OECD Economic Surveys
FINLAND

DECEMBER 2020

OECD

OECD Economic Surveys: Finland 2020

BETTER POLICIES FOR BETTER LIVES

Please cite this publication as:
OECD (2020), *OECD Economic Surveys: Finland 2020*, OECD Publishing, Paris, *https://doi.org/10.1787/673aeb7f-en*.

ISBN 978-92-64-36222-2 (print)
ISBN 978-92-64-45135-3 (pdf)

OECD Economic Surveys
ISSN 0376-6438 (print)
ISSN 1609-7513 (online)

OECD Economic Surveys: Finland
ISSN 1995-3488 (print)
ISSN 1999-0545 (online)

Photo credits: Cover © VR Group/Pekka Keskinen.

Corrigenda to publications may be found on line at: *www.oecd.org/about/publishing/corrigenda.htm*.

Table of contents

Tables

Figures

Boxes

Follow OECD Publications on:

http://twitter.com/OECD_Pubs

http://www.facebook.com/OECDPublications

http://www.linkedin.com/groups/OECD-Publications-4645871

http://www.youtube.com/oecdilibrary

OECD Alerts http://www.oecd.org/oecddirect/

This book has...

StatLinks
A service that delivers Excel® files from the printed page!

Look for the *StatLinks* at the bottom of the tables or graphs in this book. To download the matching Excel® spreadsheet, just type the link into your Internet browser, starting with the *http://dx.doi.org* prefix, or click on the link from the e-book edition.

This *Survey* is published on the responsibility of the Economic and Development Review Committee of the OECD, which is charged with the examination of the economic situation of member countries.
The economic situation and policies of Finland were reviewed by the Committee on 19 October 2020. The draft report was then revised in the light of the discussions and given final approval as the agreed report of the whole Committee on 25 November 2020.
The Secretariat's draft report was prepared for the Committee by David Carey and Naomitsu Yashiro, with contributions from Hyunjeong Hwang, under the supervision of Vincent Koen. Statistical research assistance was provided by Hyunjeong Hwang and Natia Mosiashvili and editorial assistance by Michelle Ortiz and Sisse Nielsen.
The previous Survey of Finland was issued in February 2018.
Information about the latest as well as previous Surveys and more information about how Surveys are prepared is available at http://www.oecd.org/eco/surveys.

BASIC STATISTICS OF FINLAND, 2019

(Numbers in parentheses refer to the OECD average)

