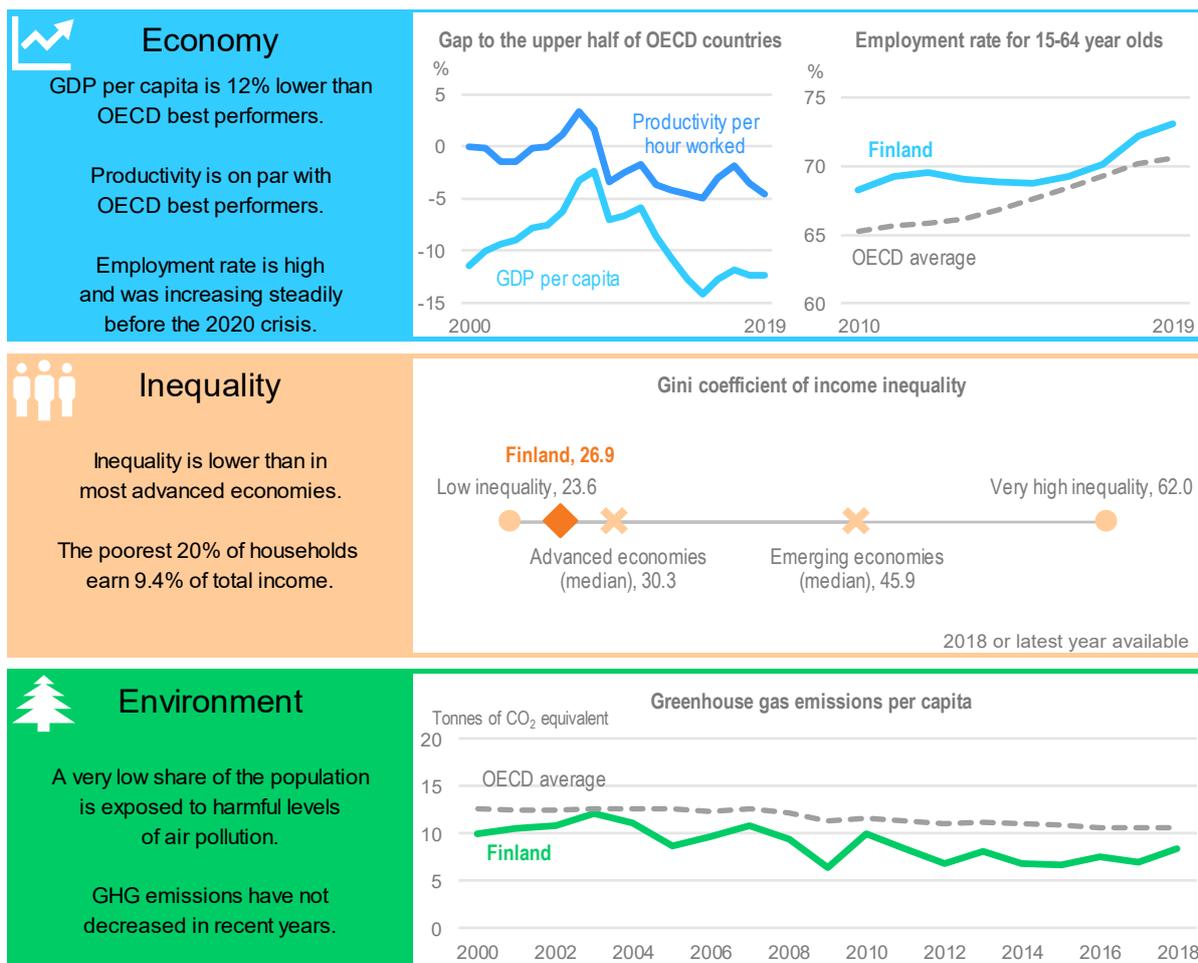


Finland

The pandemic laid bare pre-existing gaps in social safety net coverage. Improving the design and efficiency of unemployment benefits and more generally of public services in health, social care and childcare would boost growth and make it more resilient.

Performance prior to the COVID-19 crisis



Economy: Percentage gap with respect to the population-weighted average of the highest 18 OECD countries in terms of GDP per capita (in constant 2015 PPPs).

Inequality: The Gini coefficient for disposable income measures the extent to which the distribution of disposable income among households deviates from perfect equal distribution. A value of zero represents perfect equality and a value of 100 extreme inequality.

Environment: Greenhouse gas (GHG) emissions include emissions or removals from land-use, land-use change and forestry (LULUCF). A high exposure to air pollution refers to above 10 µg/m³ of PM_{2.5}.

Source: Economy: OECD, National Accounts, Productivity and Labour Force Statistics Databases; Inequality: OECD, Income Distribution Database and World Bank, World Development Indicators Database; Environment: OECD, Environment Database and United Nations Framework Convention on Climate Change (UNFCCC) Database.

