

# How do we compensate for a shrinking labour force?

Seppo Montén

**In a near future, the number of beginners' places in vocational training for young people will be too small to meet the needs of the labour market. At the university level, the market demand for new labour is closer to being filled, but the yearly demand for new workers with a professional training will not be covered. The expected demand in the Helsinki Region for labour force with a polytechnic education exceeds today's existing beginners' places by 1,300–1,500 annually.**

The following article is based on a study on the demand and supply of qualified labour force in the Helsinki Region in 2015 (Montén 2005) published by Helsinki City Urban Facts. The study seeks to provide figures and facts on a subject that has caused much writing and talk, i.e. that we find ourselves in a situation where the supply of qualified manpower no longer meets demand. The article is an abridged version of a similar article published in *Kvartti* (2005/1), the sister publication of *Helsinki Quarterly* in Finnish and Swedish. The article has been abridged by Helsinki Quarterly editorial staff.

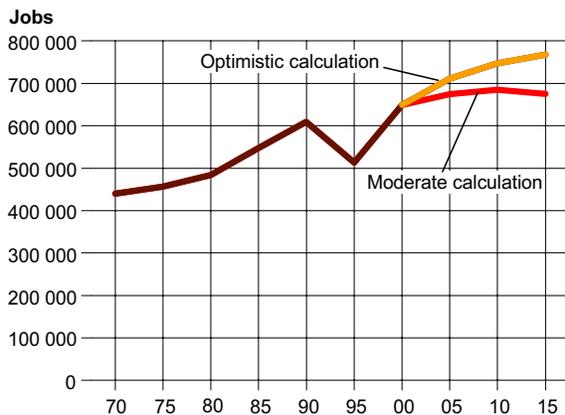
Forecasting the need for education is a long-term endeavour, where the main issue is not whether the forecast for each branch of education or indeed the

general area of education is correct to the last dot, but instead is primarily a matter of spotting changes in industrial and professional structures, and being able to apply these changes to the training provision. This is especially true for the Helsinki Region, where there are clearly fewer young people than there is demand for new labour.

In order to calculate future labour demands and corresponding demands for education in the Helsinki Region, we produced two job forecasts. In the moderate calculation the demand for job vacancies (or demand for jobs), i.e. demand for employment, slows down and after 2010 the supply of job vacancies starts to decline. In a situation with more people leaving working life than new workers entering it, the availability of manpower usually becomes a limiting factor for job growth. Traditionally, the number of jobs has been able to grow thanks to a migration surplus from other regions and commuting from nearby areas.

According to the optimistic calculation, the number of jobs in the Helsinki Region will continue growing, and it is estimated that immigration and commuting will ensure the supply of labour remains roughly as good as before. Between 2000 and 2015, the moderate calculation shows the number of jobs growing by 27,000 and the optimistic calculation shows it as growing by 120,000.

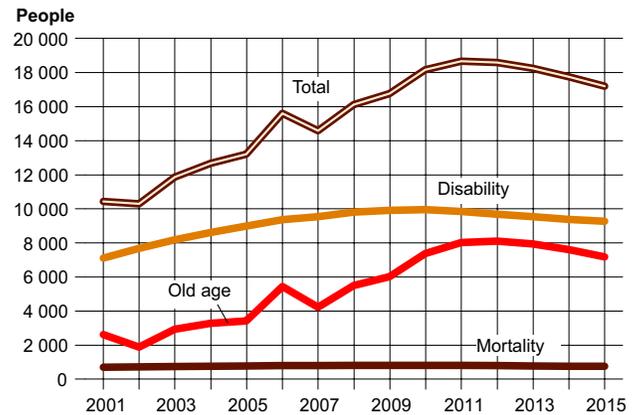
**Figure 1. Jobs in Helsinki in 1970–2000 and a projection for 2015**



The overall need for new labour, i.e. the number of vacant jobs, is the sum of the decrease in labour supply and the variation in the number of jobs. During the 2001–2015 forecast period, 237,000 workers will leave the labour force, a figure representing 37 per cent of the employed population in 2000. According to our moderate calculation, the decrease in labour force is responsible for a whopping 90 per cent of predicted labour demand and the change in the number of jobs for only a tenth. In other words, the decrease in labour supply will have a crucial impact on labour demand in the future. According to our optimistic calculation, where job growth is significantly greater, the decrease in the labour force represents only 66 per cent of the total labour demand of 357,000 workers.

The younger age structure of the population in the Helsinki Region, compared with the rest of the country as a whole, is attributable to the surplus of people moving to the region from other areas, over many years. If this surplus drops – as we assumed in the moderate calculation – the conditions for job growth will be severely affected. The loss of labour force will grow increasingly and thereby more and more new jobs will become vacant, even in areas that people have traditionally moved away from in favour of Helsinki. The result is that people will no longer as much

**Figure 2. Number of people leaving the labour force annually in the Helsinki Region in 2001–2015**



as earlier need to move to the Helsinki Region for employment.

This means that better use must be made of the region's own labour resources, i.e. the activity rate and employment must be improved. For that to happen, new job openings must be created. A stumbling block in this matter is that unemployment in the Helsinki Region tends to be of a more structural and lasting kind than in the country as a whole. Increasing the employment ratio among young people is difficult because an increasing proportion of them are studying – and for longer.

Pension reform is encouraging older generations to remain in the labour force. At the same time, however, only a third continue working until the normal retirement age. To take a case in point, the employment ratio among 63 year olds in the Helsinki Region was only 19 per cent in the year 2000.