LAND, PEOPLE AND ELECTORAL CYCLE					
Population (million)	5.5		Population density per km² (2018)	18.1	(38.0)
Under 15 (%)	16.0	(17.9)	Life expectancy at birth (years, 2018)	81.7	(80.1)
Over 65 (%)	22.1	(17.1)	Men (2018)	79.1	(77.5)
Foreign born (%)	7.0		Women (2018)	84.5	(82.8)
Latest 5-year average growth (%)	0.2	(0.6)	Latest general election	April - 2019	
ECONOMY					
Gross domestic product (GDP)			Value added shares (%)		
In current prices (billion USD)	269.3		Agriculture, forestry and fishing	2.6	(2.6)
In current prices (billion EUR)	240.6		Industry including construction	27.7	(26.8)
Latest 5-year average real growth (%)	1.9	(2.2)	Services	69.7	(70.5)
Per capita (1000 USD PPP)	51.4	(48.4)			
GENERAL GOVERNMENT **Per cent of GDP**					
Expenditure	53.3	(41.6)	Gross financial debt (OECD: 2018)	72.7	(95.8)
Revenue	52.3	(38.5)	Net financial debt (OECD: 2017)	-63.2	(68.7)
EXTERNAL ACCOUNTS					
Exchange rate (EUR per USD)	0.89		Main exports (% of total merchandise exports)		
PPP exchange rate (USA = 1)	0.85		Machinery and transport equipment	33.2	
In per cent of GDP			Manufactured goods	25.9	
Exports of goods and services	40.2	(54.2)	Crude materials, inedible, except fuels	9.3	
Imports of goods and services	39.9	(50.6)	Main imports (% of total merchandise imports)		
Current account balance	-0.2	(0.3)	Machinery and transport equipment	33.1	
Net international investment position	1.5		Mineral fuels, lubricants and related materials	13.9	
			Manufactured goods	11.0	
LABOUR MARKET, SKILLS AND INNOVATION					
Employment rate (aged 15 and over, %)	55.5	(57.6)	Unemployment rate, Labour Force Survey (aged 15 and over, %)	6.7	(5.4)
Men	58.7	(65.6)	Youth (aged 15-24, %)	16.9	(11.7)
Women	52.3	(50.0)	Long-term unemployed (1 year and over, %)	1.2	(1.4)
Participation rate (aged 15 and over, %)	67.1	(61.1)	Tertiary educational attainment (aged 25-64, %)	45.9	(38.0)
Average hours worked per year	1,540	(1,726)	Gross domestic expenditure on R&D (% of GDP, 2018)	2.8	(2.6)
ENVIRONMENT					
Total primary energy supply per capita (toe, 2018)	6.2	(4.0)	CO_2 emissions from fuel combustion per capita (tonnes, 2018)	7.9	(8.6)
Renewables (%, 2018)	33.8	(10.5)	Municipal waste per capita (tonnes, 2018)	0.6	(0.5)
Exposure to air pollution (mean population exposure to PM 2.5, 2017)	5.9	(12.5)			
SOCIETY					
Income inequality (Gini coefficient, 2017)	0.27	(0.32)	Education outcomes (PISA score, 2018)		
Relative poverty rate (2017)	6.3	(11.6)	Reading	520	(487)
Public and private spending (% of GDP)			Mathematics	507	(489)
Health care (2018)	9.1	(8.8)	Science	522	(489)
Education (% of GNI, 2018)	6.3	(4.5)	Share of women in parliament (%)	47.0	(30.7)
Pensions (2015)	13.0	(8.5)	Net official development assistance (% of GNI, 2017)	0.4	(0.4)

1. The year is indicated in parenthesis if it deviates from the year in the main title of this table.
2. Where the OECD aggregate is not provided in the source database, a simple OECD average of latest available data is calculated where data exist for at least 80% of member countries.
Source: Calculations based on data extracted from databases of the following organisations: OECD, International Energy Agency, International Labour Organisation, International Monetary Fund, World Bank.

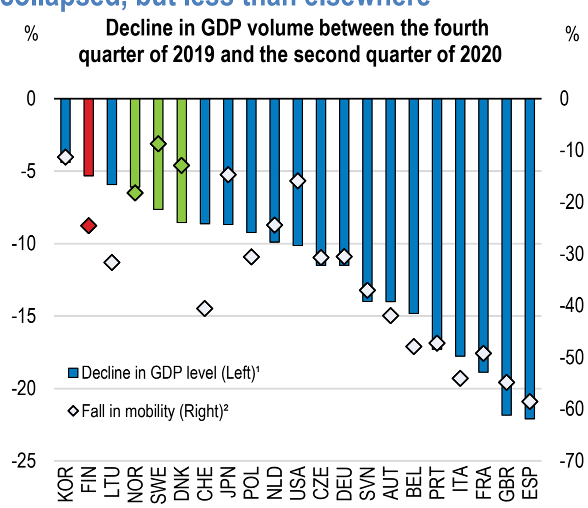
Executive Summary

The COVID-19 pandemic caused an economic slump

The COVID-19 pandemic plunged Finland into a deep recession. The government provided substantial financial support to protect jobs and help households and businesses get through the crisis. However, 25% of temporarily laid-off workers were not eligible for earnings-related unemployment benefits.

Finland's GDP contracted by 5% in the first half of 2020. While large by historical comparison, this economic contraction was among the smallest in the OECD, partly thanks to more targeted confinement measures and a relatively small loss of mobility (Figure 1). Finland managed to bring the first wave of the coronavirus under control quickly through a combination of voluntary mobility reductions and timely containment measures and is on track to do the same for the second wave.

