

Finnish Immigration Policy Faces New Challenges

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A lively debate has ensued in Finland over national immigration policy. Aside from the growing immigrant population and general internationalisation of Finnish society, this discussion has been prompted by a sudden realization of the forecasted shortage of labour to fuel the economy in coming years. An active immigration policy has been proffered as the answer to the needs of business and society at large.

Changes in the composition of Finnish industry have also contributed to this labour shortage. The robust growth of the Finnish economy in recent years has been based on exports and on the expansion of production particularly in such skill-intensive fields as electrical equipment and electronics. Unemployment has fallen to 9.6 percent from nearly 20 percent at the start of the preceding decade.

Hiring in the 1990s was fastest among businesses in industries that make use of high technology, pay well, compete on know-how and are research driven. This trend is likely to continue in future years. It is estimated that Finnish industry will need over 40,000 new employees during 2001, for example, mainly for electrical equipment and electronics businesses. Finding skilled labour to fill those jobs has been made more challenging by the success of these very industries, however – both industrial and service businesses cite recruiting difficulties and labour shortages. There is a clear mismatch between the skills of job-seekers and those required to fill available jobs.

Population trends also impact the labour market. Finns are aging. The large age groups born after the wars are currently expected to start retiring from 2005 onward. While the Confederation of Finnish Industry and Employers (TT) estimates (April 24, 2001) that some 50,000 persons will leave the labour pool this year, the corresponding figure five years from now is

pegged at approximately 75,000. Meanwhile, roughly 60,000 new workers enter the market this year but five years from now this figure will fall to 50,000, which is no longer enough to make up for those retiring. Labour shortages threaten to spread from currently successful industries to the rest of the economy as well. They can also be expected to exist irrespective of economic cycles. This trend is already noticeably anticipated in the recruiting practices of employers.

Attempts are naturally made to eliminate the shortage of skilled labour through improved use of existing labour reserves. The Finnish government has listed several means for activating the unemployed and reducing unemployment in its National Action Plan (NAP) for Employment. Many are questioning, however, whether the success of a national growth strategy based heavily on expertise and know-how can rest solely on the domestic labour supply.

Retirement System Under Strain

The aging of Finns also has a bearing on the strength of the nation's retirement and social security system. The age dependency ratio, the number of those under 15 and over 65 in relation to those in the labour pool, which is currently approximately 0.8 in Finland, may climb close to one over the next two decades. This change is faster than for most other EU member countries.

This trend is impacted by longer life expectancies, for example. People therefore also live longer after they retire. Continuing low birth rates are also significant. The Finnish total fertility rate currently stands at 1.7. This figure should equal 2.1 in order to maintain the present population level.

Population trends will probably boost demand for nursing care and care professionals already in the next few years. The retirement system may also get tested. Finnish experts are engaged in a lively debate over whether the current system can cope with the upcoming demographic pressures with the help of economic growth, or whether the system needs to be overhauled. This would entail increased investment in funds, life expectancy adjustments and indexation. Postponing retirement would also help. The average Finn currently retires at 59.

Increased immigration is a fix that easily comes to mind for an aging problem such as the one described above. The equation is subject to uncertainty, though, due to uncertainties embedded in population forecasts. The first Finnish forecast from 1934 is often quoted as an example, according to which the population of Finland would never surpass four million. This limit was, nevertheless, reached already a couple of decades later, in the early 1950s.

Emigration to Immigration

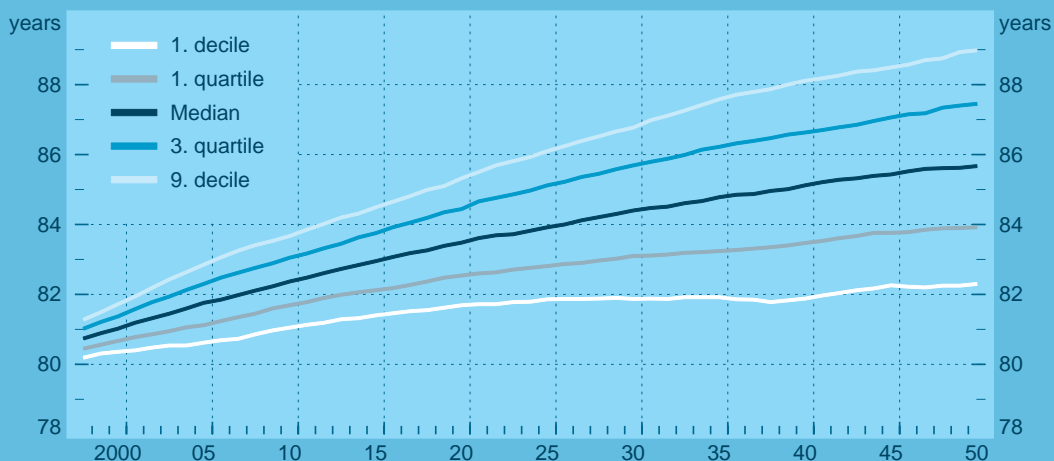
Increased immigration may be more controversial and difficult in Finland than in some other EU countries for other reasons as well. Finns, namely, are not yet very used to foreigners.

