

Laying the foundations for strong, sustainable growth in Finland

After a large drop in the first half of 2020, Finland regained its pre-COVID-19 GDP level by mid-2021. Policies to support incomes during and after the pandemic contributed to the powerful economic rebound. However, Russia's war of aggression against Ukraine has boosted inflation, slashing household spending power and consumer confidence.

Finland's Zero Homeless Strategy: Lessons from a Success Story

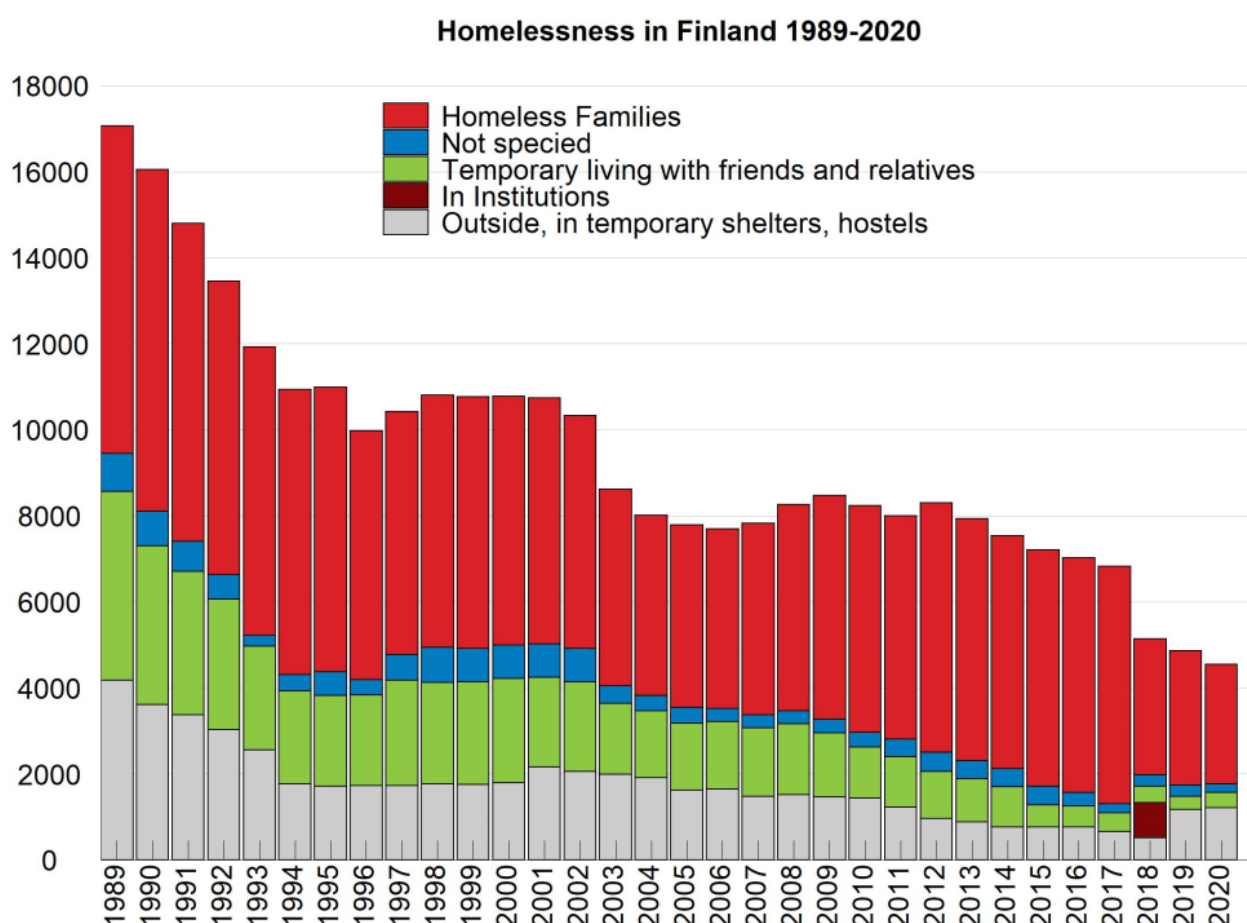
By Laurence Boone, Boris Cournède, OECD Economics Department; and Marissa Plouin, OECD Directorate for Employment, Labour and Social Affairs

Following a period when homelessness rose in many countries, the onset of the COVID-19 pandemic prompted governments across the OECD area to provide unprecedented public support – including to the homeless. In the United Kingdom, for instance, people who had been living on the streets or in shelters were housed in individual accommodations in a matter of days. And in cities and towns across the OECD, public authorities worked closely with service providers and other partners to provide support to the homeless that had previously been considered impossible.

How can countries build on this momentum and ensure more durable outcomes? The experience of Finland over the past several decades – during which the country has nearly eradicated homelessness – provides a glimpse of what can be possible with a sustained national strategy and enduring political will.

The number of homeless people in Finland has continuously decreased over the past three decades from over 16 000 in 1989 to around 4 000, or 0.08% of the population (Figure 1). This is a very low number, especially considering that Finland uses a relatively broad definition of homelessness, whereby in particular it includes people temporarily living with friends and relatives in its official homelessness count. In 2020, practically no-one was sleeping rough on a given night in Finland.

Figure 1. Homelessness has shrunk remarkably in Finland



Source: Report 2021: Homelessness in Finland 2020, The Housing

Finance and Development Centre of Finland (ARA).

This is undoubtedly a remarkable success, even if comparing homelessness statistics across countries is fraught with difficulties (OECD, 2020). Many homeless people live precariously, with the implication that statistical tools such as household surveys typically fail to accurately measure their living conditions. Furthermore, countries define homelessness very differently, for instance counting people who temporarily live with friends or relatives as homeless (as Finland does) or excluding them from homelessness statistics. While there is no OECD-wide average against which to compare Finland's homeless rate of 0.08%, other countries with similarly broad definitions of homelessness provide points of reference, such as neighbouring Sweden (0.33%) or the Netherlands (0.23%).¹

Finland's success is not a matter of luck or the outcome of "quick fixes." Rather, it is the result of a sustained, well-resourced national strategy, driven by a "Housing First" approach, which provides people experiencing homelessness with immediate, independent, permanent housing, rather than temporary accommodation (OECD, 2020). A key pillar of this effort has been to combine emergency assistance with the supply of rentals to host previously homeless people, either by converting some existing shelters into residential buildings with independent apartments (Kaakinen, 2019) or by building new flats by a government agency (ARA, 2021). Building flats is key: otherwise, especially if housing supply is particularly rigid, the funding of rentals can risk driving up rents (OECD, 2021a), thus reducing the "bang for the buck" of public spending.