Job growth is conditional on a supply of labour. We may therefore find ourselves facing a new scenario, where the job growth we are accustomed to begins to slow or even turns into a job decrease.

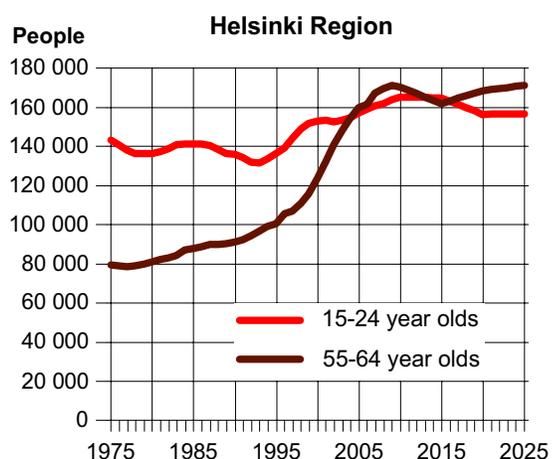
But the most important issue is still not the number of jobs available in the Helsinki Region. The main thing is being able to efficiently mobilise the region's existing labour resources. And a smaller supply of labour can in fact bring relief to unemployment.

When dimensioning the provision of training, we may be forced to guide the ever-decimated younger population's choice of training and profession in order to guarantee a sufficient amount of trained labour in future for the industrial sectors vital to the region's services and development.

## Demographic shortage of labour

Nevertheless, the Helsinki Region clearly has a more favourable population structure than the country as a

**Figure 3. Demographic labour shortage in Finland and the Helsinki Region in 1975–2025**



whole. In spite of this, starting in 2005 the region will, for the first time, have a larger number of 55–64 year olds leaving working life than 15–24 year olds entering it. But according to the forecast, the difference in size between the younger and the older population is not as alarming in the Helsinki Region as it is in the whole country. And according to the alternative presented in the moderate calculation, this tendency would not continue as strong over the coming years.

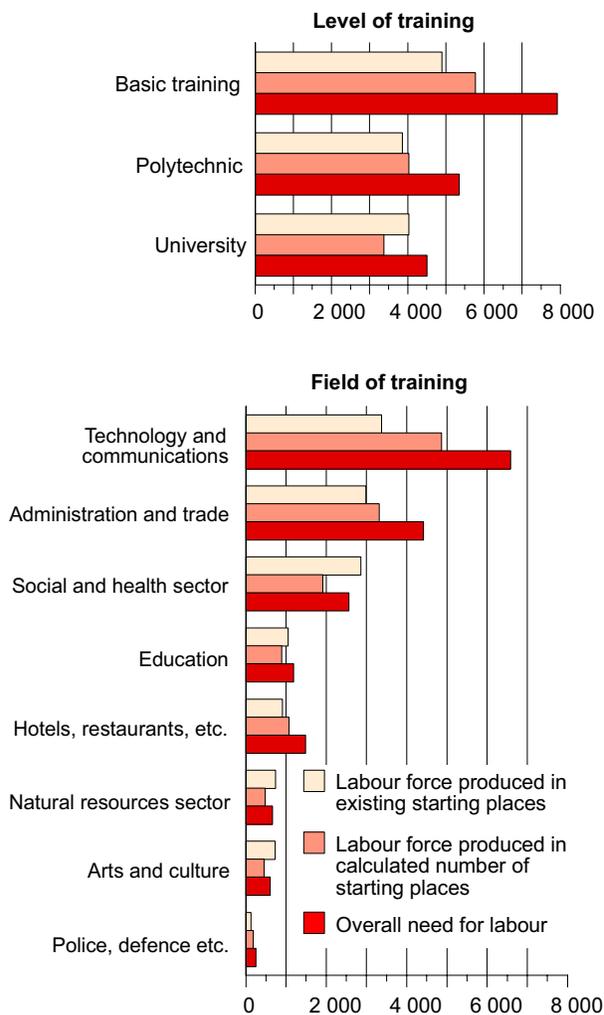
## Labour demand not covered by young people

In 2004, there were 21,200 beginners' places available in training for young people in the Helsinki Region. Considering interrupted studies, overlapping training and the inter-regional movement of students there should be 23,600 places in order to cope with the coming generations' demand for vocational training. The latter figure is termed the calculated demand for places. The difference between the calculated demand for beginners' places and the number of existing places is termed the calculated deficit of beginners' places.

We have set up estimates of how both the existing places and the calculated demand would produce trained manpower for the labour market.

The estimated demand for training that we have derived from the needs of working life applies more than earlier to basic vocational training and also to some extent to polytechnic education. Instead, the calculated demand for university education would decrease somewhat compared with today's situation. The adjacent figure also compares the respective positions of the existing number of beginners' places and the estimated number in relation to the market's predicted labour demand. The labour demand exceeds the calculated demand for places by 35 per cent and the existing number of places by 45 per cent.

**Figure 4. Output of trained labour, and the total demand for labour by level and field of training in the Helsinki Region on average in 2000–2015**



The number of places for young people is consequently not enough to satisfy the needs of the labour market. At the university level, the market demand for new labour is closer to being filled, but, for example, the yearly demand of around 8,000 new workers with basic professional training is not nearly covered by the forecast 6,000 beginners' places, and even less by the existing 5,000 beginners' places. The expected demand for labour force with a polytechnic education exceeds today's existing places by 1,300–1,500 annually.