

## FINLAND

*Convergence in GDP per capita to the best performing countries has continued. However, structural unemployment remains high, and employment of older and low-skilled workers is relatively low.*

### Policy priorities

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

**Challenge and recommendations:** To lower the average and marginal tax wedges on labour income, which are among the highest in the OECD, it was recommended that the lowering of taxes on labour income be continued, while ensuring fiscal sustainability by shifting the tax burden towards less distortionary taxes, such as property taxes.

**Actions taken:** The government has announced that it will lower labour taxation in the period 2008 to 2011, but, because of the buoyant cyclical situation, it has postponed the tax cuts towards the end of the period.

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

**Challenge and recommendations:** To lengthen working lives, which are well below the Nordic country average, it was recommended that: workers over the age of 59 be made subject to the same activation requirements as younger workers in order to qualify for unemployment benefits; the disability pension be granted only on medical grounds, rather than on “social criteria” as permitted under the current system; and the activation of older workers and persons on disability schemes with some work capacity be increased.

**Actions taken:** No action taken since the wide-ranging pension reform in 2005, which appears to have lengthened working lives so far by 0.4 years and is estimated by the government to increase the average retirement age by 1.2 years by 2012.

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

**Challenge and recommendations:** To increase incentives to take up work after long unemployment spells, it was recommended that the financial support available to the long-term unemployed be reduced.

**Actions taken:** A comprehensive reform of social security has been launched. Various issues are being analysed by a broad-based working group, and the first legislative proposals are scheduled to be presented to parliament in the autumn of 2008.

#### **Promote wage negotiations at the firm level**

**Challenge and recommendations:** To promote employment and labour market flexibility, it was recommended that a larger share of annual wage increases be negotiated at the firm level and opt-out clauses from central collective agreements be allowed, thus making wages more responsive to local conditions.

**Actions taken:** The 2007 wage round took place at the sectoral level; some incremental progress has been made in increasing the prevalence of workplace-level negotiations.

#### **Continue with product market deregulation as well as privatisation**

**Challenge and recommendations:** To increase competition, it was recommended that product markets be further deregulated, in particular by easing regulations on shop opening hours and relaxing zoning laws to facilitate entry in retail distribution, and that the on-going privatisation process be continued.

**Actions taken:** The government is planning to review the rules for shop opening hours, though no concrete steps have been taken to date. Management of state-owned enterprises has been moved from ministries into a unit in the Prime Minister's Office.