The Finnish experience demonstrates the effectiveness of tackling homelessness through a combination of financial assistance, integrated and targeted support services *and* more supply: using just one of these levers is unlikely to work. Financial assistance comes from

the social benefits systems, which includes a housing allowance for low-income people (mostly jobless persons with no or low unemployment benefits) covering about 80% of housing costs (Kangas and Kallioma-Puha, 2019). Emergency social assistance funding can complement the housing allowance if it is insufficient. Social services provide housing before other interventions that are targeted to beneficiaries' needs (such as, to pick one example, providing health services to help overcome substance abuse). These efforts require dwellings: investment grants by Finland's Housing Finance and Development Centre financed the construction of 2 200 flats over 2016-19 for long-term homeless people (ARA, 2021). Indeed, investing in housing development should be a priority for OECD governments as they navigate the recovery from the crisis: over the past two decades, public investment in housing development has dropped to just 0.06% of GDP across the OECD on average (OECD, 2021b).

Another important driver of Finland's success is the integration of efforts to fight homelessness with other parts of the social safety net. When a housing need is identified in any part of the social service system, housing is provided first, to provide a solid basis for employment, long-term health and/or family assistance (OECD, 2020). This integrated approach avoids the pitfalls that can arise, for instance, when benefits are preconditioned on having an address, or when obtaining a flat requires a minimum income. There are indications that, by facilitating the integration of previously homeless people in society, the upfront Finnish investment that provides people with housing *first*, pays off by reducing subsequent costs incurred by social services. Evaluations point to annual savings in public expenditure in the range of EUR 9 600-15 000 per person who had previously experienced homelessness (Y-Foundation, 2017; Ministry of the Environment, 2011).

Overall, Finland's achievements illustrate the benefits of integration, balance and continuity in policies to tackle homelessness: *integration* across housing and social assistance programmes, *balance* between demand and supply, and political *continuity* over time have helped to maximise the results of the country's investment to end homelessness. Not only has this approach resulted in a steady decline in homelessness, but it has also made the system more resilient to shocks, including the COVID-19 crisis. Indeed, the pandemic was less of a strain to Finland's homeless support system compared to other countries, given that many vulnerable people were already housed and supported in individual flats (Fondation Abbé Pierre – FEANTSA, 2021).

These lessons can be transposed to other OECD countries as they look to build on the momentum and lessons learned from the COVID crisis.

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Technology, Labour Market Institutions and Early Retirement: Evidence From Finland

by Naomitsu Yashiro*, Tomi Kyyrä[†], Hyunjeong Hwang* and Juha Tuomala[‡]



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Across OECD countries, promoting longer working lives is an important policy agenda for mitigating fiscal pressures from increasing pension and healthcare expenditures. There are, however, two significant barriers to increasing employment of older workers, especially in the context of digitalisation. First, workers engaged in codifiable, routine tasks are prone to being displaced by computers and robots (Gentile et al., 2020), a trend that may have been accelerated by the COVID-19 pandemic (Baldwin, 2020; Chernoff and Warman, 2021). Older workers are particularly exposed to this risk because, with shorter remaining working lives, they have weaker incentives to acquire new skills that would allow them to switch to tasks that are less likely to be automated. They may instead choose to retire early when facing rapid technological change (Ahituv and Zeira, 2011; Hægeland et al., 2007). Second, a number of OECD countries have in place institutions that encourage early retirement, such as exceptional entitlements for older workers or looser criteria for unemployment and disability benefits than for other workers. These two factors reinforce each other in pushing older workers out of employment: older workers who are more exposed to new technologies are more likely to exit the labour market when they have access to institutional

pathways to early retirement; and older workers who have access to early retirement pathways are more likely to use them when they are more exposed to technological change.

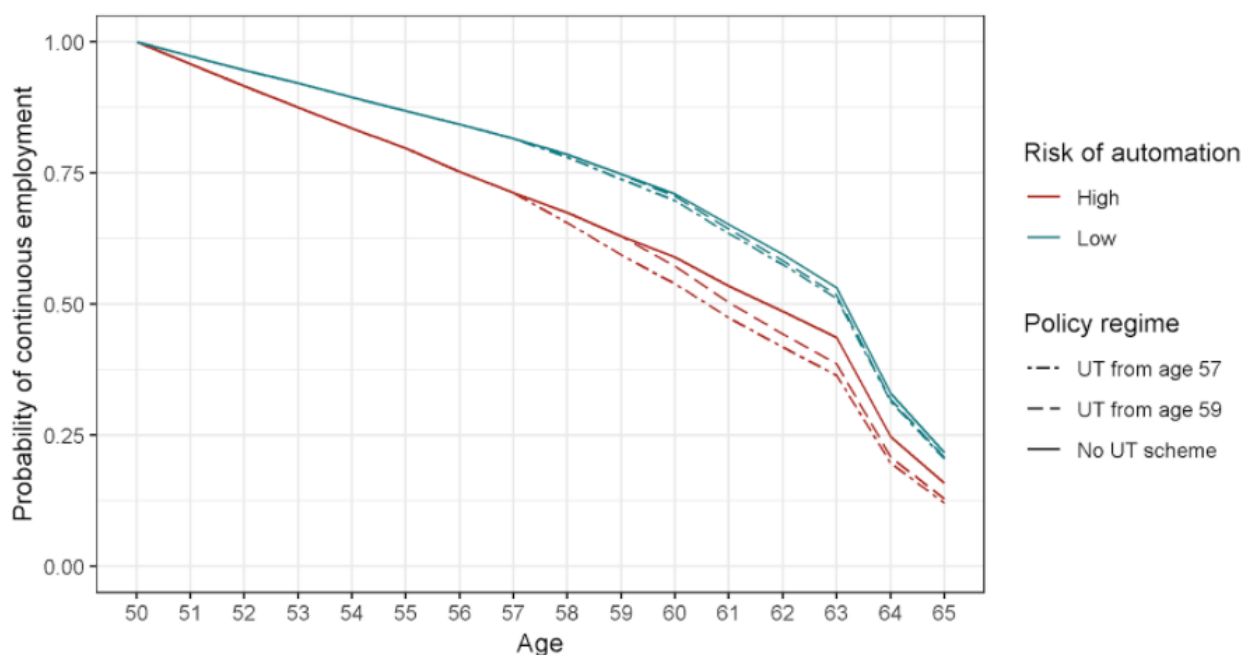
Our paper explores such complementarity for Finland, a country renowned for its intensive use of digital technologies but also with a considerably lower employment rate for older individuals than in other Nordic countries (OECD, 2020). The latter is driven importantly by early retirement through the so-called unemployment tunnel, which is the combination of the entitlement to unemployment benefit of up to 500 working days and the extension of unemployment benefit until the retirement age reserved for the unemployed aged 61 or over who have exhausted their regular unemployment benefit entitlements. From an empirical analysis exploiting a rich Finnish employee-employer database and the OECD data capturing exposure to digital technologies, we find that:

