an important change in the provision of health and social services, but came to a temporary halt with the resignation of the Finnish government in early 2019. It will be up to the next government to decide whether the reform will be implemented and in what form.

The last version of the reform would have changed responsibilities, service organisation and funding mechanisms and thus affected policy implementation and outcomes in many different ways. In particular, the reform would have reinforced the disconnection between benefits (a national matter) and employment and other services (a regional matter). To make such setup functional and effective, underlying funding mechanisms must ensure sufficient investment by the counties in prevention and early intervention services, to avert benefit claims and dependency. Sharing county actions and outcomes openly in a transparent manner would facilitate the diffusion of good practices at the county level.

Ohjaamo one-stop centres are critical entities guiding young people through a fragmented system of services and benefits. There is a need to expand Ohjaamo resources to ensure such one-stop-guidance centres are available for all young people across Finland and offering the full range of services needed to support them (including outreach workers, employment specialists, mental health professionals, social workers, housing experts, financial expertise and benefit knowhow). Ohjaamo centres are the main strength of the Finnish Youth Guarantee, which is successful in reaching young people in need, especially NEETs, but much less successful in achieving employment outcomes for them. With the SOTE reform, the position and location of the Ohjaamo centres would come under pressure. Counties must have the resources and incentives to maintain and expand this guidance structure, to prevent rising within- and cross-county inequalities in access to services.

In many ways, the SOTE reform would dive into new territory. The reform of the public employment service in 2013, which transferred the responsibility for employment services from the local to the regional level, was a precursor of the SOTE reform. Both reforms aim at increasing service efficiency and harmonising service availability and quality across the country. Monitoring, evaluating and fully understanding the implementation and impact of the 2013 public employment service reform is critical as a learning experience for a successful realisation of any SOTE reform.

As part of the SOTE reform, Finland aimed to generate a transparent and competitive market for health, social and employment services, to improve service efficiency and introduce user choice. Such change would be a major undertaking, with considerable potential but also risks. Finland should consider doing this transition in steps, starting with the administrative changes while carefully studying how other countries managed to outsource public services. Australia in particular has considerable experience in

outsourcing various services, including youth outreach services, youth mental health services and employment services.

Box 1. Key policy recommendations

Improving the transition from school to work in Finland

- Raise completion rates in upper secondary education by:
 - ensuring sufficient support for students with additional needs;
 - introducing cross-age peer counselling;
 - raising the compulsory schooling age;
 - guaranteeing adequate youth support networks in all regions;
 - developing digital services to reach young people in distant areas.
- Ease the transition from upper secondary to tertiary education by:
 - reforming the admission procedures for tertiary education;
 - expanding the capacity of the higher education system to fill skill shortages;
 - carefully monitoring the trend in education enrolment and adjusting the student financial aid system if needed.
- Improve the pathway from vocational education to employment by:
 - involving social partners in the design and implementation of workplace learning schemes;
 - undertaking a cost-benefit analysis of employer participation in workplace learning and supporting employers where needed to tilt the cost-benefit balance;
 - developing short-cycle postsecondary vocational programmes for upper secondary graduates.

Strengthening support for young people

- Address the fragmentation of the social protection system by:
 - streamlining the benefit system and removing disincentives to work;
 - revisiting the child home care allowance.
- Improve the activation of benefit recipients and the effectiveness of active labour market programmes;
- Strengthen the provision of integrated services by:
 - increasing the resources and impact of the Ohjaamo centres;
 - evaluating available programmes and new initiatives;
 - developing a multi-sectoral joint service;
 - providing mental health training to caseworkers.
- Revise the administrative and regional government reform by:
 - incorporating a benefit reform to tackle the fragmentation and activation challenges;
 - ensuring that the underlying funding mechanisms guarantee sufficient investment in prevention and early intervention services;
 - investing in monitoring and evaluating policy reforms;
 - studying other countries' experiences with the outsourcing of public health, social and employment services.



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