OECD Country Report 2018
– a Commentary

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Exports have started to grow again…
...and contribute to growth
Finnish economy is back on track from a long rocky road...
...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.