Russian immigrants fleeing the revolution arrived in Finland after it became independent in 1917. A large foreign population already resided in the country due to Finland's former status as the westernmost part of czarist Russia. Attitudes in the coastal towns of southern Finland were particularly favourable toward international interaction.

International tensions and wars in the 1930s and 1940s focused the attention and interest of Finns domestically. The share of immigrants out of the total population and immigration activity remained modest for the following two generations. Finland was characterized as a net population loser.

This situation did not change until the 1990s as the economy became more international

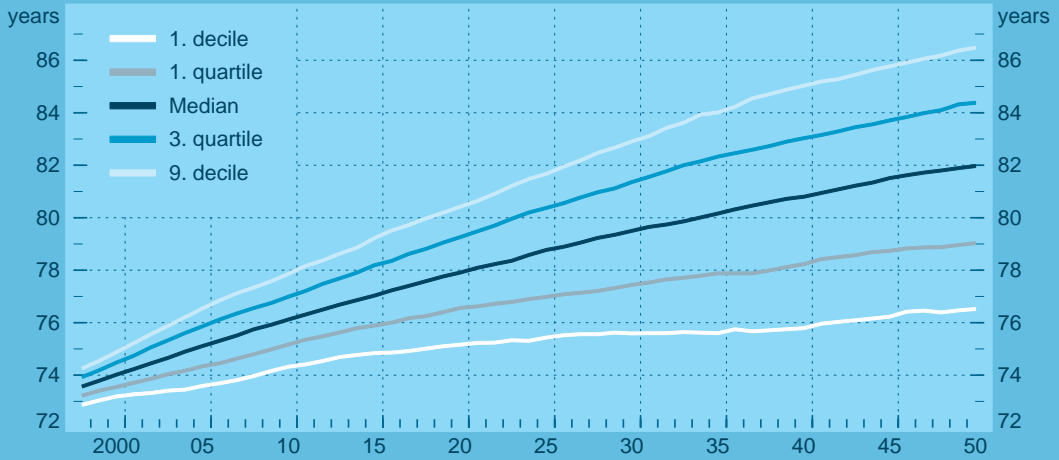
Newborn's Life Expectancy, Women



Source: Calculations by Juha Alho.

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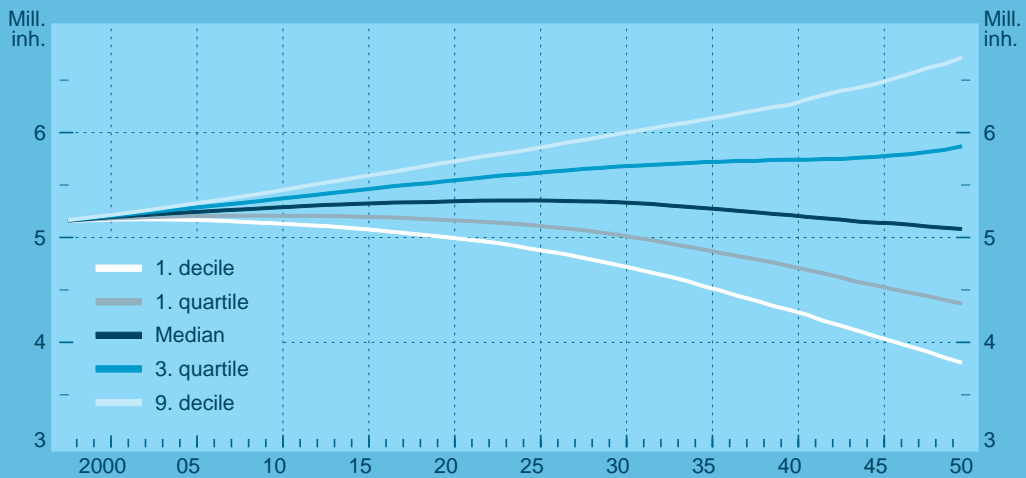
Newborn's Life Expectancy, Men



Source: Calculations by Juha Alho.

ETLA S01.2/f29

Finnish Population



Source: Calculations by Juha Alho.