- An individual aged 50 or above in occupations exposed to a standard deviation higher than the average risk of automation (computed by Nedelkoska and Quintini, 2018) faces a 1.1 percentage point higher probability of exiting employment every year, if he or she does not have access to the unemployment tunnel.
- This probability is 2.2 percentage points higher if the individual has access to the tunnel.
- Gaining access to the unemployment tunnel increases the exit probability of an individual exposed to an average level of automation risks by 1.8 percentage points.
- The overall impact of higher automation risks and the unemployment tunnel therefore amounts to 4 percentage points, which implies an 80% increase in the probability of exiting employment for individuals aged 57-58.

We obtain similar results when using other indicators to capture the exposure to digital technologies, such as intensity in routine tasks (Marcolin et al., 2016) or ICT skills (Grundke et al., 2017). Using the estimated

coefficients, we simulate the impact of reforms that tighten access to the unemployment tunnel. Figure 1 illustrates that such reforms extend substantially the working lives of older workers exposed to high automation risks, but have little effect on individuals exposed to low automation risks.

Figure 1. The probability of continuous employment under different unemployment tunnel (UT) scenarios



This figure plots the average probability of remaining employed from age 50 onwards for two groups of older workers, one subject to higher than average automation risks (red lines) and another subject to lower than average risks (green lines). Three reform scenarios are considered: (i) backtracking: the unemployment tunnel (UT) is made available earlier, at the age 57, as it was during 2012-2014; (ii) it is made available at age 59 as it is now, and (iii) extended unemployment benefit is abolished. See the source for detailed information. Source: Yashiro et al. (2021), "Technology, labour market institutions and early retirement: evidence from Finland", OECD Economics Department Working Papers 1659, OECD Publishing, Paris.

This paper underscores the importance of labour market reforms that tighten access to institutionalised early retirement pathways in ensuring the inclusion of older workers in the future of work. While previous policy discussion often emphasised boosting lifelong learning opportunities, older workers will only have weak incentives to take up such opportunities if these early retirement pathways are left open. The recent decision by the Finnish government to abolish extended unemployment benefit by 2025 for persons born in 1965 or after is likely to encourage older workers relatively exposed to technological change to work longer and participate in upskilling opportunities. This, however, calls for targeted

measures to increase the employability of groups most affected by this reform, namely low- and middle-skilled male workers in occupations exposed to high automation risks, involving more routine tasks and less use of ICT skills. Highly tailored training programmes as well as effective schemes for identifying the training needs of these older workers and certifying their acquired skills are important for boosting their upskilling efforts (OECD, 2020; 2019). Policy makers should also step up measures for getting older workers displaced by new technologies back into employment. In the case of Finland, such measures may include strengthening the capacity of the employment service to provide these workers with more personalised counselling and better monitoring of their activation requirements (OECD, 2020), as well as enhancing the role of social partners in facilitating job transitions even before dismissals take place, as in Sweden (OECD, 2016).

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Boosting employment in post-COVID Finland

by Naomitsu Yashiro, OECD Economics Department

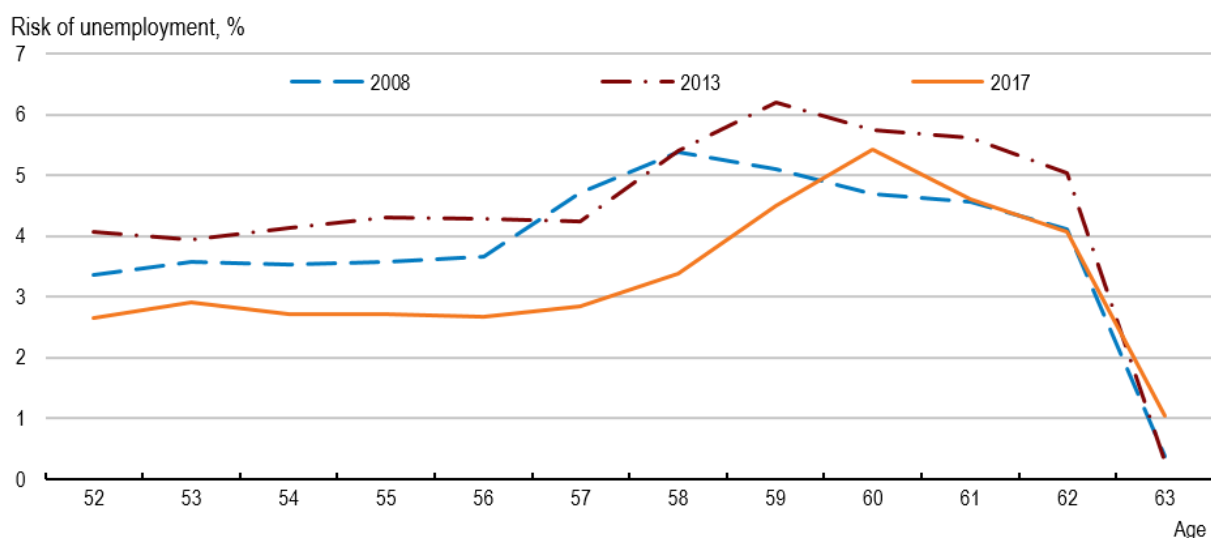


In the context of the large economic contraction and debt build-up in the wake of the COVID-19 pandemic, the government of Finland is formulating reforms to raise employment by 80 000 persons by 2029. Achieving this would raise the employment rate from the estimated 70.8% in 2020 to 73.7% in 2029, reversing the labour market damage caused by COVID-19 and reducing, but not eliminating the structural budget deficit.

