

A STRATEGY FOR FINLAND

THE ECONOMIC CRISIS IN FINLAND

Anders Borg

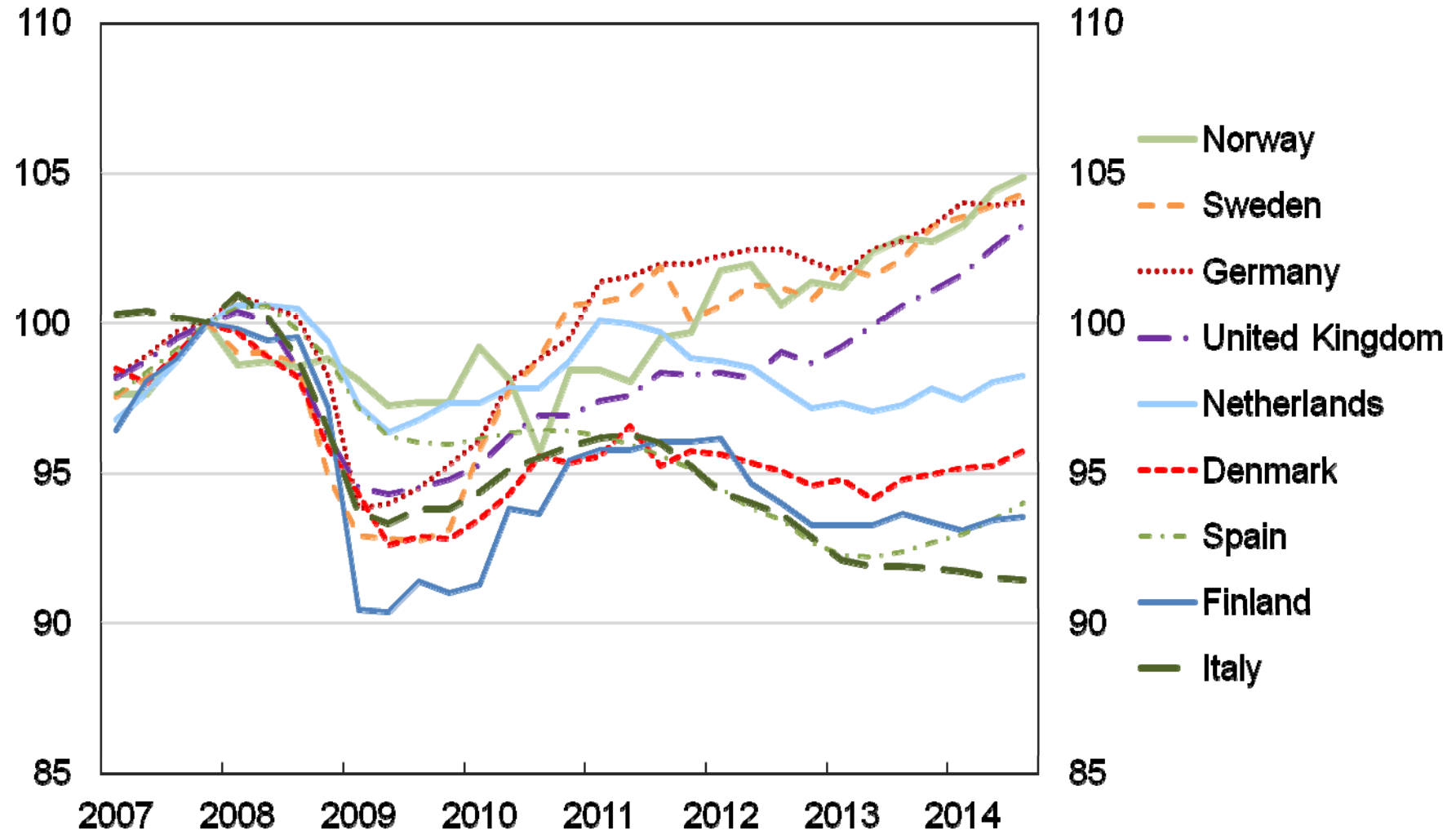
Juhana Vartiainen

Finland: A success story

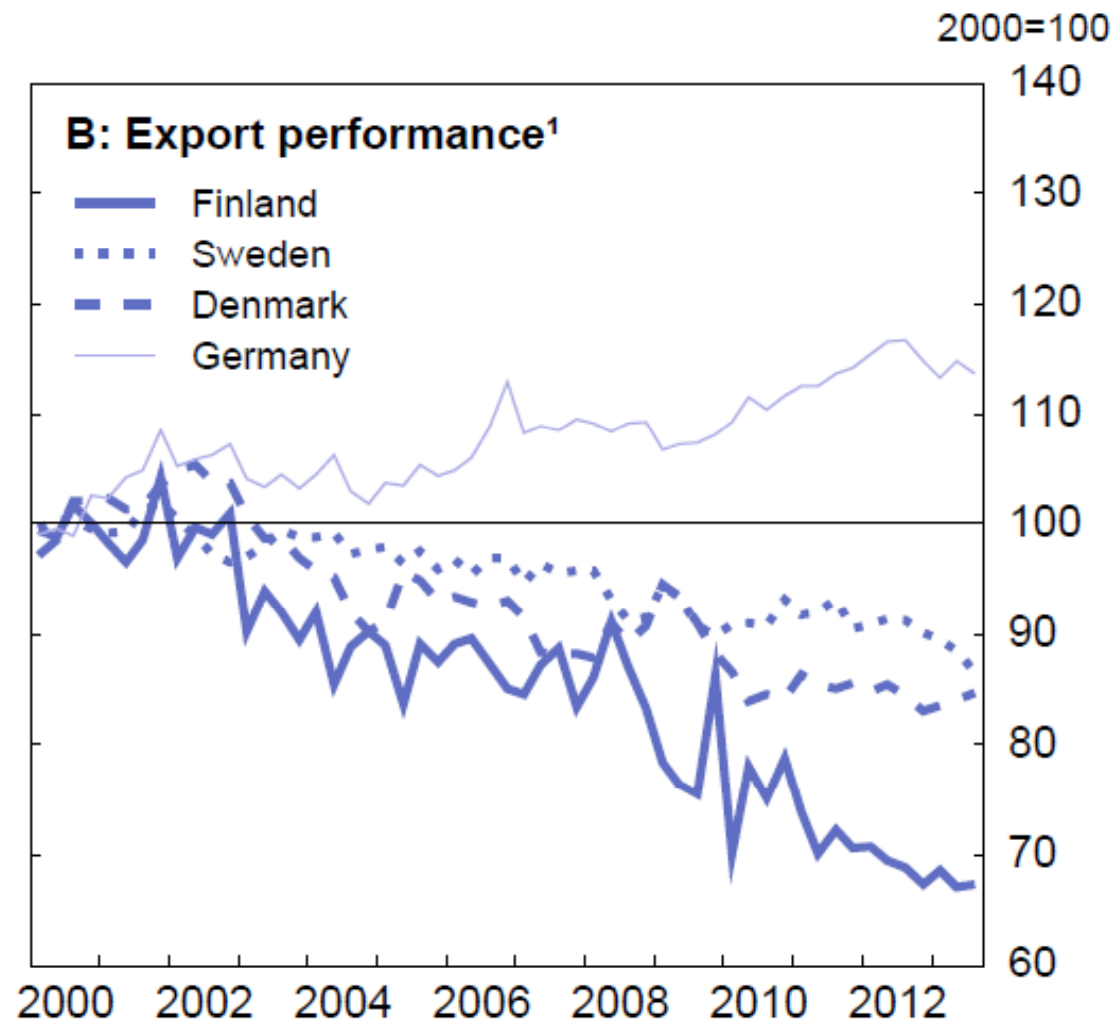
- Long-lasting growth has been higher
- The business climate is among the best
- The welfare level is high
- The social cohesion is stronger and the inequalities smaller
- The natural environment is cleaner
- The trust in government and between people is higher