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and the international role of Finland changed. The need for skilled international personnel at Finnish companies began to grow and the country's close participation in European integration also increased people's mobility. Finland also decided to ease the immigration of Finnish-speaking individuals from surrounding areas by classifying Ingrian Finns as returning Finns.

The number of immigrants living in Finland grew from some 21,000 in 1990 to 90,000 in 2000. Russians have become the largest group by nationality in the course of the 1990s, and now represent approximately one-fifth of all foreign nationals residing in Finland. Estonians make up the second largest group. Citizens of various EU member countries also collectively account for some 20 percent.

Finns have thus, for the first time, had to come to terms with a situation at the start of the new millennium where the person living next door may be of foreign origin, look very different, and come from an unfamiliar cultural background.

Immigrants still account for only 1.7 percent of the population of Finland. In other Nordic countries this figure is in the four to six percent range, and in some Western European countries around ten percent.

One of the special features of the Finnish immigration debate is that proper distinctions have not always been made between individuals based on the reason for their migration. For many Finns, "immigrant" meant long the same as "refugee". This was due to a decades-long period of introversion, during which the most significant and publicly noted immigrant groups

were refugees from Chile and Vietnam in the 1970s.

The number of actual refugees has remained low in Finland, however. In all, some 20,000 persons have entered the country under refugee status. Finland has not been a very popular destination for people seeking asylum either. Only approximately one percent of asylum-seekers entering the EU come to Finland. It remains to be seen over the next few years how Finland's Schengen participation will impact its situation off the main routes of international mobility.

Finns are not used to large immigrant communities like those that have already been part of and benefited many other Western European countries for centuries in some cases.

The attitudes of Finns toward foreigners are becoming more favourable, though. The Centre for Finnish Business and Policy Studies (EVA) included in its attitude survey, labelled *A Finland of Differences*, in the spring of 2001 a study of Finnish attitudes toward foreigners and immigrants.¹⁾ According to the report, nearly 10 percent more of Finns now accept immigration justified on the basis of the aging population than only two years ago. An increasing number are also of the opinion that foreigners bring beneficial international influences to Finland.

This easing of attitudes is probably also influenced by the prolonged strong growth of the Finnish economy. According to Finnish studies, expansionary cycles provide a favourable basis for the growth of positive attitudes toward foreigners.

Finns may also find it easier, based on their own history, to understand immigrants that are pursuing jobs and are ready to work. Finland was a net population loser at the end of the 1800s and for most of the 1900s. People moved not only to neighbouring Sweden for work but also to more distant lands all around the globe, including the United States, Canada and Australia. There are currently an estimated 1.2 million descendants, at least one of whose parents is Finnish, of these "economic migrants" around the world.

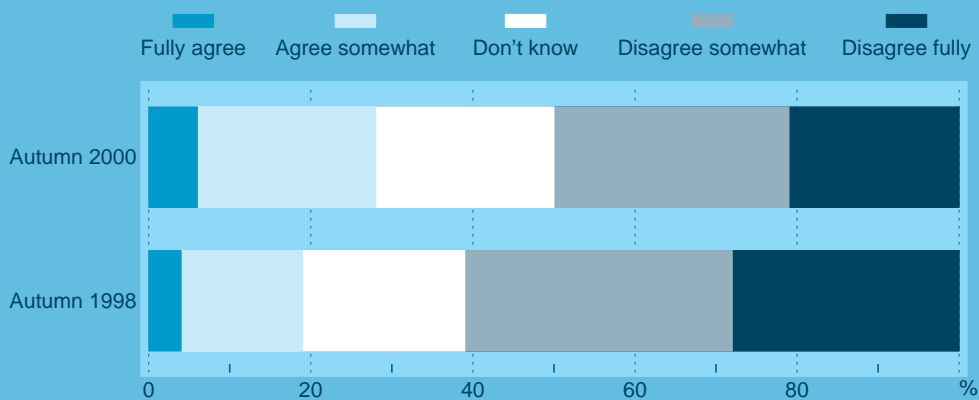
Immigrant Population in Nordic Countries

Immigrants in total population, %	1995	2000
Finland	1.2	1.7
Denmark	3.8	4.9
Norway	3.8	4.0
Sweden	6.1	5.5

Source: Finnish Directorate of Immigration.

¹⁾ *A Finland of Differences*. A report on the attitudes of Finns in 2001.

