



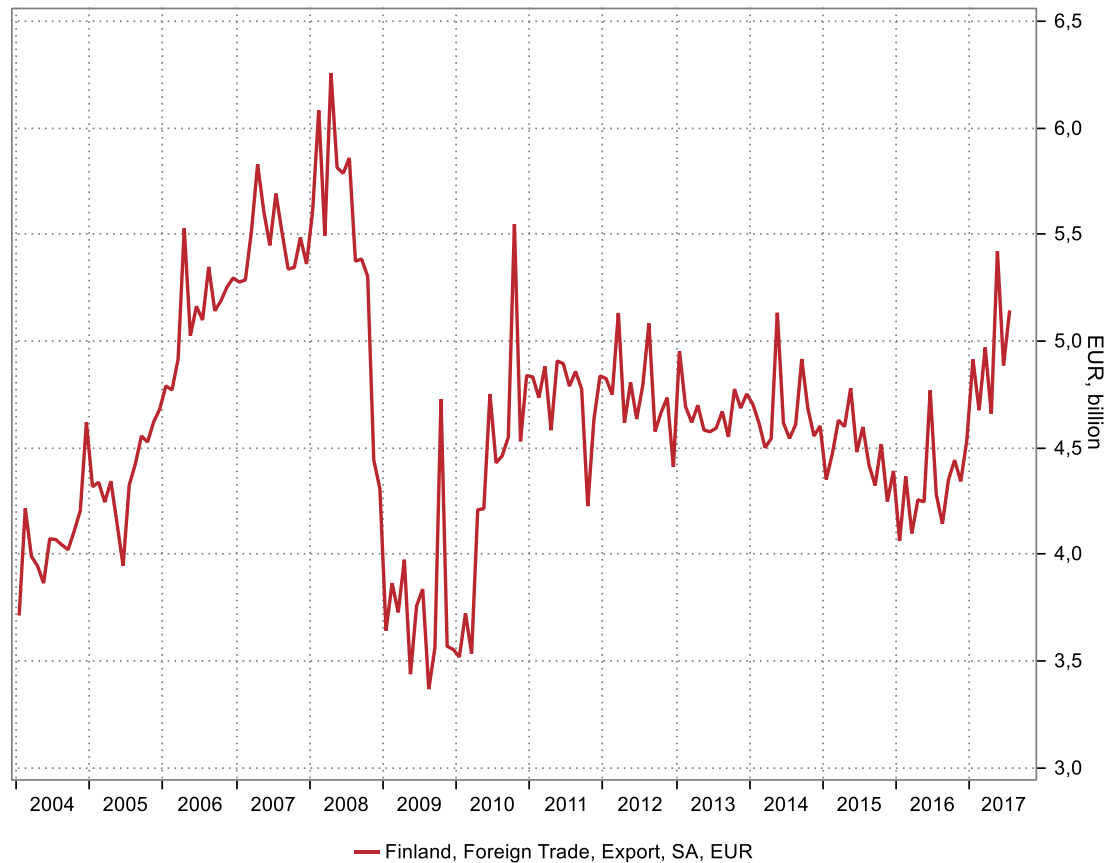
PRIME MINISTER'S OFFICE  
FINLAND

# OECD Country Report 2018 – a Commentary

Project TOIMI Work Shop 1.3.2018  
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Secretary General of The Economic Council  
PMO