Before the pandemic, Finland's employment rate was 73% in 2019, lagging behind the average of Scandinavian Nordics (76%). The largest contribution to the employment rate gap was made by the 60-64 year-old age group. Finland grants to older workers with sufficiently long working period unemployment benefit entitlements that are not only longer than those for younger workers but can also be extended from the age of 61 up to the statutory retirement age. This extension, often dubbed

the unemployment tunnel, provides strong disincentives to continue working. It also induces employers to target older workers in redundancies, even though large employers are obliged to finance a part of the unemployment benefits claimed by their former employees who entered the tunnel. The risk of unemployment increases markedly as workers near the age at which they become eligible to the unemployment tunnel (Figure 1). Past reforms that raised the eligibility age in steps from 59 to 61 have pushed back the timing of the sharp rise in unemployment risks each time, effectively lengthening the working lives of older workers (Figure 1). The 2020 Economic Survey of Finland, published in 10 December 2020, recommended abolishing the unemployment tunnel. A week later, the government announced its decision to abolish the tunnel by 2025.

Figure 1. Unemployment risk spikes near the eligibility age for the unemployment tunnel



Source: Ministry of Finance, Ministry of Economic Affairs and Employment and Ministry of Social Affairs and Health (2019), *Selvitys eläkeuudistuksessa sovittujen lisäpäiväoikeuteen ja ikääntyneiden aktivointiin tehtyjen muutosten vaikutuksista*.

In Finland, inflow into disability benefits has often increased when access to other early retirement pathways was tightened by policy changes. Early retirement via disability benefits is facilitated by more lenient eligibility criteria for awarding disability benefits applied to individuals aged 60 and over, which include non-medical factors. The Survey recommends aligning the criteria between older and younger individuals, namely by not taking into account non-medical

factors. This is important for avoiding the surge of inflow into disability benefits as the unemployment tunnel is being phased out.

In order to ensure that these supply-side reforms result in higher employment, additional policy efforts to place older workers in jobs are needed. Activation requirements for the older unemployed should be applied with the same vigour as for other unemployed persons. The capacity of the public employment service needs to be strengthened by focusing resources on providing essential services like face-to-face counselling while making more use of private providers expertise and digital technologies. Ample upskilling opportunities should be provided to workers with higher risks of jobs loss at old age, such as those with jobs exposed to automation risks (Yashiro et al., 2021). Although the participation in adult education in Finland is relatively high, old and unskilled workers participate much less, as in other OECD countries. Finland's adult education is biased toward formal education at higher education institutions, making it less attractive to the low skilled. The government should bolster targeted trainings, referencing successful examples in other OECD countries, such as the *Unionlearn* scheme in the United Kingdom where Union Learning Representatives help workers identify their training needs and arrange learning opportunities within their companies.

Another population group contributing to Finland's relatively low employment rate vis-à-vis its Scandinavian peers is young women (30 to 34). However, the lower employment rate among this group is mainly due to differences in the statistical treatment of maternity leave between Finland and Sweden. The work attendance rates, which measure the share of persons who were at work during the surveyed week, are about the same between the two countries. However, the attendance rates are still considerably lower in Finland among mothers of children aged up to three years old, owing to the generous social

benefit granted for taking care of children at home instead of using childcare services provided by municipalities. Removing this financial disincentive would encourage return to work by young mothers, thereby avoiding their career development being hampered by a long absence from work, which would help reduce the large gender pay gap.

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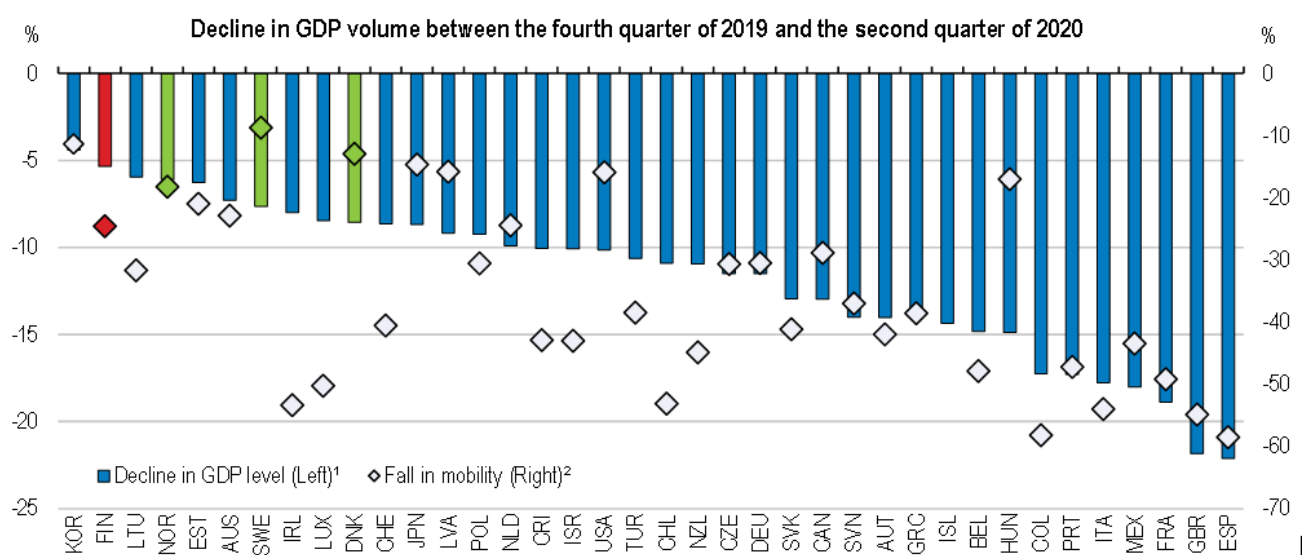
Finland: Recovering from the COVID-19 crisis

By David Carey, Economics Department.