But Finland has been hit harder than most

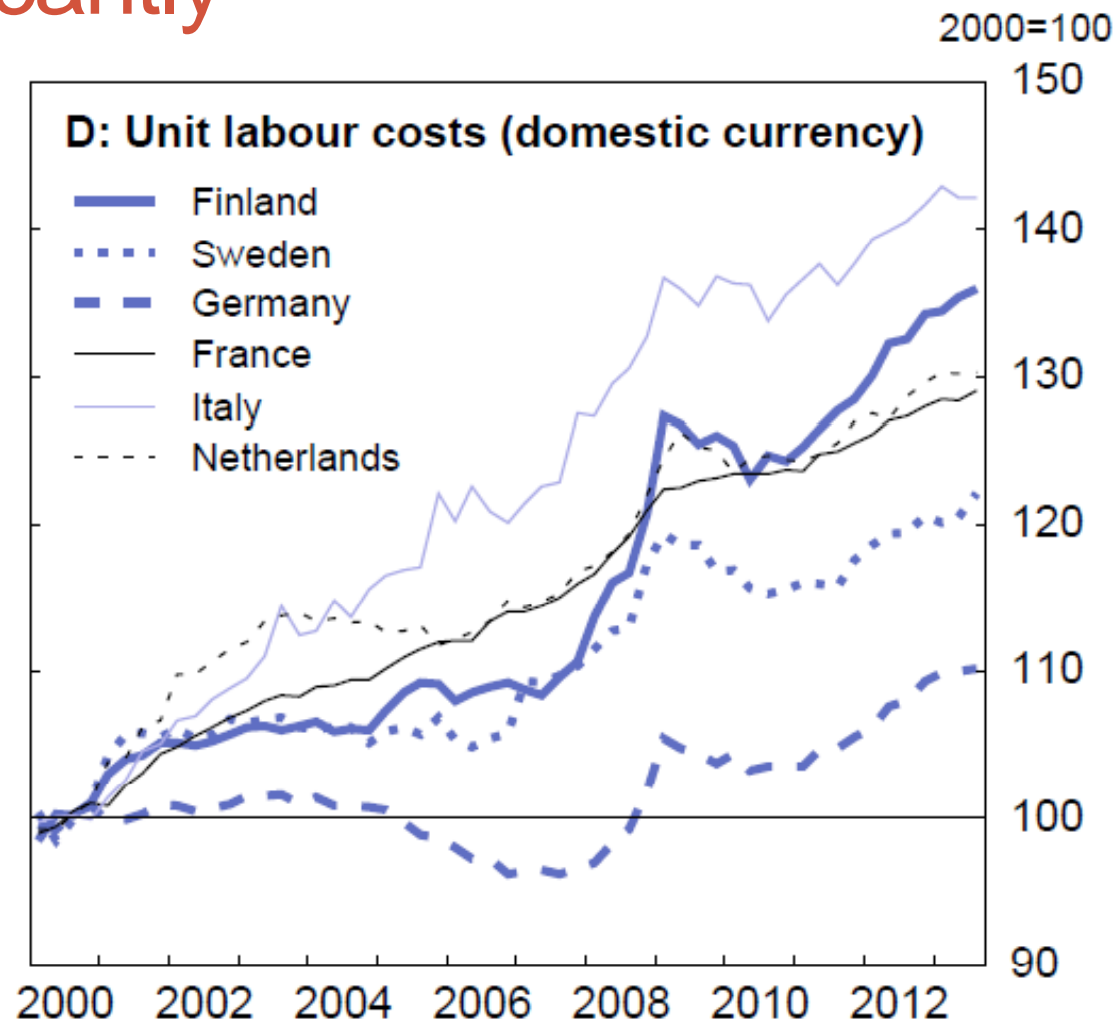
GDP Developments



The export sector has been particularly weak



Competitiveness has deteriorated significantly

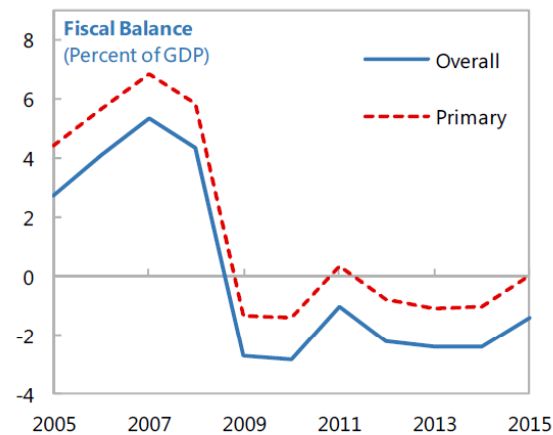


Wage adjustments have been slow

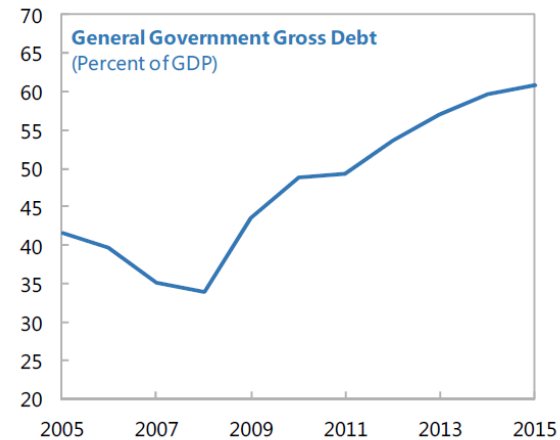
- Adjustments to wage increases have been slow
- Initially it was difficult understand if lower productivity was temporary
- Weaker central co-ordination worsened the problem
- The current wage pact has not improved competitiveness