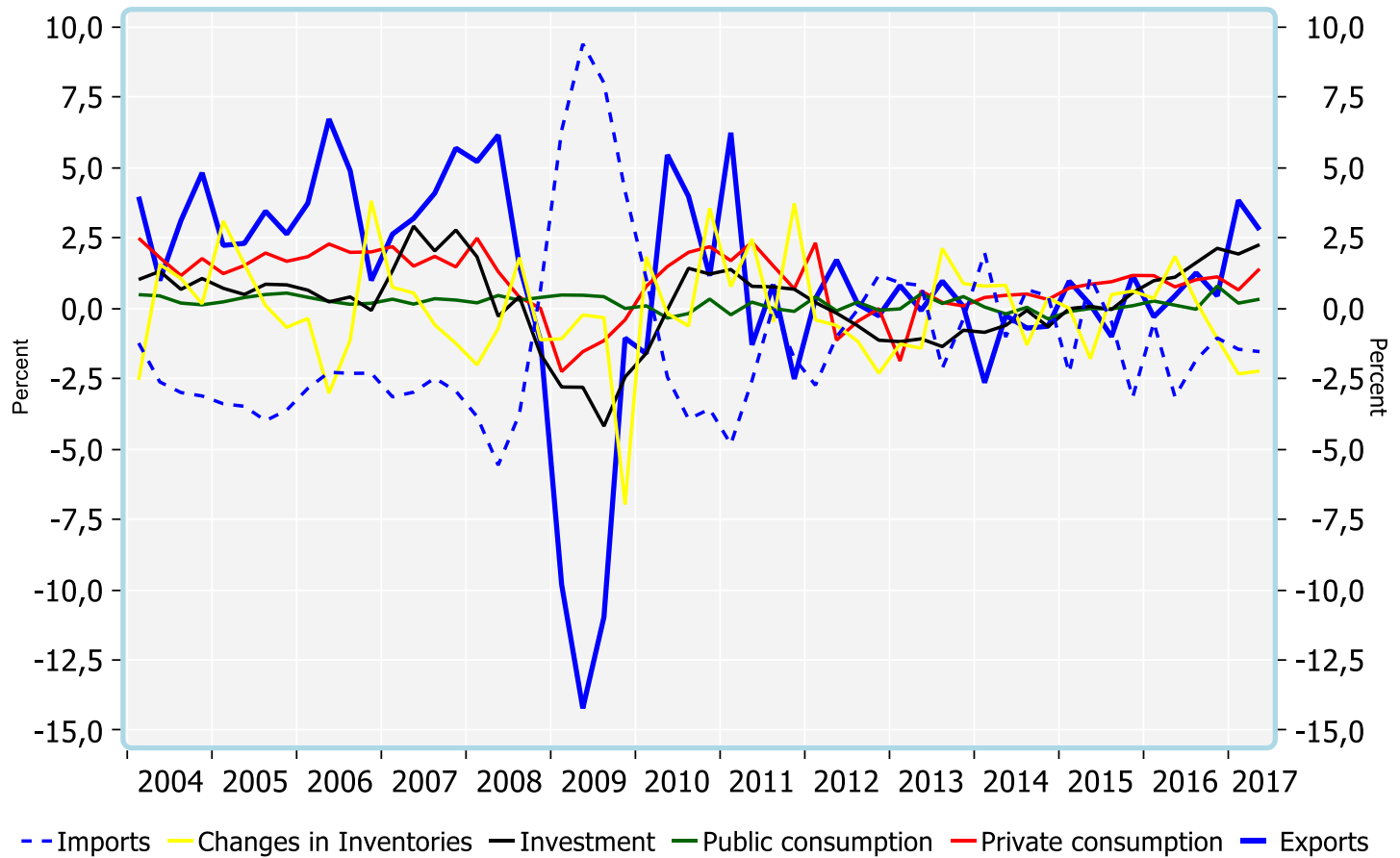


# Exports have started to grow again...



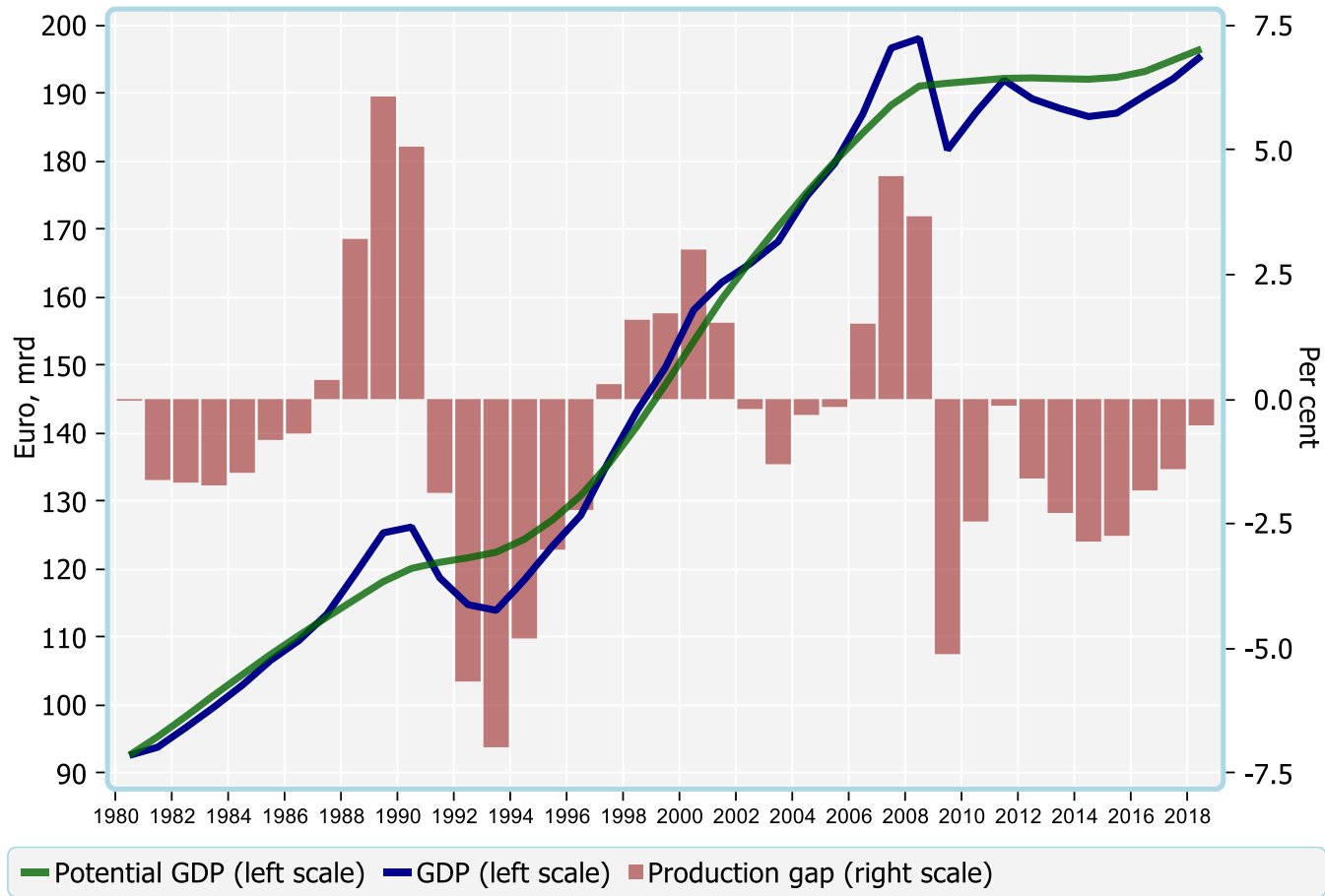
Source: **Macrobond**

# ...and contribute to growth



Source: Macrobond

# Finnish economy is back on track from a long rocky road...



Source: DG EGFIN/Macrobond

# ...but risks loom behind the corner

- in the short term the main risks relate to global developments
- in the long run some concerning signs vis-à-vis the potential output growth
  - educational performance deteriorating (PISA)
  - R&D investment declining (as % of GDP)
  - business subsidies preserve rather than renew
  - some potential vulnerabilities in the financial sector (Nordea, household debt)

# Growth is not fully reflected in employment and public finances

- Employment
  - structural impediments for high employment remain
- Public finances
  - age related spending growth + international tax competition  
= challenging equation
- Income distribution
  - inequality low and relatively stable (since 2000)
  - gender pay gap remains – partly related to strong gender specialisation

# Some positive policy actions have been taken...

- Easing of regulations on e.g. retail trade and transport
- Development of the wage bargaining mechanism towards “organized decentralization” and local agreements
- Centralising benefit administration to Kela and launching the real-time income registry
- Reduced unemployment benefit duration and focus on activation measures
- Experiment of universal basic income (UIB)

# ... but home work remains to be done

- Efficient implementation of health, social and regional reform (to secure the projected 3 billion annual savings)
- Business subsidy reform
  - **Parliamentary task force** underway
- Tax reform
  - **Road map for taxation** -project about to start
- Benefit reform (including family leave)
  - **TOIMI** project ready to feed into this



# Shock resilience of the Finnish economy

- The past ten years or so have shown that Finnish economy is prone to idiosyncratic shocks and absorbs systemic shocks differently than Euroarea on average.