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



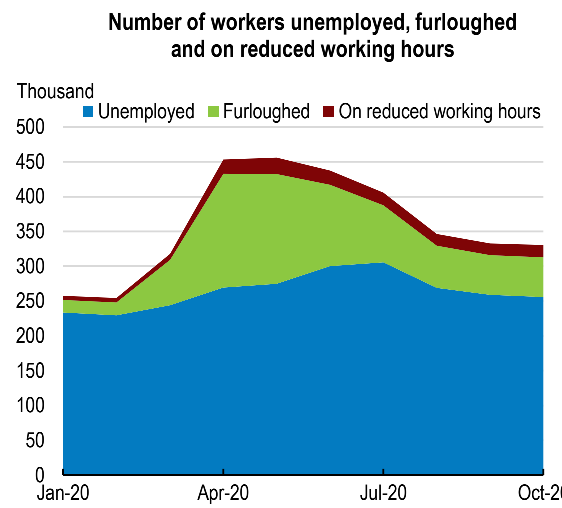
1. % difference between 2019Q4 and 2020Q2 GDP levels. 2. Fall in mobility from the baseline between 1st of March and 27th of June.
OECD, National Accounts database; Google LLC, Google COVID-19 Community Mobility Reports, https://www.google.com/covid19/mobility/.

StatLink https://stat.link/9h3x1s

The temporary layoff scheme played a key role in protecting jobs and incomes. Temporary layoffs increased far more than permanent layoffs during the first period when containment measures were implemented, limiting the increase in unemployment (Figure 2). Employers have few incentives to limit temporary layoffs to jobs they believe can be restarted after the crisis.

A weakness highlighted by the crisis is that only those people temporarily or permanently laid-off who are members of unemployment insurance funds are entitled to earnings-related unemployment benefits despite the funds only paying 6% of benefit costs. Non-fund members are entitled to flat-rate basic unemployment benefit (EUR 32.40 per working day) that can be supplemented by housing allowance and/or social benefits.

Figure 2. Temporary layoffs spiked



Statistics Finland's Px Web databases.

StatLink https://stat.link/pkjvq3

The government also mobilised financial support for SMEs and microenterprises and provided support for hard-hit industries. It also reduced firms' tax burdens and social security contributions temporarily, easing cash flow, and temporarily limited creditors' right to petition for bankruptcy on the basis of a debtor's temporary insolvency. These measures helped avoid mass bankruptcies.

Macroeconomic policies are supporting economic recovery

The general government budget deficit is projected to increase by 6.5% of GDP in 2020 and the European Central Bank (ECB) has supplied vast amounts of liquidity and supported increased bank lending. However, some of these measures risk reducing banks' risk-bearing capacity. Activity will gradually return to its pre-COVID-19 level by 2022.

Three quarters of the 3.5% of GDP in discretionary measures that increase the 2020 budget deficit were in response to COVID-19. As the measures unwind and the economy recovers, the budget deficit is projected to fall to 3.5% of GDP by 2022, with 40% of the decline reflecting automatic stabilisers. General government debt will increase sharply in 2020 and slowly thereafter.

To complement expansionary monetary policy measures, the ECB has lowered bank capital requirements, introduced flexibility in the treatment of non-performing loans, and reduced solvency and collateral requirements, enabling banks to accept lower quality collateral. While these measures have increased domestic lending capacity, they risk reducing banks' risk-bearing capacity.

Measures are being taken to slow the growth in household debt, 70% of which is housing loans (including rapidly growing housing company loans, which are ultimately a household liability). However, the recent reduction in loan-to-value ratios for housing loans was reversed this year to support recovery from the COVID-19 crisis.

Real GDP is projected to drop by around 3% in 2020 and to recover slowly, especially in light of the second coronavirus wave (Table 1). The recovery will be led by private consumption and exports. Unemployment and bankruptcies are likely to rise in the short run, as relief measures run out towards the end of 2020. Inflation pressure will be weak, reflecting the sizable output gap and labour market slack.

Table 1. Economic recovery will be gradual

	2019	2020	2021	2022
Real GDP	1.1	-3.3	2.1	1.8
Private consumption	0.8	-4.4	3.0	2.1
Exports	7.7	-10.8	3.7	4.7
Non-residential investments	-1.2	-4.5	1.0	6.2
Unemployment rate (% of labour force)	6.7	7.9	8.3	7.7
Core inflation	0.7	0.5	0.9	1.4

Source: Projection based on OECD Economic Outlook 108, updated for the National Account release on 27 November 2020.

