FINLAND

Growth performance has been impressive but largely driven by the ICT sector, while the performance in many others sectors has been poor. Structural unemployment remains high.

Priorities supported by indicators

Reduce the tax wedge on labour income

Average and marginal tax rates on labour income are among the highest in the OECD and pose a particular problem in combination with a compressed wage structure.

Actions taken: Tax rates on labour income have been steadily reduced over recent years, and the earned income tax allowance has been extended to benefit the low-paid in particular.

Recommendations: Continue to reduce high marginal tax rates on labour, not just for the low-paid but throughout the earnings distribution. If the fiscal room for action remains tight, then switch the tax burden from labour to property.

Reduce the use of early retirement pathways

The average age of retirement, particularly for men, is low due to extensive use of early retirement options, which also risks undermining improved incentives to work longer following reforms of old-age pensions.

Actions taken: The "unemployment pension" will be phased out from 2009, and one disability-related early retirement scheme will be abolished. The "unemployment pipeline", whereby the elderly unemployed are eligible for benefits until they are entitled to pensions, will be shortened to begin from age 57 rather than 55.

Recommendations: Phase out the unemployment pension more quickly, abolish the "unemployment pipeline" altogether and instead subject the older unemployed to the same obligations as the rest of the unemployed. Tighten, rather than relax as currently planned, the medical criteria for the main disability pension scheme.

Reduce the scale of public ownership, especially raising private provision of publicly-funded services

The current level of state ownership is among the highest in the OECD and leads to weak competitive pressures in the sheltered sectors. Private-sector providers have still quite marginal role in publicly-funded services.

Actions taken: There have been some privatisation measures taken, but progress has slowed since 2000.

Recommendations: Separate more clearly the state's ownership and regulatory roles. Pursue an extensive privatisation programme and ensure vertical separation in network industries. Increase the involvement of private-sector providers in publicly-funded services.

Other key priorities

- Promote greater flexibility in centralised wage determination (*e.g.* by allowing wages to reflect local labour market conditions) to prevent low-skilled service jobs from being further crowded out and to facilitate structural adjustment across sectors.

- Net replacement rates are among the highest in the OECD after long unemployment spells. Taper unemployment benefits with duration to encourage job search and reduce the unemployment trap.

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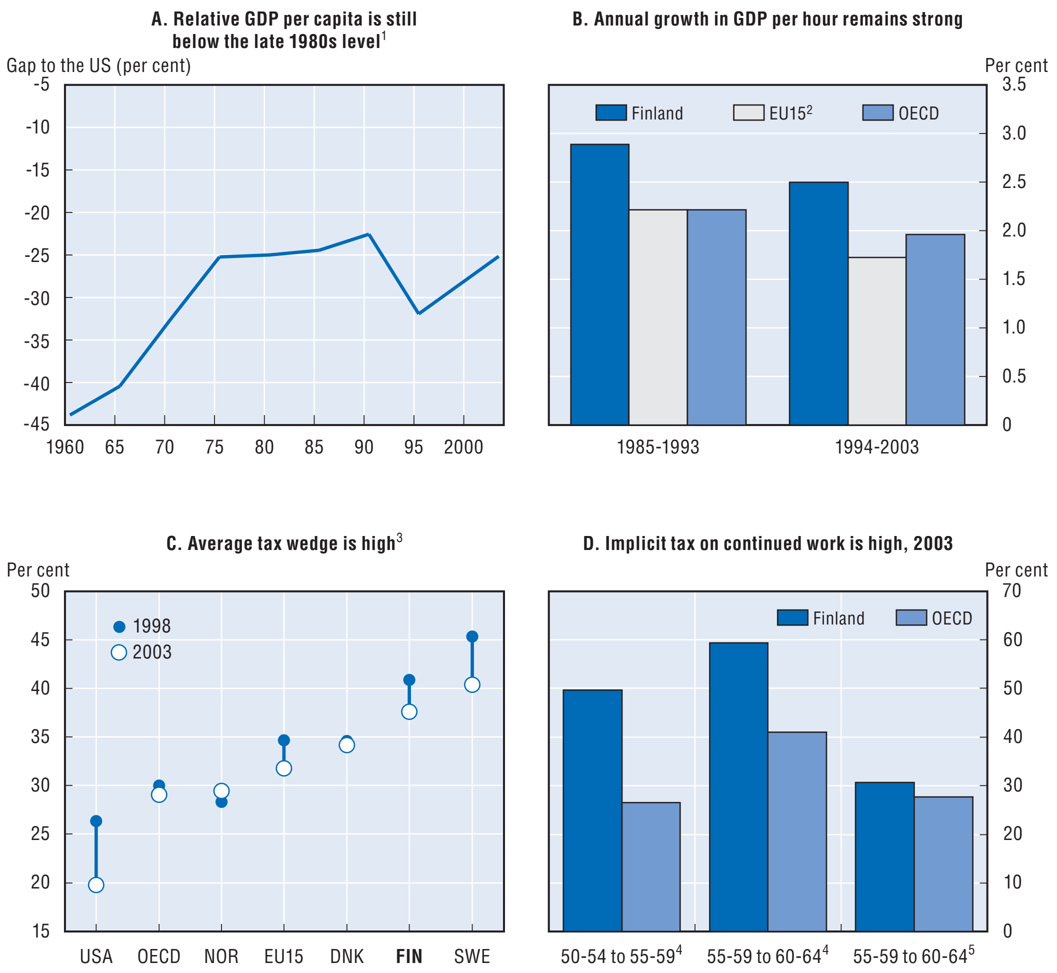
Structural indicators

	1990	1995	2000	2003
Trend GDP per capita (% growth rate)	1.9	1.3	2.7	2.1
Trend employment rate	71.6	67.5	67.3	68.1
Trend participation rate	75.2	74.4	74.6	74.5
Structural unemployment rate (NAIRU)	4.8	9.4	9.8	8.6

Source: Estimates based on *OECD Economic Outlook*, No. 76.



1. Percentage gap with respect to US GDP per capita (in constant 2000 PPPs).
2. Excluding Austria and Luxembourg.
3. Direct tax wedge including employer's social security contributions for a couple with two children. Average of 3 family situations with earnings at 100% of average worker's earnings.
4. Implicit tax embedded in early-retirement schemes on continued work from age 50-54 to age 55-59 and 55-59 to 60-64, respectively.
5. Implicit tax embedded in old-age pension schemes on continued work from age 55-59 to age 60-64.

Source: Charts A and B: *National Accounts of OECD Countries*, 2004; *OECD Labour Force Statistics*, 2004; *OECD Economic Outlook*, No. 76; Chart C: *OECD Taxing Wages*, 2003/2004; Chart D: Chapter 5 in this publication.