The fiscal space has already been used, long term challenges

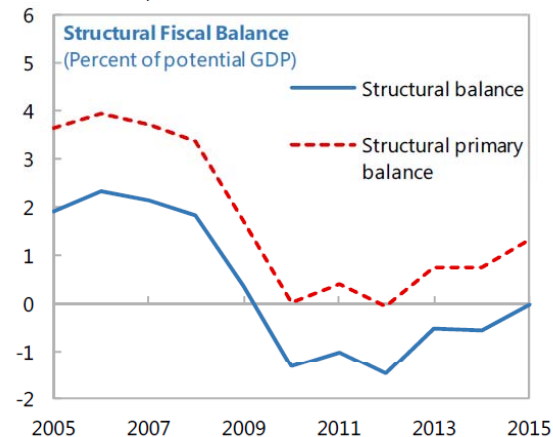
The headline fiscal balance has deteriorated markedly...



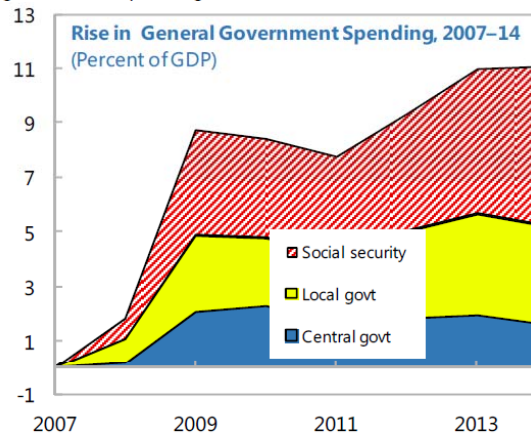
...leading to a substantial rise in debt since 2008.



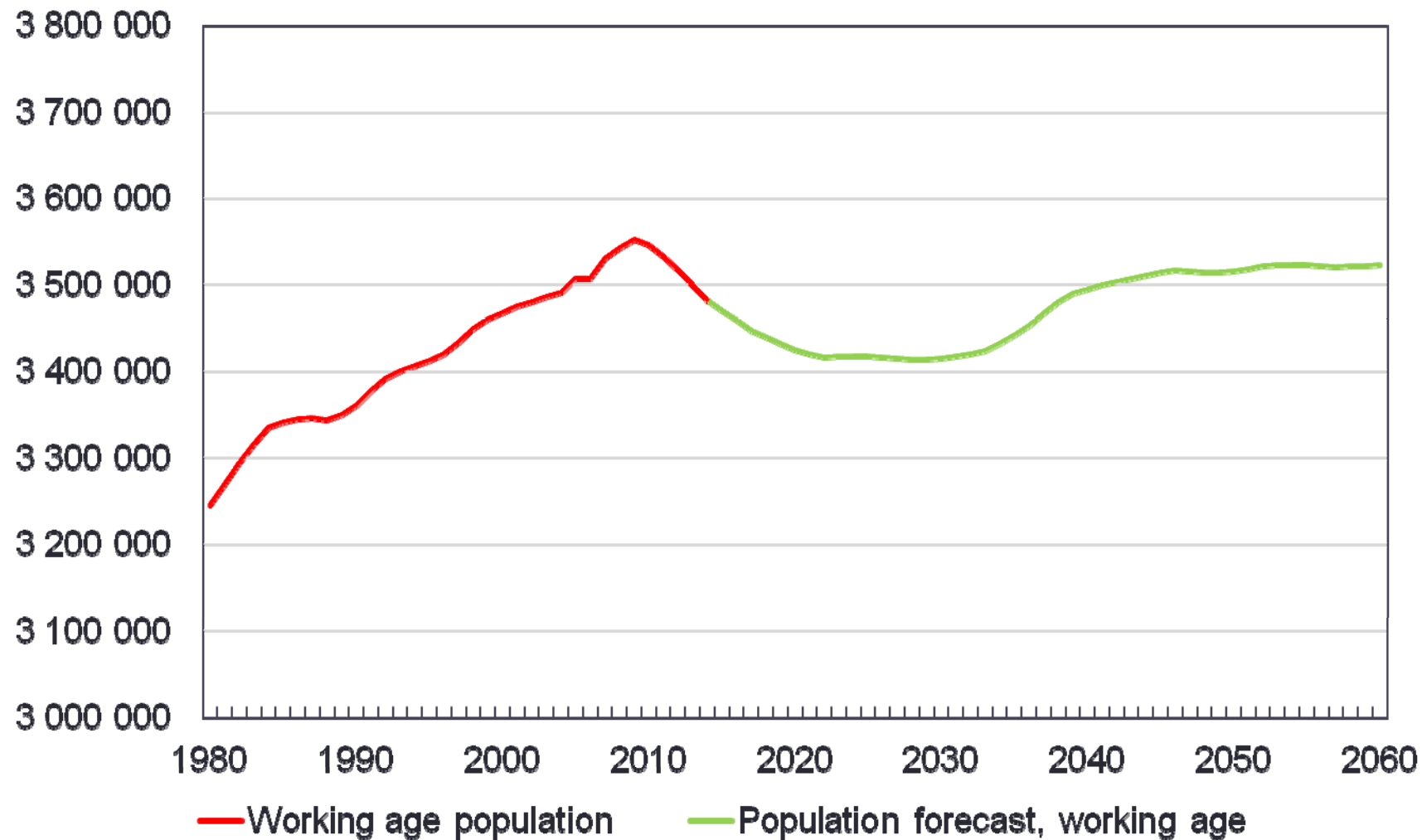
While the drop in the fiscal balance is partly cyclical, the structural fiscal position has also eroded...



