

FINLAND

The GDP per capita gap vis-à-vis the upper half of OECD countries narrowed until 2008 but widened again during the recession. This gap mainly reflects lower labour productivity, but labour resource utilisation is also below the best performing countries. Recent reforms have sought to strengthen labour force participation, stem the increase in long-term unemployment and improve the efficiency of public service provision. Additional reforms are still needed in the following areas.

Priorities supported by indicators

Reduce disincentives to work at older ages

Implicit taxes on continued work are still high, contributing to low employment rates among older workers compared with other Nordic countries.

Actions taken: The government and stakeholder organisations agreed in 2009 to gradually (until 2025) increase the average effective retirement age by three years.

Recommendations: Implement measures to ensure reaching the 2025 target by raising the minimum statutory retirement age, reviewing the disability pension system and fully closing the unemployment pathway into retirement. Strengthen work incentives for older workers by increasing pension accrual rates after 65 and extending the actuarial adjustment of pensions to the full working life, including the period after the minimum retirement age.

Reform the unemployment benefit system

High benefit replacement rates are reducing work incentives.

Actions taken: Measures to fight the recession during the economic crisis have weakened work incentives. Various benefits (maternity, parental and sickness allowance) have been increased and an unemployment benefit supplement for laid-off workers was introduced in July 2009.

Recommendations: Reduce replacement rates and taper them off throughout the unemployment spell when the recovery firms, but announce as early as possible. Ensure earlier mandatory activation for the unemployed.

Reduce the tax wedge on labour income and shift the structure of taxation towards property and consumption

Marginal tax wedges on labour income remain high, hampering improvements in labour utilisation.

Actions taken: Average taxes on earnings have been lowered across income classes. The revenue loss is being offset by an increase in most VAT rates by one percentage point, with the exception of VAT on food which has been lowered by 10 percentage points.

Recommendations: Continue to lower the taxation of labour to improve work incentives and offset the revenue loss with additional receipts from indirect and property taxes. Increase property tax rates but also align assessment values with market valuations. Raise the revenue efficiency of the VAT by eliminating reduced rates.

Other key priorities

Increase productivity in municipalities

Municipalities' productivity is declining which weighs on public finances.

Actions taken: Municipal merger legislation has been renewed and productivity programmes promoted.

Recommendations: Open up the municipal purchasing of non-core services to competitive bidding by introducing more mainstreaming of outsourcing policy, promote municipal mergers and municipal-level productivity programmes, with increased reliance on benchmarking.

Improve the efficiency of the tertiary education system

Average tertiary study times are long and students benefit from generous and virtually open-ended financial aid.

Actions taken: The Ministry of Education is reviewing student selection procedures in Higher Education Institutions, as well as ways to speed up graduation, and is rationalising student financial aid.

Recommendations: Address inefficiencies in access to upper education and introduce tertiary tuition fees together with government student loans with income-contingent repayments.

