FINLAND

Priorities supported by indicators

Reduce the labour tax wedge and improve efficiency of the tax structure (2007, 2009, 2011)

Recommendations: Continue to shift taxation from labour to indirect and property taxes. Align property tax assessment values with property market valuations and eliminate reduced VAT rates.

Actions taken: The government cut income tax and social security contribution rates during the recession as part of fiscal stimulus measures. More revenue is being raised through higher VAT rates – except on food – and energy taxes. However, social contribution rates will increase during 2011-14.

Reduce disincentives to work at older ages (2007, 2009, 2011)

Recommendations: Raise the minimum statutory retirement age, review the disability pension system and close the unemployment pathway into retirement. Increase pension accrual rates after 65 and extend the actuarial adjustment of pensions to the full working life.

Actions taken: The government and stakeholder organisations agreed in 2009 to gradually increase the average effective retirement age by three years but no concrete measures have been implemented so far.

Reform the unemployment benefit system (2007, 2009, 2011)

Recommendations: Reduce replacement rates and taper them off throughout the unemployment spell. Ensure earlier mandatory activation for the unemployed.

Actions taken: A relocation allowance was introduced in 2007 and receipt unemployment benefits after 500 days have been made conditional on participation in active labour market programmes. In response to the recession, replacement rates were raised.

Other key priorities

Improve the efficiency of the tertiary education system (2009, 2011)

Recommendations: Reform selection procedures slowing access to upper education and introduce tertiary tuition fees together with government student loans with income-contingent repayments.

Actions taken: To speed up graduation and secure income during full-time studies, student selection procedures in higher education are being reviewed and financial aid is being rationalised.

Increase productivity in municipalities (2011)

Recommendations: Open up further the municipal purchasing of non-core services to competitive bidding, promote municipal mergers and municipal-level productivity programmes with increased reliance on benchmarking.

Actions taken: No significant action taken.

Align wage determination better with productivity (2007, 2009)

Recommendations: Reform the wage setting system so that wages are better aligned with individual productivity performance.

Actions taken: Wage negotiations have been decentralised to the industry level since 2007, but local flexibility remains low.

Increase product market competition (2007)