StatLink  <https://stat.link/xbaow5>

More efficient public services for a stronger, more resilient and sustainable growth

The economic downturn brought to the fore disparities in the social system's coverage. An estimated 15% of employees are not covered by earnings-related unemployment benefits, which top up the basic unemployment allowance, because they are not members of the voluntary trade union-run unemployment insurance funds. Many of the laid-off workers in 2020, in particular the young or part-time employees, did not receive the top-ups. To improve resilience and inclusiveness, the government should **extend access to earnings-related unemployment benefits** by creating an unemployment insurance fund into which either all workers or those who are not members of another fund are automatically enrolled. It should also move to a less centralised wage bargaining system in which there is greater scope for enterprise bargaining within sector agreements (i.e., organised decentralisation) both to increase firm resilience and to facilitate the transfer of resources from less- to more productive firms.

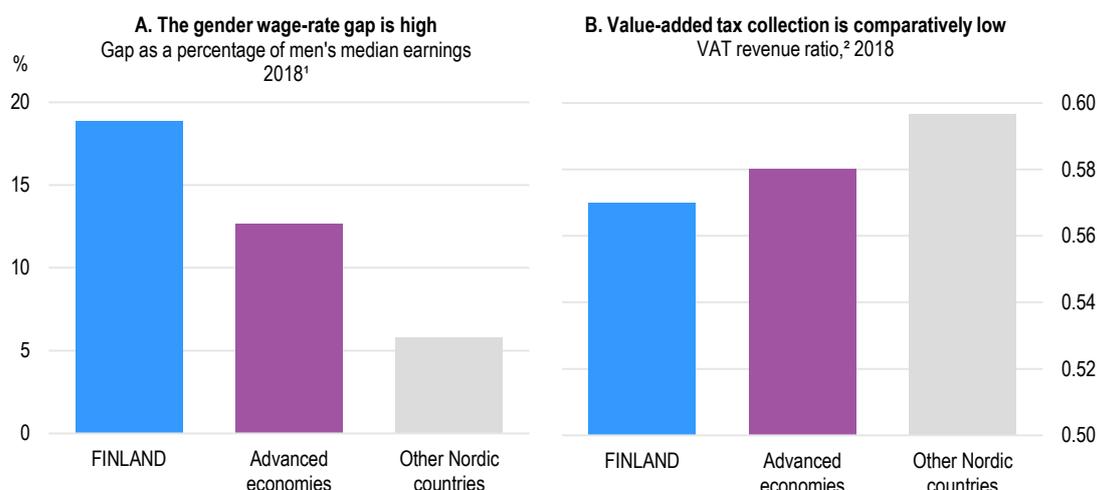
The unemployment benefit system merits a wider review. Compared with other Nordics, employment of older workers is low. To **increase the employment rate for older workers**, the government should phase out the widely popular option of using unemployment benefits as a path to early retirement, as planned. In a similar vein, the conditions for disability benefit for applicants over 60 also should be tightened to limit abuse.

Health and social care are currently highly decentralised and fragmented, resulting in inefficiencies and regional inequalities. Over the medium-term, to help ensure adequate provision of such services in the face of stretched public finances and an ageing population, **the efficiency of public services in municipalities should be improved**. The Bill introduced to Parliament in December 2020, that transfers responsibility for organising health and social services from municipalities to 18 autonomous counties, should be adopted. This would centralise care at the regional level and reduce fragmentation, as well as increase the focus on prevention and basic services. The reform should be taken further by encouraging provider competition where the population base and nature of services make it viable and by setting numerical targets for fiscal savings to be achieved to help plan reforms that maximise cost efficiency.

Finland has one of the highest gender wage gaps in the OECD (Panel A). The key contributor, task segregation, starts at the beginning of careers, with women, less likely to specialise in technical fields in their education, being placed in less complex jobs; and intensifies over time because women get fewer promotions. **To reduce the gender wage gap**, the government needs to encourage girls to enter technical fields of education. Fathers should be incentivised to take parental leave, as planned in a recent reform proposal. Homecare allowance for taking care of children less than three years of age at home should be reduced, while access to early childhood education and care services in convenient locations and opening hours should be improved.

The efficiency of the tax system should be enhanced to support green and inclusive growth. This can be done by widening the standard-rate VAT base to increase revenues (Figure 1B), relying more on recurrent taxes on real estate and environmental taxation. Income compensation to low-income households should be used to cushion the distributional effects, though will be automatic for those receiving social benefits.

Vulnerabilities and areas for reform



1. 2018 or latest year available. The gender wage-rate gap is computed as the difference between median earnings of men and women relative to median earnings of men. Data refer to full-time employees.

2. The VAT revenue ratio (VRR) is the ratio of the actual value-added tax (VAT) revenue collected and the revenue that would theoretically be raised if VAT was applied at the standard rate to all final consumption. This ratio gives an indication of the efficiency and the broadness of the tax base of the VAT regime in a country compared to a standard norm. It is calculated by the following formula: $VRR = \frac{\text{VAT revenue}}{[(\text{consumption} - \text{VAT revenue}) \times \text{standard VAT rate}]}$. VAT rates used are standard rates applicable as at 1 January.

