FINNISH EDUCATION EVALUATION CENTRE

Transitions from Initial Vocational Education and Training Qualifications to Working Life in Finland – Observations and Reflections from an International Expert Panel

3 The labour market position of IVET graduates

A common factor expressed during the interviews was a worry about the persistently high unemployment rates of young IVET graduates. The interviewees pointed out that Finland is facing a deep economic crisis ("Finland is the new Greece" as one interviewee remarked), and that this situation is relatively new for Finland. The crisis is the result of several factors, such as the pandemic and the closing of the border with Russia (bad for the export industry), but also structural changes in the labour market. These structural changes relate to the transition from manufacturing to more knowledge intensive jobs. More specifically, traditional, routine, low-skilled jobs are shrinking in relative importance while demand rises sharply for higher-level cognitive, digital, technological, and STEM-oriented roles. This trend is linked to technological change, automation, digitalisation and economic restructuring (OECD, 2025a). Therefore in a high-technology economy with intensive demand for skills, like Finland's, higher unemployment among certain IVET graduates can reflect a structural misalignment between education output and labour-market demand, especially as jobs increasingly require deeper digital, analytical or tertiary skills. The interviewees also pointed out that IVET is more sensitive to the business cycle compared to graduates from higher education, as many programmes educate for sectors that are strongly dependent on export (like industry) or that are more sensitive to the business cycle (like construction).

These structural and cyclical factors certainly play an important role, but it is also good to look at other factors explaining why IVET graduates have such a high unemployment rate. This unemployment rate is high compared to other countries, and, even more importantly, also high compared to the unemployment rate for Finnish graduates from UASs. This suggests that economic conditions are not the main driving factor. The high participation rate of young people in IVET (compared to Sweden, for example) also implies that the group participating in IVET is not a marginal group. Though in most countries this group has a weaker socioeconomic background than students in general upper secondary education (OECD, 2021), the high unemployment rate cannot be attributed to a negative selection of students by enrolment in IVET. This seems to suggest that IVET graduates do not have a good comparative advantage in the labour market and lack specific niches for which they face little competition. Instead, they

seem to be in competition with un- and semi-skilled workers and with graduates from UASs for similar jobs. In this competition they apparently lose more often than their competitors.

Why is this the case? To understand this, it is important to realise that in regulated labour markets like we see in Rhineland and the Nordic countries, wages are primarily determined by the characteristics of the job rather than the productivity of the job holder. This means that job applicants with a low productivity cannot ‘sell’ their labour for a lower price than peers with a higher productivity level. In the words of Thurow (1975), the labour market is characterised by job competition rather than wage competition. An exception to this situation is when employers can circumvent collective agreements by using cheap foreign migrant labour, as is done in sectors such as construction or agriculture (Alsos & Eldring, 2021). However, in a labour market based on job competition, employers look at expected training costs when ranking potential applicants for a job in the ‘job queue’ (Thurow, 1975). The labour market position of graduates of any study programme in this queue is dependent on three factors that together determine these expected training costs for an employer (Glebbeek, 1988; Van der Velden & Wolbers, 2007):

1. The extent to which the study programme provides the specific skills directly needed to perform the job adequately.
2. The extent to which the study programme signals that graduates have sufficient generic skills and learning ability to overcome any discrepancies between the specific skills that are needed in the job and the skills they have.
3. The risk that graduates from a certain programme will underperform or put another way, the extent to which the diploma is a reliable and transparent signal of underlying skills for all graduates.

These three factors work in combination and reinforce each other. For employers, training costs are lowest when graduates already have the specific skills they need. If they lack such skills, they will look for indications that they have sufficient general skills and learning ability to quickly overcome such discrepancies. Finally, as it is difficult for employers to directly assess the skills of the graduates, they rely on diplomas when hiring newcomers. The problem for employers is that these diplomas can still mask considerable variation in the quality of skills among graduates. Programmes that are more selective mitigate this risk. Others show more variation, which involves a risk for employers. If this risk is substantial, they will select applicants from other (e.g. more selective or higher level) programmes.

How does this relate to the labour market position of Finnish IVET graduates? In principle, IVET graduates may compete on the labour market with all other newcomers, in particular graduates from UASs and graduates from general upper secondary education, but also those such as migrants who offer (or rather are forced to offer) their work at a lower wage (e.g. in the construction, hospitality or agricultural sector). When the ranking of applicants would be primarily determined by indications of general learning ability, they would lose that competition to their more academically trained peers. The first and most important way they can secure a higher place in the job queue than their more academically trained peers is by having more of the specific skills that are needed to perform the job. This higher level of specific skills gives them a comparative advantage vis-à-vis their more academic trained peers. There are several

indications from the interviews that this comparative advantage is achieved in some sectors, such as the health care sector, where there are stronger links with employers and where work-based learning plays an important role. In this sector, the unemployment rate is also relatively low. In other sectors however, such as the technical occupations, the high unemployment rate seems to be related to the poor linkages between school and work, indicating a lack of specific skills.

So having a clear vocational profile provides a safety net for IVET graduates (Shavit & Müller, 2000). The more specific their skills are, the higher this comparative advantage. But the position of IVET is also partly determined by its role of providing education for young people at the lower end of the skills distribution scale. IVET in Finland cannot be selective (like higher education) and must cater to all students who apply, as one of the interviewees remarked. This also means that you cannot simply compare the unemployment figures of Finnish IVET graduates to those of other countries such as Germany where, for example, the apprenticeship is more selective and where there is higher unemployment among those who have only Hauptschule. The problem of non-selectivity was probably aggravated by the education reform in 2021, in which the minimum school leaving age was raised to 18 years. While this probably will raise enrolment in IVET and reduce the proportion of young people not in education, employment or training (NEETs), it may have a negative impact on the image of IVET (Rintala & Nokelainen, 2020). If IVET is seen more as an instrument for social policy than as a high quality provider of skills, this could weaken the position of IVET graduates in the labour market.

This means that the extent to which VET providers can accommodate the needs of the lower skilled group may be restricted by the need to ensure a minimum quality of skills among all graduates. The moment employers think that there is too much variation in the quality of graduates of a certain programme (even if the average quality is sufficient), they will raise their standards and hire graduates from a higher level. Similarly, when the diplomas do not give a transparent signal of the underlying competencies of job applicants, employers will prefer graduates from other programmes for their jobs. This means that variation in quality may also be driving the higher unemployment rates. There is some evidence from the interviews that this is indeed the case. Although the employers are generally satisfied with the individuals they hire, according to the interviewees they are much more critical about the skills of the graduates that were not hired. This does not suggest a general lack of vocational skills, but does indicate a problem with variation in quality.

Summing up, this means that the weaker labour market position of IVET graduates is probably caused to a substantial extent by a lack of specific skills in some sectors and by a relatively large variation in quality in the skills that graduates have obtained. It is therefore crucial that in IVET more attention be paid to developing these specific skills and maintaining minimum standards to ensure quality. The most effective way to realise this is by having a strong emphasis on work-based learning and apprenticeships to develop relevant specific skills and on establishing strong institutional linkages with employers in sectors where this is not the case, as well as by working towards diplomas that reliably and transparently signal a minimum level of skills. These topics will be elaborated on further in sections 4–6.