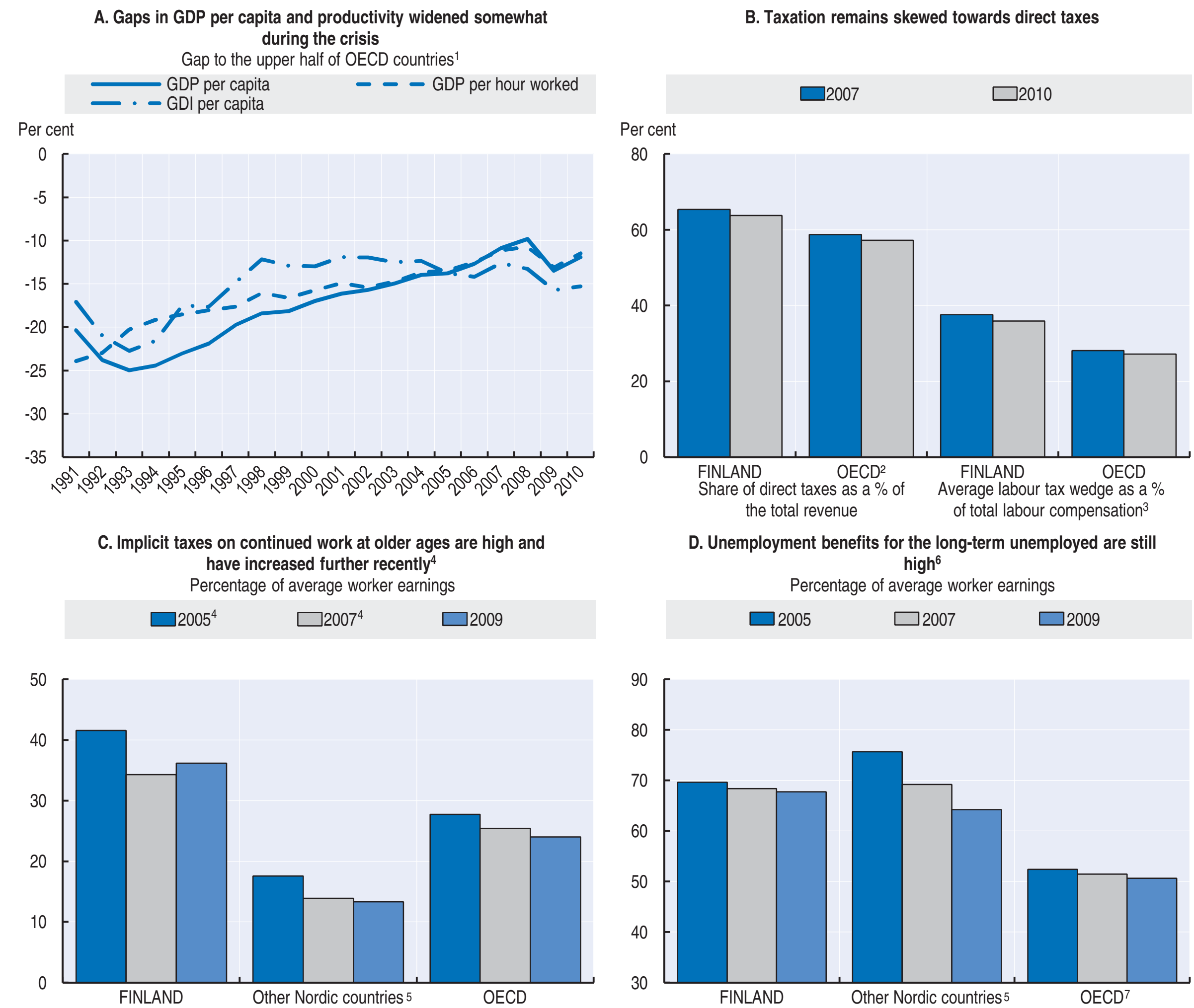
Recommendations: Increase competition in product markets, especially in the retail sector.

Actions taken: Since 2009 all shops have been allowed to open on Sundays all year round. Nevertheless, the rules on shop opening hours remain very prescriptive.

FINLAND

- The GDP per capita gap *vis-à-vis* the best performing countries narrowed from the mid-1990s until 2008, but widened again during the crisis. The gap mainly reflects a labour productivity shortfall.
- In priority areas, recent pension reforms have reduced disincentives to work, activation policies have been strengthened to encourage return to work, and the tertiary education system is being reviewed, *e.g.* in the area of students' selection.
- In other areas, to mitigate hardship on the non-employed during the crisis, various social benefits have been raised permanently.

Performance and policy indicators



1. Percentage gap with respect to the simple average of the highest 17 OECD countries in terms of GDP per capita, GDP per hour worked and GDI per capita (in constant 2005 PPPs).
2. Data refer to 2009 for Australia, the Netherlands and Poland.
3. Labour taxes include personal income tax and employee plus employer social security contributions and any payroll tax less cash transfers. Couple with two children, at 100% of the average worker earnings for the first earner. Average of three situations regarding the wage of the second earner (0%, 33% and 67% of average earnings).
4. Average implicit tax on continued work for five more years in "early retirement route" (as defined in Duval, 2003) for 55 and 60 year-olds. For 2005 and 2007, average of OECD countries excluding Chile, Estonia, Israel and Slovenia.
5. Average of Denmark, Norway and Sweden.
6. Average of net replacement rates after five years of unemployment for unemployed persons who earned 67% and 100% of average worker earnings.
7. Average of OECD countries excluding Chile and Mexico.

Source: Chart A: OECD, *National Accounts and Economic Outlook 90 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, OECD Publishing and OECD calculations; Chart D: OECD, *Benefits and Wages Database*. StatLink http://dx.doi.org/10.1787/888932565300