The COVID-19 pandemic has plunged Finland into a deep recession, albeit milder than in most other countries partly thanks to more targeted confinement measures and a relatively small loss of mobility (Figure 1). The economy is projected to shrink by 3.3% in 2020 and recover gradually with growth of 2.1% in 2021 and 1.8% in 2022, led by private consumption and exports. The government provided substantial financial support to protect jobs and help households and businesses get through the crisis. Public finances deteriorated as a result (Figure

2). Once the recovery is underway, fiscal consolidation will be needed to achieve the government's aim to stabilise the debt-to-GDP ratio by the end of the decade. To this end, the government has set an objective of increasing employment by 80 000 at that horizon. Increasing the employment rate toward the average level of the Scandinavian Nordic countries could make a substantial contribution to the necessary fiscal consolidation and, together with stronger productivity growth, help to reverse the long-term erosion in relative living standards. The 2020 OECD Economic Survey of Finland provides an in-depth analysis of these challenges and offers policy recommendations for meeting them.

Figure 1. Economic activity and mobility collapsed, but less than elsewhere



Note: 1. % difference between 2019Q4 and 2020Q2 GDP levels.
2. Fall in mobility from the baseline between 1st of March and 27th of June.

Source: OECD, National Accounts database; Google LLC, Google COVID-19 Community Mobility Reports, <https://www.google.com/covid19/mobility/>.

The greatest potential for increasing employment lies in extending working lives. The employment rate for older workers (aged 55-64 years) is 13 percentage points lower than the average for other Nordic countries, where access to early retirement arrangements is much more limited. The extension of

the unemployment benefit from age 61 until 65, combined with a longer entitlement to the unemployment benefit for persons aged 58 or more, results in a spike in layoffs from the late-50s. To increase the employment rate of older workers, extended unemployment benefit should be phased out and non-medical criteria for awarding disability benefits to applicants aged 60 or more no longer taken into account.

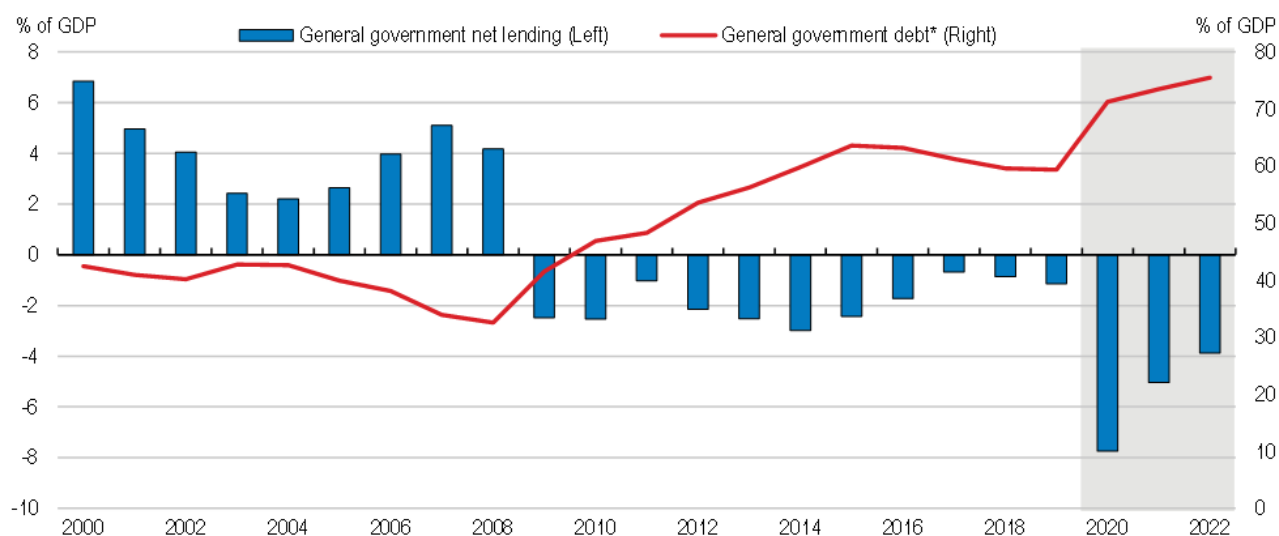
Labour productivity growth weakened substantially in the past decade. A factor that undermines productivity growth in Finland is skills shortages, largely resulting from relatively low tertiary education attainment. This makes it difficult for more productive firms to hire the qualified workers needed to innovate and expand market shares. To boost the supply of tertiary educated workers, the government plans to streamline the resident permit process to attract more high-skilled immigrants. It also aims to increase the tertiary attainment of 25-34 year olds from 42% to 50%. To this end, the number of study places in the highly selective tertiary education admission system is being raised but further increases will be needed.

Reducing relatively high regulatory barriers to competition in upstream service sectors, such as transport, energy and retail, which hold back incumbents' efforts to reallocate resources more efficiently, would also boost productivity growth. Similarly, repealing the legal restriction that prevents some employers from using the enterprise-bargaining flexibility clauses in their sector collective agreement, as planned, would give these employers greater scope to reorganise their businesses to make them more productive.

Finland is on track to meet its 2020 EU-burden-sharing objective for reducing GHG emissions but will need to implement further cost-effective measures, including making full use of available flexibility mechanisms, to realise its 2030 and 2035 objectives. To reduce transport emissions, which is vital for achieving abatement targets, the government

should support the rollout of electric vehicle (EV) charging facilities to lift EV diffusion substantially. There will also need to be an expansion in wind power generation both to meet increased demand for charging EVs and to enable the substitution of electricity for fossil fuels in residential and commercial heating and in industry.

Figure 2. The general government budget deficit and gross debt increase substantially in 2020



Note: General government debt refers to Maastricht definition.
Source: Statistics Finland; Ministry of Finance.

