

FINLAND

Priorities supported by indicators

Reduce the tax wedge on labour income (2005, 2007, 2009)

Recommendations: Reduce high marginal tax rates on labour across the income distribution. This could be done at least partly in a fiscally neutral way by switching from labour to property taxes.

Actions taken: The government cut income tax rates and social security contributions as part of recent fiscal stimulus measures. The government committee on tax reforms is continuing its work despite delays. Age-related social security contributions were phased out for small and medium-sized companies in 2008.

► **Reduce the use of early retirement pathways (2005, 2007, 2009)**

Recommendations: Reduce access to the “unemployment pipeline”, which provides older workers with benefits for an extended period until retirement.

Actions taken: The starting age of the unemployment pipeline was pushed back from age 55 to 57 in 2005. While the unemployed pension was also abolished in 2005, those unemployed at age 57 continue to enjoy access to the unemployment pipeline right up to the official retirement age of 65.

Reduce the scale of public ownership, especially raising private provision of publicly-funded services (2005)

Recommendations: Reduce ownership and activities of government in commercial sectors and encourage more private-sector participation in the provision of public services.

Actions taken: The government has taken only a few privatisation measures since 2000.

Reform unemployment benefits (2007, 2009)

Recommendations: With among the highest replacement rates for the long-term unemployed in the OECD, stricter activation requirements are needed and should include tapering benefits over the unemployment spell.

Actions taken: No significant action has been taken to improve work incentives. As part of recent fiscal stimulus measures, various benefits (maternity, parental and sickness allowance) have been increased, and unemployment benefits were temporarily increased in the summer of 2009. A relocation allowance was introduced in 2007 to promote greater inter-regional mobility of the unemployed. Receipts of unemployment benefits after 500 days have been made conditional on participation in active labour market programmes.

Other key priorities

Promote greater flexibility in wage determination (2005, 2007, 2009)

Recommendations: Reform the wage setting system so that wages are better aligned with individual productivity performance. This may require that the government re-engage in the process while the reforms are being implemented.

Actions taken: The 2007-08 round of wage negotiations resulted in very large across-the-board wage increases, largely unrelated to individual firm productivity performance.

Further deregulate product markets (2007)

Recommendations: Further deregulate product markets including by relaxing shop opening hours and zoning rules.

Actions taken: Changes to trading hours were announced in mid-2009 although these rules continue to be very prescriptive. The Land Use and Building Act was reformed in 2007.

