

## FINLAND

*Driven by the ICT sector, convergence in GDP per capita vis-à-vis best performing countries has resumed. However, structural unemployment remains high and employment among older and younger workers is relatively low.*

### Priorities supported by indicators

#### **Reduce the tax wedge on labour income**

Average and marginal tax wedges on labour income are among the highest in the OECD. In combination with the compressed wage structure, this poses problems for employment, especially of the low-skilled.

**Actions taken:** Taxes on labour income have been reduced in line with the government's intention to cut taxes on earned income by almost 2% of GDP over the period 2004-07, but the tax burden remains relatively high.

**Recommendations:** Continue to reduce taxes on labour income and ensure fiscal sustainability by shifting the tax burden towards less distortionary taxation, such as property taxes.

#### **Phase out early retirement pathways**

Implicit taxes on continued work at older ages are high so that the expected number of years in employment for a 50-year old male was only 9 years in 2005, well below the average of the other Nordic countries.

**Actions taken:** A wide-ranging pension reform was introduced in 2005 with the objective to extend working lives by 2-3 years by improving financial incentives to continue to work and restricting some early retirement pathways.

**Recommendations:** Make workers over the age of 59 subject to the same activation requirements as younger workers in order to qualify for on-going unemployment allowances. Grant the disability pension only on medical grounds rather than on "social criteria" as permitted under the current system. Increase the activation of older workers and persons on disability schemes with some work capacity.

#### **Reform the unemployment benefit system**

Net replacement rates after long unemployment spells, taking into account taxation and social benefits received by the unemployed, are among the highest in the OECD. This reduces incentives to work.

**Actions taken:** Under the activation reform for the long-term unemployed, intensified activation is required after 500 days and receipt of unemployment benefits will become conditional on participating in active labour market programmes.

**Recommendations:** Reduce the financial support available to the long-term unemployed to increase the incentive to take up work.

### Other key priorities

- Promote employment and economic flexibility by negotiating a larger share of annual wage increases at the firm level and allowing opt-out clauses from central collective agreements, thus making wages more responsive to local conditions.
- Further deregulate product markets, in particular by easing regulations on shop opening-hours and relaxing zoning laws to facilitate entry in retail distribution, and continue the on-going privatisation process.