Further reading:

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A balancing act: Why inequality increased in the

Nordics

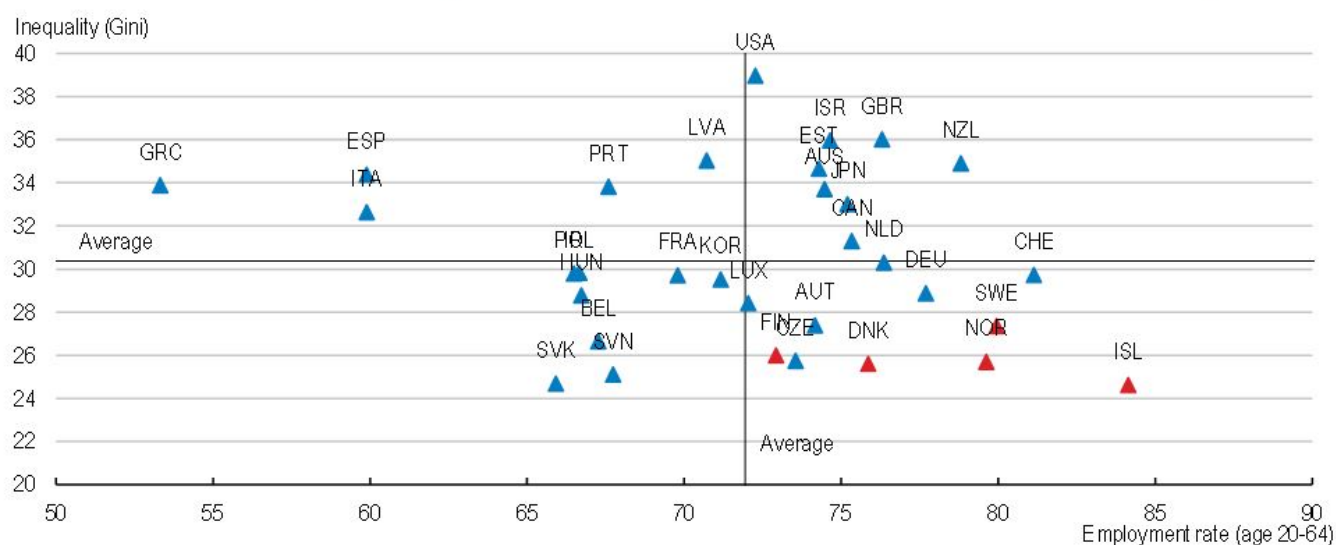
Mr. Jon Pareliussen, Economist, Sweden/Finland desk, Economics Department

The Nordics are rightly renowned for being inclusive societies with low inequality compared to other OECD countries. However, some of the largest inequality increases over the past few decades took place in Sweden, Finland and Denmark. A newly released article building on previous OECD work discusses how market forces, demographic trends and redistribution together shaped the income distribution of the Nordics.

It may seem like a paradox that the Nordics, which are very open economies, heavily integrated in global value chains and front-runners in the use of new technologies, have not seen even more widening distributions of market incomes. However, the extent to which skill-biased technological change and other forces widening the earnings distribution of workers will actually drive up inequality depends on a number of factors, and key policies and institutions in the Nordics play a dampening role. First, institutions such as unions and collective bargaining, employment protection legislation and minimum wages dampen the direct effect of market trends on earnings. Second, higher demand for skills are met by publicly-funded higher education, increasing the supply of skilled workers and thus holding back skills premiums. Third, a widening earnings distribution among workers coincided with increasing employment, limiting the overall effect on inequality.

Low income inequality in the Nordics is only sustainable if employment is high

Gini index for household disposable income and employment rates, 2014 or latest available year



Note: All OECD countries included except Chile, Mexico and Turkey. Data refer to 2012 for Japan; 2015 for Finland, Israel, Korea, the Netherlands, the United Kingdom and the United States; and 2014 for the rest.

Source: OECD Income Distribution Database; OECD Labour Force Statistics.

With a relatively modest overall impact from market forces, explanations for increasing inequality must be sought elsewhere:

- Demographic trends have been relatively strong drivers of inequality in the Nordics. Household structure, with more single-headed households has widened income dispersion in Denmark, Finland, Norway and Sweden. Ageing has increased inequality significantly in Finland, and immigration has increased inequality in Norway, Denmark and Sweden.
- Redistribution through taxes and transfers has weakened significantly in Denmark, Finland and Sweden, notably due to less insurance transfers (i.e. unemployment, sickness, disability insurance) and only partially offset by more assistance (i.e. means-tested) transfers. Income taxes have played a less important and more heterogeneous role, as progressivity increased in Sweden while it decreased in Denmark and Iceland.

Technological and demographic pressures are set to continue going forward, and these challenges need to be embraced.

Continued flexibility and constructiveness of the social dialogue and improvements to education are essential to seize opportunities from technological change and avoid a widening wage distribution. Making social insurance and welfare transfers more flexible and agile would improve workers' protection in a rapidly changing world of work. Improving benefit system design so that work always pays, notably in Denmark and Finland, and linking benefits to real-time income registries are important steps to this end.

The Nordics demonstrate that equity and efficiency can be compatible if incentives are right. Low inequality and strong safety nets can even be an advantage in today's globalised world, which requires constant adaptation. Reaping the full benefits from globalisation and technological progress requires broad support, which is easier to muster when the social dialogue is constructive and representative, when everyone is given opportunities to fulfil their potential, risks are shared and losers compensated.

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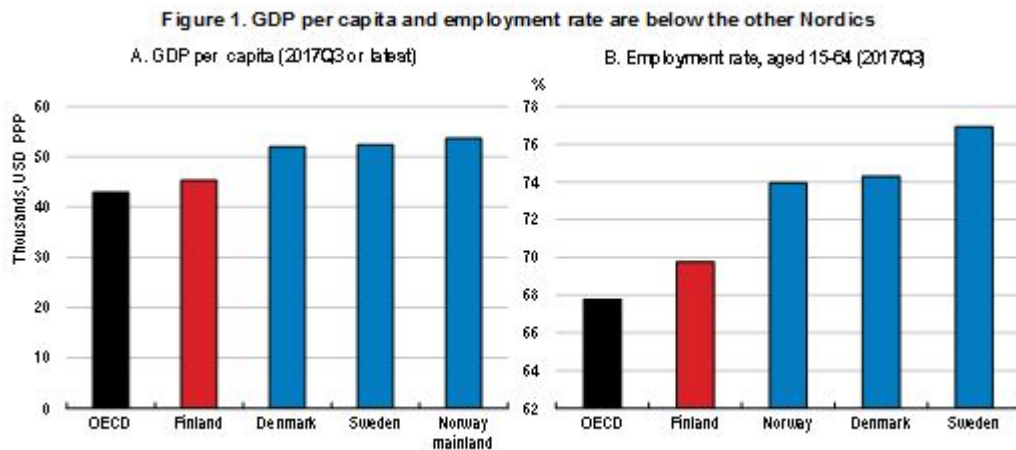
Finland: growing and reforming, but no time for

complacency

By Christophe André and Jon Kristian Pareliussen, OECD Economics Department

After a long period of lacklustre economic performance, robust growth has resumed. The Finnish economy suffered a series of sizeable adverse shocks alongside the global financial and economic crisis, facing major difficulties in the electronic and forest industries, in addition to a severe recession in Russia. Sound fundamentals and policy settings helped weather the impact of those shocks, and by early 2017 the economy had regained strong momentum. The recovery is broad-based across economic sectors, employment is picking up, and high business and consumer confidence point to a strong expansion going forward.