...largely due to sustained increases in social security and local government spending.



Decline in working age population marks long term fiscal prospects





A 3-fold strategy to overcome the crisis

- A wage setting process that restores competitiveness and trust
- A reform agenda to increase labour force participation
- A sustained effort to increase productivity growth

A sustainable wage setting process

- Wage increases in the Euro area around 1,5-2,0 per cent and productivity growth in Finland in line with other countries
- A norm of total wage increases at 0,5% until unit labour costs are in line with the Euro Area should be considered

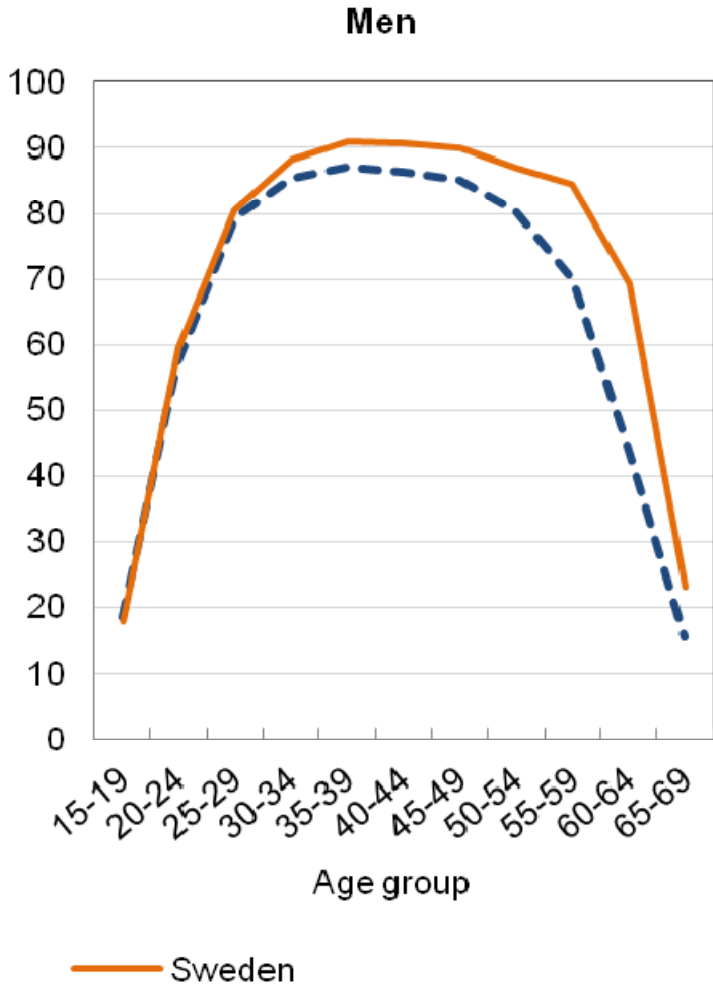
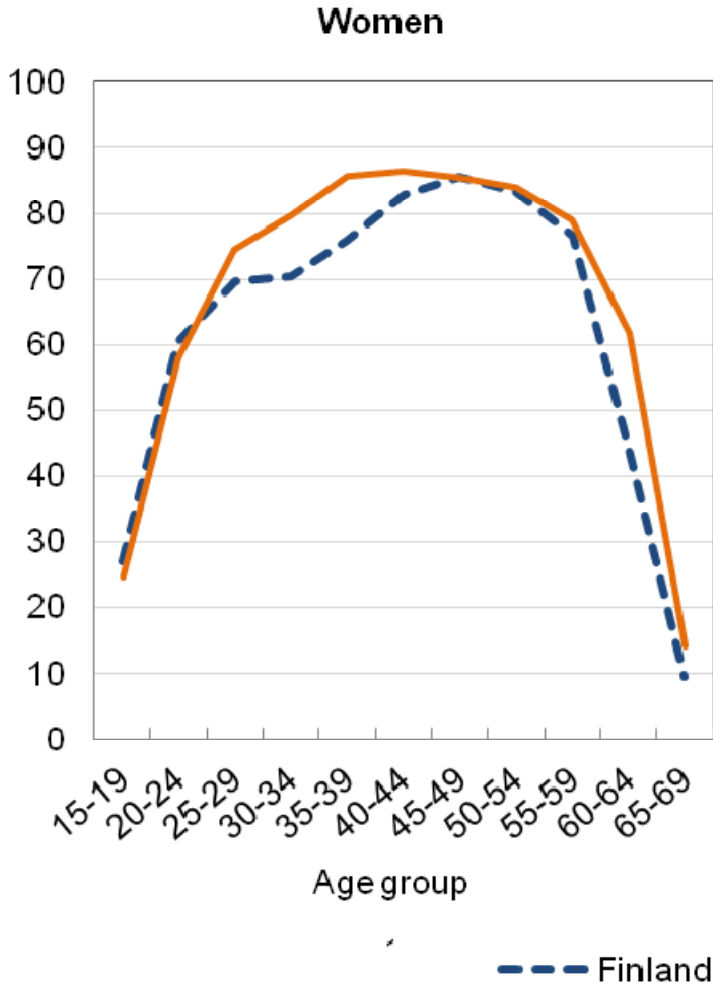
Reforms of the wage setting

- The government should task the partners to start negotiations on reforms of the wage setting process
 - To consider how coordination on the labour market can be strengthened
 - To agree that the wage setting process must be anchored to the demands of the competitive sector
 - To reinforce the committee for labour market coordination at the Ministry of Finance and task the staff to present public assessments of competitiveness, productivity and the scope for wage increases and the impact on employment and unemployment
 - To consider how the national mediation institution can be reinforced
 - To consider how a model with more decentralized wage settings can be introduced into the labour market model in Finland and to consider how thrust among the local partners can be strengthened

Reforms to increase labour supply

- Finland's employment rates are too low to sustain the current welfare undertaking
- Finland lags behind the other Nordic countries
