

## FINLAND

*GDP-per-capita convergence with the best performing economies has continued, but part of it has been offset by ICT-driven terms-of-trade losses. The GDP-per-capita gap reflects shortfalls in both labour utilisation and productivity. Recent reforms have included some moves to strengthen labour force participation and an attempt to reform the wage-setting framework; however, more reforms are still needed, in particular in the following areas.*

### Priorities supported by indicators

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

Average and marginal tax wedges on labour income are among the highest in the OECD. In combination with the compressed wage structure, this poses problems for the employment of the low-skilled and for both attracting high-skilled workers and retaining high-skilled jobs.

**Actions taken:** The government had announced the intention to cut labour taxes, which are likely to be brought forward. The government has appointed a committee to analyse and propose structural changes in the overall tax system.

**Recommendations:** Continue to reduce taxes on labour income and ensure fiscal sustainability by shifting the tax burden towards less distortionary revenue sources.

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

Implicit taxes on continued work at older ages are high so that the effective retirement age continues to be below the OECD average and well below the average of the other Nordic countries, reducing labour utilisation.

**Actions taken:** No actions have been taken since the pension reform of 2005, which had the objective of extending working lives by 2-3 years by improving financial incentives to continue to work and restricting some early retirement pathways.

**Recommendations:** Abolish the special treatment of unemployed workers aged 59 and over (the “unemployment pipeline”) with a view to lifting the effective retirement age. Grant the disability pension only on medical grounds rather than on social criteria as permitted under the current system. Increase the activation of persons on disability schemes with some work capacity.

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

Net replacement rates, that take into account taxation and social benefits received by the unemployed, are among the highest in the OECD for long unemployment spells. This reduces incentives to work.

**Actions taken:** Although the government has formed a committee to reform the social protection system, no actions have been taken since the 2006 activation reform for the long-term unemployed. This reform intensified activation after 500 days and made receipt of unemployment benefits conditional on participating in active labour market programmes, thus helping to offset the disincentive effects associated with high replacement rates.

**Recommendations:** Ensure that the activation reform is strictly enforced, including the requirement that the unemployed relocate if offered employment in other regions of the country. In addition, reduce the financial support available to the long-term unemployed to increase the incentive to take up work, including tapering unemployment benefits over time.

### Other key priorities

- **Wage bargaining.** Promote employment and economic flexibility by negotiating a larger share of annual wage increases at the firm level and allowing opt-out clauses from central collective agreements, thus making wages more responsive to local conditions.
- **Tertiary education.** Reduce the waiting time to gain entry to tertiary education to lower the average age of university students, which is currently amongst the highest in Europe. Address long university study times (particularly for first degrees) by improving incentives for students to progress rapidly through tertiary education and into the labour force by introducing tuition fees and expanding the availability of student loans.

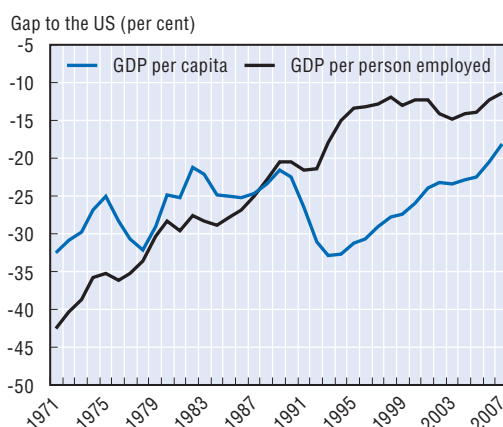
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## Structural indicators

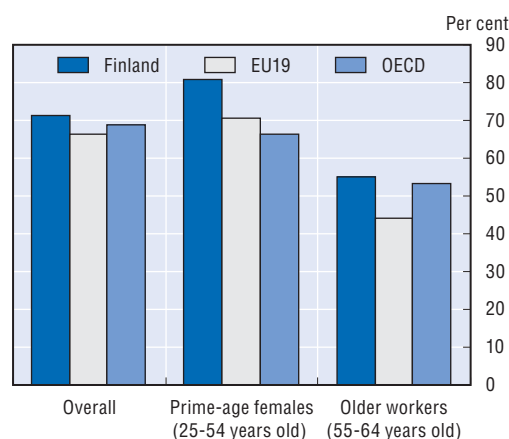
Average annual trend growth rates, per cent

	1997-2007	1997-2002	2002-2007
GDP per capita	2.9	3.0	2.8
Labour utilisation	0.5	0.6	0.4
of which: Employment rate	0.8	0.9	0.7
Average hours	-0.3	-0.3	-0.3
Labour productivity	2.3	2.4	2.3
of which: Capital intensity	0.4	0.4	0.5
Multifactor productivity	1.9	1.9	1.9

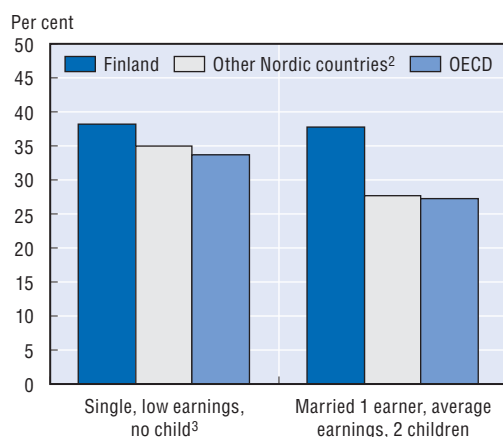
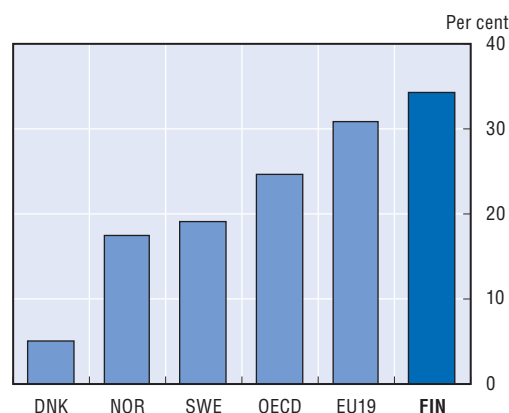
Source: Estimates based on OECD Economic Outlook, No. 84, Vol. 2008/2.

A. Convergence in GDP per capita has been sustained since the mid-1990s<sup>1</sup>

B. Employment rates are comparatively high, 2007




C. Average tax wedges are relatively high, 2007

D. The implicit tax on continued work at older ages is well above OECD average, 2007<sup>4</sup>

1. Percentage gap with respect to US GDP per capita and per person employed (in constant 2000 PPPs).
2. Average of Denmark, Iceland, Norway and Sweden.
3. Low earnings refer to two-thirds of average earnings.
4. Average of implicit tax on continued work in early retirement route for 55 and 60-year-old workers.

Source: Chart A: OECD, *National Accounts Database*; Chart B: OECD, *Labour Force Statistics Database*; Chart C: OECD, *Taxing Wages Database*; Chart D: 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.

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