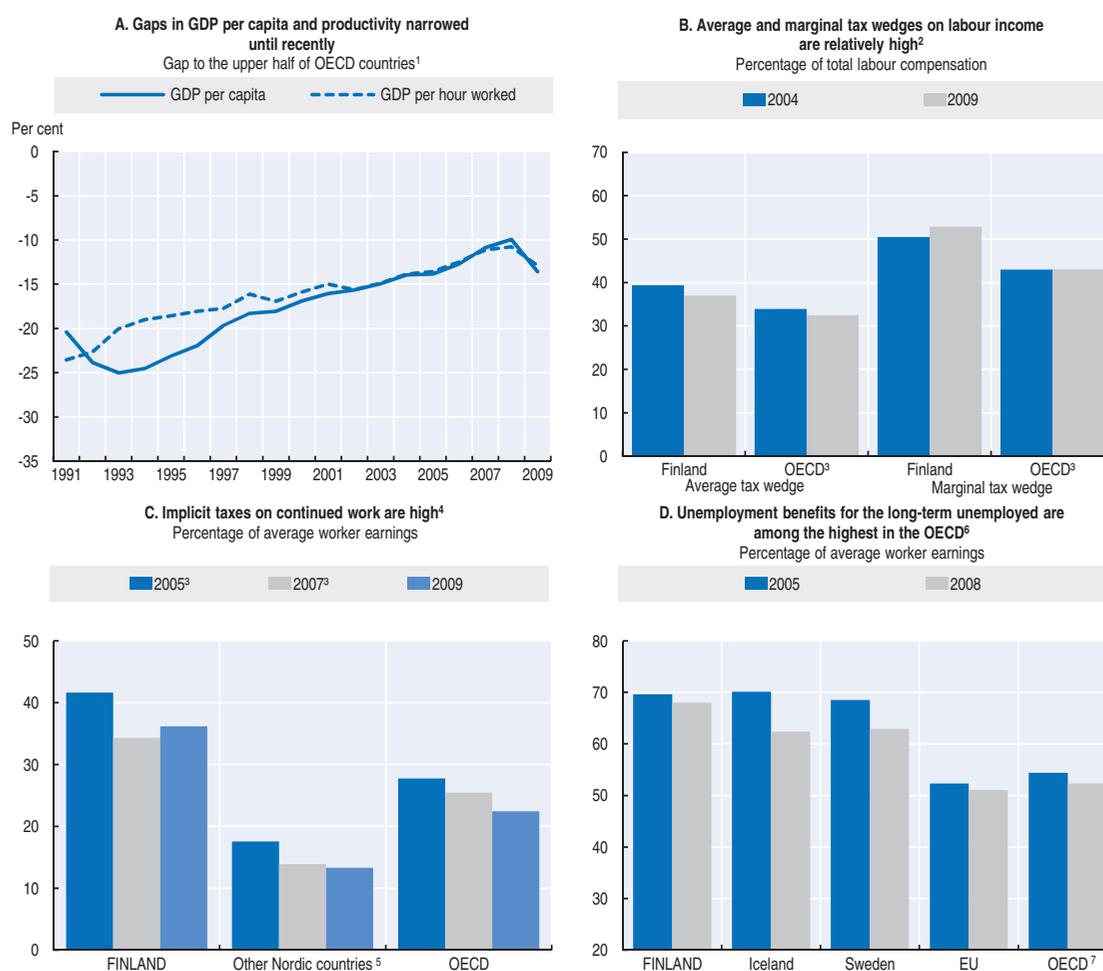
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Structural indicators

Average annual trend growth rates, per cent

	1999-2009	1999-2004	2004-09
GDP per capita	2.6	3.2	2.1
Labour utilisation	0.2	0.5	-0.1
of which: Employment rate	0.5	0.9	0.1
Average hours	-0.3	-0.3	-0.3
Labour productivity	2.4	2.7	2.2
of which: Capital intensity	0.4	0.4	0.4
Multifactor productivity	2.0	2.2	1.8

Source: Estimates based on OECD (2010), OECD Economic Outlook No. 88: Statistics and Projections Database.



1. Percentage gap with respect to the simple average of the highest 17 OECD countries in terms of GDP per capita and GDP per hour worked (in constant 2005 PPPs).
2. Single person with low earnings and no child (low earnings refer to two-thirds of average earnings).
3. Average of OECD countries excluding Chile, Estonia, Israel and Slovenia.
4. Implicit tax on continued work in early retirement route, for 55 and 60-year-olds.
5. Average of Denmark, Norway and Sweden.
6. Average of net replacement rates after five years of unemployment for unemployed persons who earned 67% and 100% of average worker earnings.
7. Average of OECD countries excluding Chile and Israel.

Source: Chart A: OECD, National Accounts and OECD Economic Outlook No. 88 Databases; Chart B: OECD, Taxing Wages Database; Chart C: Duval, R. (2003), "The Retirement Effects of Old-Age Pension and Early Retirement Schemes in OECD Countries", OECD Economics Department Working Papers, No. 370 and OECD calculations; Chart D: OECD, Benefits and Wages Database.

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