- Important reservoirs of labour force growth
 - Pension age, participation of elderly people
 - Employment-based immigration flow
 - Participation and employment of mothers
- A stronger labour force helps to sustain employment growth for many years

Employment rates, Finland and Sweden



A sustained effort to increase productivity

- Strengthen the adoption of new technology
 - Reform higher education, clarify the innovative perspective for research in university sector
- Improve the entrepreneurial climate in Finland
 - Social attitudes can be important
 - Taxes could be considered to stimulate innovation
- Improve the capacity to adapt to changes
 - Housing market and geographical and professional mobility
 - Reform employment policies to facilitate restructuring
- Increase competition in the domestic economy
- Invest in infrastructure

Conclusions for economic policy

- The situation is very serious, there is no way around these problems
- There are no easy solutions
 - A global recovery may help, but will not solve Finland's problems
 - Finland's cost level is too high
 - Public finances are unsustainable, the current structural level of employment will not sustain the welfare arrangements
 - No fiscal space without vigorous reforms

Conclusions for economic policy

- Finland needs to
 - Regain competitiveness: Secure wage moderation and improve productivity growth
 - Increase the long term employment rate
 - Stabilize public finances
 - Secure political legitimacy
- A combination of structural reforms, wage setting procedures and fiscal policy
- Create positive expectations among investors, firms and households
- With reforms in place, room for less restrictive fiscal policy