Source: Panel A: OECD calculations based on OECD, National Accounts and Earnings Distribution by gender Databases; Panel B: OECD (2020), Consumption Tax Trends 2020: VAT/GST and Excise Rates, Trends and Policy Issues.

StatLink  <https://stat.link/17shb2>

Finland: Summary of *Going for Growth* priorities and recommendations

2019-2020 Reforms	Recommendations
Social protection: Extend access to earnings-related unemployment benefit	
*New priority *	<input type="checkbox"/> Create a government unemployment insurance fund into which either all workers or those who are not members of another fund are automatically enrolled.
Labour market: Increase the employment rate of older workers	
*New priority *	<input type="checkbox"/> Phase out extended unemployment benefit by progressively increasing the eligibility age and abolishing the benefit in 2025 for people born in 1965 or later, as planned. <input type="checkbox"/> Align the conditions for awarding disability benefit to persons aged 60 or over with those for other applicants, notably by no longer taking into consideration non-medical factors. <input type="checkbox"/> Increase the public employment service budget from the current low level and enhance efficiency in service delivery to meet the rise in demand for services.

2019-2020 Reforms	Recommendations
Local government: Improve the efficiency of public services in municipalities	
<p><input checked="" type="checkbox"/> The government presented a Bill to Parliament in December 2020 that transfers responsibility for organising health and social services from municipalities to 18 autonomous counties and increases the focus on basic-level services and prevention.</p>	<p><input type="checkbox"/> Ensure that the reform achieves economies of scale and a better balance between primary and specialised health care, while reinforcing equality in access to health care and social services.</p> <p><input type="checkbox"/> Encourage provider competition where the population base and the nature of services make it viable.</p>
Labour market: Reduce the gender wage-rate gap	
<p>*New priority *</p>	<p><input type="checkbox"/> Encourage girls to obtain qualifications in technical fields in demand by highlighting female role models who have succeeded in technical fields and through counselling secondary-school students on the subjects they need to study to keep options in technical fields open at the tertiary level.</p> <p><input type="checkbox"/> Implement the parental leave reform in 2021, as planned.</p> <p><input type="checkbox"/> Improve access to early childhood education and care services by ensuring that those municipalities that do not provide sufficient places in convenient locations with suitable opening hours do so.</p> <p><input type="checkbox"/> Reduce the homecare allowance to increase incentives for mothers of young children to work.</p>
Tax system: Improve the efficiency of the tax system to support green and inclusive growth	
<p><input checked="" type="checkbox"/> The earned income taxation of those on low and middle incomes was eased by approximately EUR 200 million in 2020.</p> <p><input checked="" type="checkbox"/> Mortgage interest deductibility is being phased out from 25% of interest in 2019 to 15% in 2020 and to 0% in 2023.</p> <p><input checked="" type="checkbox"/> Energy taxes were increased on fuels used for heating and off-road purposes in 2019 and on transport fuels in August 2020. In 2020, the government decided to increase taxes on heating fuels in 2021.</p> <p><input checked="" type="checkbox"/> In 2020, the government decided to phase out the energy tax rebate mechanism for energy-intensive industries by 2025 and tax subsidies for paraffinic diesel by 2023. These measures increase tax rates for mining and peat and combined heat and power production.</p> <p><input checked="" type="checkbox"/> The tax rate on peat was increased from 1.9 €/MWh to 3.0 €/MWh in 2019 and will rise to 5.7 €/MWh at the beginning of 2021.</p>	<p><input type="checkbox"/> Further reduce the tax burden on labour.</p> <p><input type="checkbox"/> Increase recurrent taxes on immovable property.</p> <p><input type="checkbox"/> Continue to phase out mortgage interest deductibility for owner occupiers.</p> <p><input type="checkbox"/> Broaden the consumption tax base and phase out reduced VAT rates when recovery from the COVID-19 crisis is firmly established.</p> <p><input type="checkbox"/> Subject heat production using peat to the same tax regime as for other fossil fuels used for heating.</p> <p><input type="checkbox"/> Progressively replace national agricultural subsidies by subsidies for environmental benefits.</p>

Recent progress on structural reforms

The current government came into office in 2019 and has been fully occupied with the COVID-19 response. Prior to this, several reforms had been adopted, including changes to the unemployment benefit system for older workers, tax reductions for those on low- and middle incomes and increases in environmental taxes. Good progress has been made on reforms to reduce greenhouse gas (GHG) emissions, although further measures will be needed to achieve Finland's ambitious abatement objectives for 2030 and 2035, when the target is net zero GHG emissions. In December 2020, the government announced its intention to increase the minimum age for receiving extended unemployment benefit by one year in 2023 to 63 for people born in 1963 or after, by another year in 2024 for people born in 1964 or after and to abolish the benefit in 2025 for people born in 1965 or after.