

Prime Minister Matti Vanhanen

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Conference of the Economic Council and the European Economic and Social Committee

Mr Chairman, Ladies and Gentlemen,

Job losses and job creation are part and parcel of economic life. Against a background of technological progress and changes in the international distribution of labour, it is clear how important a constantly evolving productive sector is for an economy's ability to sustain and enhance its employment performance. Moreover, when the productivity of the disappearing jobs is below average, any structural change that affects employment brings with it an opportunity for increasing productivity and thus raising wage and general income levels.

But the disappearance and creation of jobs is not a painless process. For employees, it means having to change not just who they work for but, in many cases, what work they do and where they live too. When these changes cannot be made quickly, the result is unemployment, which, when it becomes long-term unemployment, is a social ill of the most destructive kind.

Changes in the employment structure affect communities as well as individuals. A single plant closure can come as a serious blow to a community, resulting in the loss of jobs and income, less funding for public services, and damage to the social fabric.

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In Finland we have experience of sharp changes in the employment structure, and we haven't always managed to respond to them as well as we would have liked. For us, as for many other European countries, the Second World War brought about large-scale movements of people. Between ten and twenty percent of the Finnish population moved to completely new areas, many of which lacked any kind of infrastructure. This could be viewed as quite an achievement for a country that was poor in resources. But it was a harsh life for the generation which after the war faced the task of – quite literally – *building* new communities, many of which subsequently went under because the pressure of adjustment was just too much.

In the 1960s, changes in the structure of the economy and the arrival of the "baby boomers" on the labour market meant another major change in the structure of employment, as people shifted from agriculture to industry, and moved from the country into the towns. The economy changed rapidly and

the cities expanded, but we were unable to create enough jobs and large numbers of Finns moved abroad to find work in neighbouring Sweden.

In the 1980s, people in Finland spoke of "controlled structural change" but, through a combination of external circumstances and misguided domestic economic policy, we ended up in a catastrophic slump. One in every five jobs was lost and unemployment shot from 3% to 18% in the space of three years. Over the last ten years, our economy has made in many ways a pretty good recovery. And that recovery has been accompanied by a remarkable change in the structure of employment: the new jobs are very different from the old ones that have disappeared and they are often not in the same geographical location. We still haven't been entirely successful: unemployment – partly inherited from that slump – is still too high.

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In the last ten years, we, like other European countries, have been under pressure to adapt to the changes brought about by globalisation. Many jobs have been squeezed out by increased competition while more open markets and cheaper intermediate products have given businesses in Finland new opportunities for job creation.

When it comes to dealing with the need for change in the structure of employment, the one rule that never changes is that we must face facts, if I may borrow the words of Finland's post-war President, Juho-Kusti Paasikivi. And the first fact is that ignoring technological development and global competition will not make it go away.

The second fact is that, with an ageing population – and Finland's is ageing slightly faster than other EU countries' – we are even less able to afford large-scale structural unemployment than before – if we want to look after the welfare of every member of society, that is. I think the conclusion is clear: we have to make a determined effort to find ways of facilitating changes in the structure of employment; we must be able to see beyond the achievements of the past as they will not provide viable solutions in the future.

The third fact is that people are not like raw materials or equipment that can be moved around to wherever they produce the greatest profit. People must be respected as human beings with their own idea of what they want. In my view, that means, above all, that we have to create the conditions in which people are able to make the change to a new job and, if necessary, a new place. We must also try, though economic and other incentives, to guide people to solutions that help bring about essential changes in the employment structure.

The education system has a key role to play in creating the conditions for adaptability – from schools and vocational training to continual updating of skills and retraining. Rapid and hard-to-predict structural change really shows up the need for good basic skills: proper basic skills are essential if people are to learn new things. And there is no shortage of evidence to show that investing in children's and young people's schooling and education pays off in social terms.

When the vocational skills in demand on the labour market are rapidly changing, it is important to think about how best to ensure that people can learn new skills effectively. One difficult question is how to divide the cost between individuals, businesses and society at large. I think it is useful to compare the very different systems we find in different countries.