But challenges remain, as the 2018 OECD Economic Survey of Finland shows. GDP *per capita* exceeds the OECD average, but is significantly lower than in Denmark, Germany and Sweden, reflecting differences both in productivity and labour utilisation (Figure 1). A rapidly ageing population reduces labour supply and puts pressure on public finances. Hence, future growth and well-being will hinge on a higher employment rate and productivity gains, both in the private and public sectors. Reassuringly, these challenges are well understood by the government, which has been implementing structural reforms across a wider range and with more determination and coherence than in most other OECD countries.

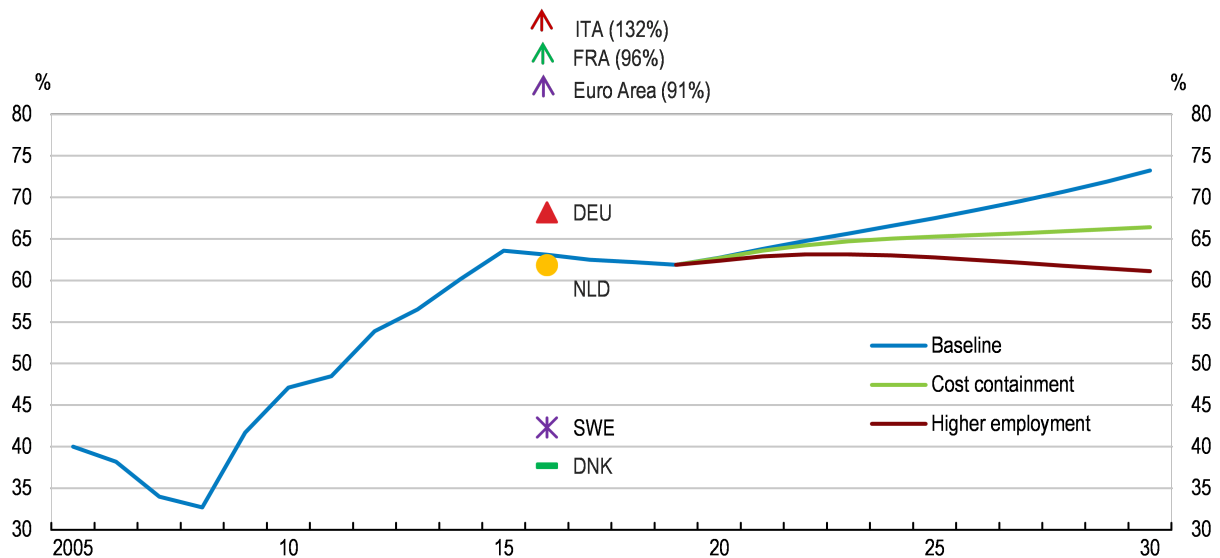


Source: OECD Economic Outlook database; and OECD Labour Force Statistics database.

Many of these reforms concern the labour market. The 2016 Competitiveness Pact between the government and the social partners lowers unit labour costs by about 4% from 2017 by internal devaluation. The social partners have also moved from a system of national-level collective agreements towards a system of “organised decentralisation”, where sector-level collective agreements are coordinated following the lead of export industries, and more leeway is given to local-level bargaining. Furthermore, the duration of unemployment benefits was reduced by 100 days in 2017, a job search requirement and a new activation model for the unemployed were introduced, the trial period for new hires was extended and education made more modular and nimble to better respond to evolving skill needs.

The health, social services and regional government reform will shift the responsibility for organising health care and social services from municipalities to 18 newly created autonomous counties from January 2020, bringing the sub-national government structure closer to that of the other Nordic countries. Goals of the reform include providing people with more equal services, increasing freedom of choice and improving the sustainability of general government finances. The reform is welcome, and its success is crucial to meet the needs of an ageing population and ensure long-term fiscal sustainability (Figure 2).

Figure 2. Health reform and higher employment would help stabilise debt¹



1. Economic Outlook No.102 projections are used until 2019. Thereafter, in the ageing-related cost pressure scenario, increases in health and long term care spending are based on the cost pressure scenario in de la Maisonneuve and Oliveira Martins (2013), and increases in pension outlays are based on OECD (2017c). The cost containment scenario assumes that reforms to the provision of health care and social services reduce growth in related spending by half. The higher employment scenario assumes cost containment in age-related spending and a higher employment rate of the population aged 15-64, which rises to 74% in 2030. Source: OECD Economic Outlook database and OECD calculations.

The strong pick-up in economic growth and an impressive reform record are reasons for optimism, not complacency. Social welfare reform could boost employment further, as many unemployed today will see only small net income increases or even incur a loss upon return to work. Coordinating the tapering of various working-age benefits against earnings could drastically improve work incentives and transparency, while preserving the current level of social protection, and is hence a more promising route for future reform than a basic income. Furthermore, specific measures could lift work incentives for parents and older workers. Combined with the new income registry linking benefit payments to real-time incomes from 2019, such reforms would make for a truly efficient and inclusive benefit system, adapted to evolving work patterns. Work incentives could be further strengthened by reducing the tax burden on labour while further increasing indirect and property taxes and reducing tax expenditures. Such a tax shift, along with measures to support business development and entrepreneurship could also give productivity a welcome boost.

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Why would a universal credit be better than a basic income for Finland?

By Jon Kristian Pareliussen, Economist, OECD Economics Department

“If you don’t know where you are going, you might wind up someplace else.”