- Given that global fluctuations and crises will recur greater emphasis could be put on this and the potential ways to improve the shock resilience of the Finnish economy
- One particular concern is the fact that the public finances seem to be recovering relatively slowly in view of the need to build buffers for the next downturn.

# International coordination of tax policies

- International tax competition preventing adequate and fair tax policy to support the welfare state is a pivotal problem not limited to Finland only.
- The problem is likely to be accentuated owing to the tendency of digital economy to concentrate incomes to a few winners due to the ease of scaling.
- In digital economy the tax bases will become very mobile making strongly redistributive taxation impossible without strong international coordination.
- The fact that Finland is running ahead of many other countries in the pace of population ageing is in this respect problematic – from the Finnish perspective the essential international coordination will come about too late.

# Reforming the social security

- The simulations of alternative models (UBI and UC) presented in the report are welcome and timely but too scarcely documented and explained to form a convincing argument one way or the other.
- A useful analysis would need to start with very elementary issues and observations vis-à-vis the foreseeable trends in the labour market and their implications for the optimal social safety nets.
  - Will there be more need for redistribution over the life cycle of an individual or between individuals or both?
  - Why should we replace causal social security with universal benefits?
  - Should more emphasis be put on work incentives or affordability?
  - Given the possibility of real-time income records what will we be the relevant time frame for defining taxes/benefits?
- I hope TOIMI -project will be able to provide answers to these questions and also more simulations of alternative models.