Geographical mobility is, in its way, just as important as occupational mobility, though the problems associated with it are somewhat different. Within the family, a partner may need to find work; schools and childcare may have to be arranged. Then there are more general social concerns, not to mention the matter of finding a new place to live. These are all factors that can restrict mobility. Meanwhile, communities may face the problem of a distorted age pyramid, particularly in areas which young people and people of prime working age leave in large numbers.

Society must also make geographical mobility possible. Ultimately, it is not in anyone's interests for people to be unemployed and for businesses and the public sector to be short of labour because people are unable to move. However, we must take account of where people want to live, their attachment – often a very strong attachment – to the place they live in, and to the roots they have put down there. Thus, support for job creation must be given in the areas that are affected by structural change. Extending the labour market geographically through good transport and telecoms links is one way of trying to reconcile the changing location of jobs with people's desire for a stable living environment for themselves and their families.

The way the labour market works plays a crucial role in influencing occupational and geographical mobility. And it is something over which political decision-makers have only partial influence. It is the partners in the labour market themselves who are of the most decisive importance. Dialogue between them is essential if practical and functional solutions are to be found that combine the flexibility required by business with the security needed by workers.

In Finland, we have good experience of this kind of dialogue. When, just recently, the Government was preparing the draft budget, we held close consultations with the social partners on ways of promoting labour mobility. The Finnish Economic Council, the main forum for discussion, will examine issues relating to supply and demand for labour in a comprehensive report, to be submitted in a few months' time.

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Ladies and Gentlemen,

If we are to meet the Lisbon objectives, it is crucial that we make good use of the EU's broad and diverse human resources for Europe. Europe's highly-skilled workforce is its most important resource. The continents of the world are competing with each other for labour like that, and it is becoming more mobile. So, to ensure growth in the long term, it is essential that we are able to create, attract and maintain a skilled workforce. In this century, Europe's fate will be largely determined by whether we are an interesting part of the world for this skilled labour.

In this context, another important consideration is the international mobility of highly-skilled people, so that we can create centres of excellence throughout Europe. We must resolutely remove the obstacles that hinder this kind of mobility. This is a particularly challenging task for countries like Finland, where large-scale immigration is a new phenomenon. That is one of the reasons that, earlier this year, we decided to remove the restrictions on the free movement of EU workers imposed in connection with enlargement. The Government will be looking at broader immigration-policy matters in the near future. There is, I think, a lot we can learn from other countries' experiences.

At European level, genuinely free movement of workers is of key importance to economic growth and the welfare of our people, both for the countries providing labour and for the recipients. Population ageing in Europe is causing a severe labour shortage in many sectors. In the new member states and the old ones alike, structural change is generating structural unemployment in many parts of the continent.

Labour mobility between member states is one way of helping to match the supply of labour with demand at European level. I am not particularly worried about the countries receiving labour. As differences in the standard of living shrink, labour mobility in Europe will increasingly follow demand. New workers seldom take work away from their host country's citizens. The labour market is not a closed market. It is not a zero-sum game of gains and losses. If the economy functions properly, then employment creates further employment.

To guarantee a well-balanced development of Europe, it is essential that importance is also attached to the development of labour markets in the countries that currently provide labour. Structural changes must not result in a brain drain. This can be avoided by the Union's regional and structural policies to be implemented for the first time in the new Member States in the next financial period beginning next year.

This conference, organised jointly by the Finnish Economic Council and the European Economic and Social Committee is an excellent forum for a discussion of mobility policy issues and for European social dialogue. At the same time, the debate on mobility fits in very well with the Finnish Presidency's goal of strengthening Europe's ability to adapt to the pressures of global competition and to make better use of this continent's rich human capital. We will return to these issues at various points during the Finnish Presidency. They will appear, for example, on the agenda for the informal meeting of Heads of State or Government in Lahti and the Social Summit that will precede the informal meeting.

On behalf of the Finnish Government and the Economic Council, it is my great pleasure to welcome you to this conference. I believe that this conference will make a significant contribution to the establishment of effective and socially sustainable solutions to the problems relating to the supply and demand of labour. I am interested to see what conclusions you will draw from your discussions.