– Yogi Berra

Many Finns seem to agree that the social welfare system should be reformed, but there is no agreement as to which form such change should take. Recognising that the decades-long process of piecemeal welfare reform responding to the pressing issues of the day is behind many of the current problems, the OECD Economic Survey of Finland 2018 argues for developing a common vision for the future of social welfare in Finland, so that upcoming reforms can consistently pull towards the same goal.

In Finland, as elsewhere, income taxation and the withdrawal of benefits reduce the pay-off for individuals who go from benefits to work. Multiple benefits interact in complex ways, trapping individuals in unemployment, underemployment or inactivity. Complex benefit rules combine with administrative practices to create “bureaucratic traps” when individuals

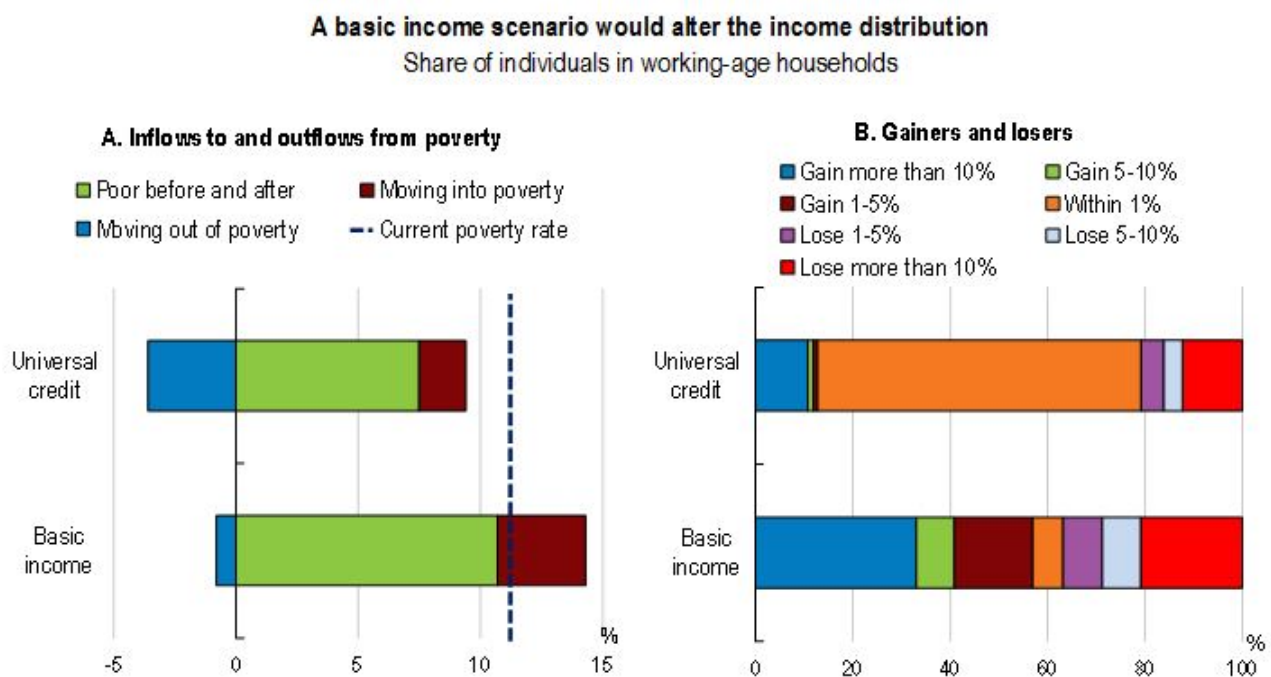
taking up temporary, part-time or unstable employment face a real or perceived risk of losing eligibility or receiving benefits with a delay as their claims are re-evaluated. This can further reduce the attractiveness of work for risk-adverse, often cash-strapped, recipients. A third weakness of existing welfare systems is that they are built around traditional employer-employee relationships, and are thus ill-adapted to the future of work, which is likely to involve more changes in careers, part-time work, self-employment and platform work.

Two different benefit reform scenarios are developed in the *Survey* to inform a common vision for the future of social welfare in Finland. The first is a uniform benefit for all, a universal basic income. The second is a universal tapering rule inspired by the universal credit welfare reform in the United Kingdom. This scenario radically simplifies the existing benefit system and makes it more transparent by merging various benefits and withdrawing them at a single and moderate rate as income from work increases.

Comparing these scenarios with the current system illustrates the inevitable trade-offs between work incentives, inclusiveness and fiscal cost, the policy trilemma at the heart of social insurance and redistribution policy. Neither a basic income nor a universal credit can defy the laws of gravity. But some specific incentive issues can be resolved without much sacrifice by improving benefit design, and the general direction of reform has great consequences for outcomes.

A universal credit would consistently improve work incentives and reduce complexity, with limited changes to the income distribution and limited fiscal cost. A basic income would also remove some incentive traps, but would entail a major redistribution of income, widening inequality and increasing poverty. This happens because the design of a basic income with one uniform benefit for all is too simple to achieve the

redistribution of the current system or a universal credit, where benefits are targeted to those who need them more. Assuming that the distribution of income in a longstanding democracy reflects Finns' social preferences, it seems clear that merging and simplifying existing benefits is a better solution for Finland than a universal basic income. This conclusion is also likely to be relevant for other developed countries with solid and targeted social safety nets.



Source: Simulations with the TUJA model, in Pareliussen et al. (2018a).

Simulating reforms is one thing but implementation can be a quite different story: experience has shown that major welfare reforms can come with significant costs. Implementation should hence be stepwise and build on the existing institutional context. Important technical building blocks, such as harmonised tax treatment and income definitions for different benefits as well as the new income registry should be fully operational and tested before reforming the overall architecture of the system.

Moreover, many current weaknesses, such as the cliff-edge loss of unemployment benefits once an individual works a certain amount of hours per week, the extended unemployment insurance

for older workers and barriers to work for mothers created by childcare fees and the homecare allowance, can be overcome with relatively limited changes to the current system. Such measures should be taken without delay, but every step forward should be a stride towards an agreed vision for the future of Finnish social welfare – a vision where benefits continue to support Finnish citizens throughout their lives, protecting them from shocks and misfortune, but in a coherent, transparent and flexible way, fit for the future of work.

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