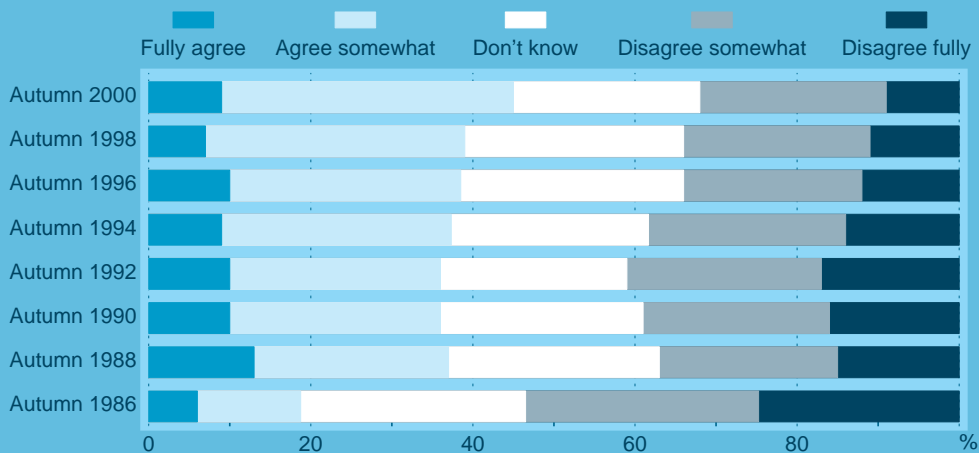
”Finland’s Population Aging, and Threat of Population Decline, Calls for an Easing of Inward Immigration”



Source: EVA/Yhdyskuntatutkimus Oy, 2001

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”More Foreign Labor Would Provide Finland with Beneficial International Influences”



Source: EVA/Yhdyskuntatutkimus Oy, 2001

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Immigration Policy Within EU Guidelines but Serving National Needs

Finland shares its situation with respect to its labour market and population changes with other EU member countries. The UN has predicted that the population of EU members will shrink over the next 50 years by over 40 million. Businesses are complaining about the lack of skilled labour in many EU countries. Some of the member countries have, in fact, already started the active recruitment of information technology and nursing personnel beyond their national borders. The immigration debate within the EU will be rather lively in future years – irrespective of economic cycles.

The EU's political leadership has been paying particular attention to the mobility of labour. In the Amsterdam Treaty, matters related to the free movement of individuals, border checks, asylum and immigration, and protecting the rights of the citizens of third-party nations and cooperation in civil legal matters were moved to the so-called First Pillar of the Union, that is the procedural provisions of the Union. They were previously handled as matters for inter-governmental cooperation.

At the Tampere Summit in the fall of 1999, the European Council set as a goal the harmonization of member countries' asylum and immigration legislation based on the situation at the country of origin and the joint assessment of member countries regarding economic and population trends within the Union.

At the Nice Summit, procedures were specified for the conduct of common asylum and immigration policy in the future.

The national interests of EU members are strong in immigration matters, however. Questions of nationality traditionally evoke strong reactions. The immigration authorities of member countries and immigration history also differ notably. There is a desire to maintain national control over asylum and immigration policy.

This also applies to attitudes toward the eastward expansion of the Union. Austria and Germany, for example, have demanded transitional periods for the free movement of labour after applicant countries are granted membership. Finland has also supported the Commission's

proposal regarding a transitional period based on the mobility of labour. A particular topic of debate in Finland has been the potential impact of Estonia's EU membership on the mobility of Estonian labour. The Central Organization of Finnish Trade Unions (SAK) published a study in the fall of 2000, which claimed that as many as 400,000 Estonians would like to work in Finland.

Finnish labour unions have, in fact, publicly wanted to put brakes on the free movement of labour. They have emphasized the strict application of labour legislation also with respect to immigrants, as well as the importance of unemployment and social security safety nets in the applicant countries. The existence of such safety nets in all future EU member countries would curtail mobility after expansion, according to Finnish unions. A central argument used by labour unions states that before resorting to foreign labour an attempt should be made to eliminate the deficit of skilled labour through improved domestic labour policy and by training existing labour reserves, for example.

Finnish business and employer organizations, in turn, have emphasized that immigration policies should not impede the operation of the single market and the internationalisation of the labour market. Decisions on required regulations must be able to be made at the Union level but they must leave sufficient country-specific flexibility so that Finland can provide for its own interests in response to economic and labour market conditions, for example. The EU membership of the applicant countries is not likely before 2005. If the transitional periods for labour run from that year, the free movement of labour will possibly not be a reality before 2010. In this case foreign workers will not help solve the labour shortages looming already toward the end of this decade.

Finnish immigration policy decisions of the next few years are closely tied to population trends, the internationalisation of businesses, and issues like the EU's institutions and eastward expansion, which are extensive and multifaceted in and of themselves. Policymaking will therefore not be easy. From an economic perspective, however, there appear to be many reasons for re-evaluating Finnish immigration policies.