

FINLAND

Growth performance has been impressive but largely driven by the ICT sector, while the performance in many others sectors has been lacklustre. Unemployment remains high and is largely structural.

Policy priorities

Reduce the tax wedge on labour costs

Challenge and recommendations: Average and marginal tax rates on labour are among the highest in the OECD. It was recommended that these be reduced throughout the earnings distribution and, if the fiscal room for action remained tight, that more weight be put on property taxes and less on labour.

Actions taken: Personal income tax cuts worth 1.1% of GDP were announced following the collective wage agreement in late 2004. During 2005-07, the state income tax rates will be reduced at all income levels and an earned income allowance will be introduced within state taxation.

Reduce the use of early retirement pathways

Challenge and recommendations: The retirement age, particularly for men, is low due to the use of early retirement options. It was recommended that the older unemployed be subjected to the same obligations as other unemployed and that the medical criteria for the main disability pension scheme be tightened.

Actions taken: A major pension reform package agreed in 2003 is being phased in. It includes some tightening of the unemployment early retirement pathway. However, the medical criteria for the main disability pension will be relaxed.

Reduce the scale of public ownership

Challenge and recommendations: The high level of state ownership weakens competitive pressures in sheltered sectors. It was recommended that the state's ownership and regulatory roles be separated more clearly, that an extensive privatisation programme be pursued, and that involvement of private-sector providers in publicly-funded services be increased.

Actions taken: Privatisation proceeds were more than 1¼ per cent of GDP in 2004, the highest since the stock market peaked in 2000, and were running at a similar rate in the first half of 2005. The share of private-sector providers within municipal services has continued to grow moderately.

Promote greater flexibility in centralised wage determination

Challenge and recommendations: Centralised wage agreements lead to a compressed wage structure that crowds out low-skilled service jobs and hampers structural adjustment. It was recommended that greater flexibility in wage determination be promoted by following the example of other Nordic countries.

Actions taken: The recent central wage agreement had a relatively modest central wage increases, averaging 1¾ per cent a year to September 2007, and allowed some room for local flexibility.

Reform unemployment benefits

Challenge and recommendations: Net replacement rates are among the highest in the OECD at long unemployment spells. It was recommended that unemployment benefits be tapered with duration to encourage job search and reduce the unemployment trap.

Actions taken: No recent action.