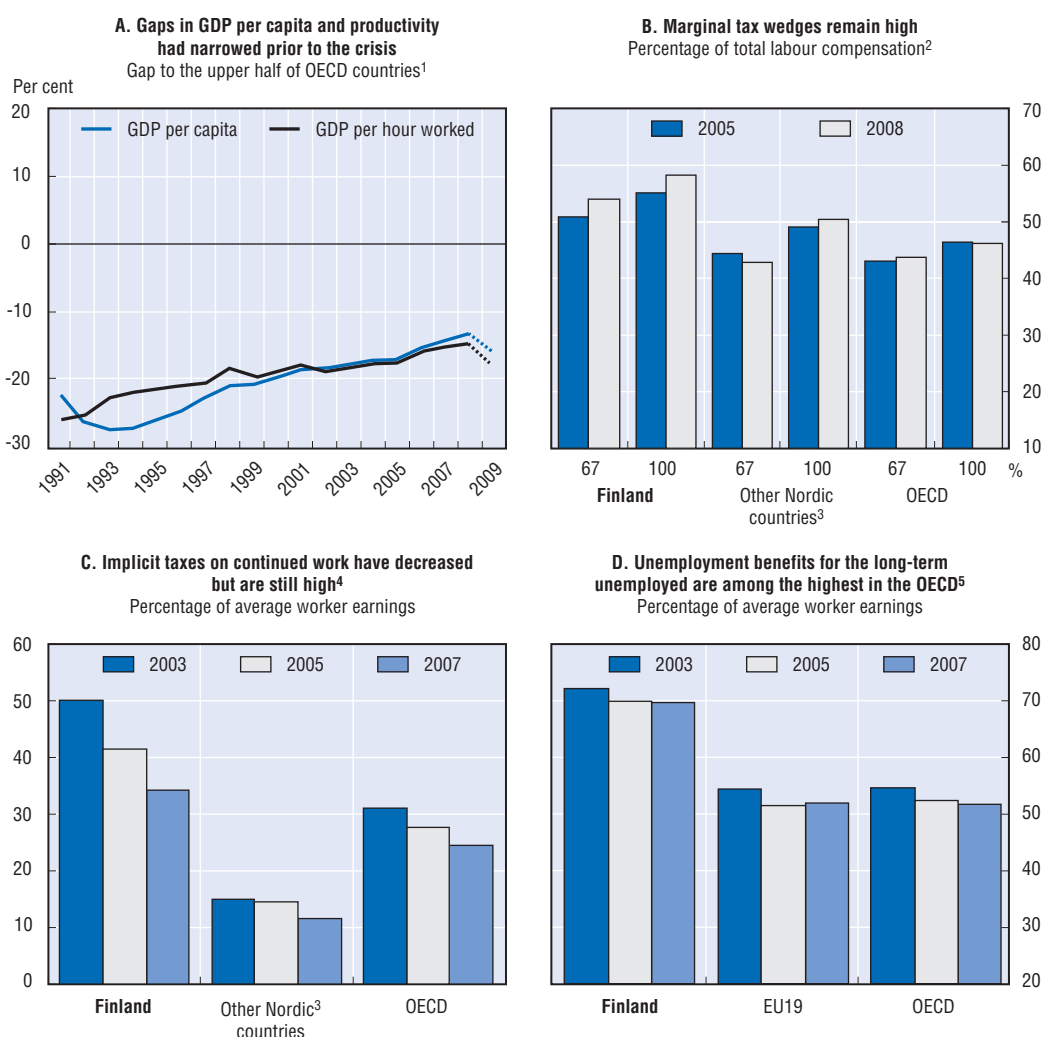
Reform tertiary education entrance system (2009)

Recommendations: Streamline the interface between high school graduation and tertiary entrance in order to reduce long waiting times (matriculation backlog). Address long study times at university by introducing university fees backed by increased availability of income-contingent student loans.

Actions taken: No action taken.

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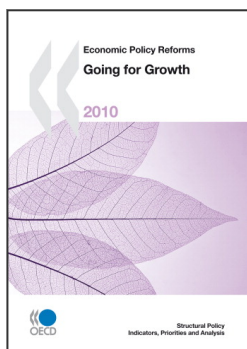
- In recent years Finland has been catching up with its Nordic neighbours in terms of GDP per capita. Relative to the best performing OECD countries the per-capita-income gap is largely explained by lower labour productivity, while labour utilisation has been improving steadily since the recession of the early 1990s.
- In key priority areas, the government has cut income tax rates and social contributions. Access to early retirement pathways has been somewhat restricted but further reductions are needed. Little or no progress has been made on reforming the wage setting framework, the tertiary education entrance system and unemployment benefits.



1. Percentage gap with respect to the simple average of the upper half of OECD countries in terms of GDP per capita and GDP per hour worked (in constant 2005 PPPs). The gaps for 2009 are OECD estimates, based on the *OECD Economic Outlook*, No. 86.
2. Evaluated at 67% and 100% of average earnings for a single person with no child.
3. Average of Denmark, Iceland, Norway and Sweden.
4. Implicit tax on continued work in early retirement route, average for 55 and 60-year-old workers.
5. Average of net replacement rates for unemployed persons who earned 67% and 100% of average worker earnings after five years of unemployment.

Source: Chart A: OECD, *National Accounts and Economic Outlook 86 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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