The recovery would be delayed if the recent resurgence of coronavirus infections were not soon reined in or there were to be further serious outbreaks, external demand remained weak owing to a prolonged global pandemic or banking losses were greater than expected, leading to tighter credit conditions.

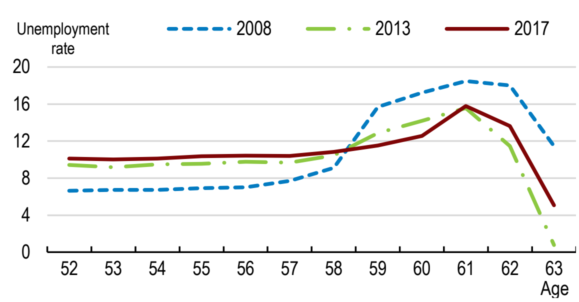
Fiscal consolidation is needed once the economic recovery is underway to stabilise debt

The government aims to stabilise the general government debt-to-GDP ratio by the end of the decade. A significant part of consolidation is to come from increasing employment. The rest will have to come from increasing productivity and consolidation measures, especially expenditure restraint as taxation is high.

Debt stabilisation will entail reducing the structural budget deficit by around 2% of GDP. Increasing employment by 80 000 by the end of the decade as foreseen by the government would contribute around 40% of this reduction. Extending working lives is critical to achieving this target.

The employment rate for older workers in Finland is much lower than in the Scandinavian Nordics, where access to early retirement schemes is considerably 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 (Figure 3). The other main early retirement route is disability benefit, for which the inflow probability soars when individuals turn 60 and more lenient eligibility criteria apply. To increase the employment rate of older workers, it is vital that routes to early retirement be progressively closed.

Figure 3. Extended unemployment benefit causes a spike in senior unemployment rates



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.

StatLink https://stat.link/iuty08

While reducing the home-care allowance for taking care of children aged less than three years at home would not contribute to fiscal consolidation – childcare and unemployment benefit costs would offset savings – it would contribute to reducing Finland's large gender wage-rate gap by shortening absences from the workforce that negatively affect career prospects and earnings mobility.

The health and social services reform before Parliament has considerable potential to contribute to fiscal consolidation by increasing efficiency in provision by centralising care chains at the regional level and reducing their fragmentation. There is also scope to increase the efficiency of public administration, including through greater digitalisation, and the cost-effectiveness of public expenditure.

Reducing subsidies and tax expenditures and increasing taxes that do not impose large economic distortions would also help. The standard-rate VAT tax base is narrower than in many countries and recurrent real estate taxation is lower. Peat (12% of greenhouse gas (GHG) emissions) is taxed at a lower rate than other fossil fuels used for heat production.

Stronger productivity growth will bolster the economic recovery

Productivity growth remains low. Skills shortages, high regulatory barriers to competition in some sectors and the exclusion of many firms from flexibility clauses in collective agreements are holding back efficient resource allocation.

Labour productivity growth fell to only 0.6% per year in the past decade, lower than in most other European economies. 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. Furthermore, relatively high regulatory barriers to competition in upstream service sectors, such as transport, energy and retail hold back incumbents' efforts to reallocate resources more efficiently.

To boost the supply of tertiary educated workers, the government plans to streamline the resident permit process to attract more high-skilled immigrants. While study places in the highly selective tertiary education admission system are being increased, many secondary graduates are rejected, slowing the transition from secondary to tertiary education.

Further measures are needed to meet greenhouse gas abatement objectives

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 future objectives.

The government plans to meet half of its 2030 EU-burden sharing objective from emissions reductions in the transport sector. To achieve this, additional measures need to be taken to reduce transport emissions by 30%. The main planned measure is to increase the bio-fuel content of road transport fuels. However, the share of electric vehicles will also need to rise markedly, noting that 78% of electricity production in Finland is from non-fossil fuel sources. There would also need to be an expansion in wind power generation, which is the most economical renewable energy source in Finland, 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. A factor holding back the expansion of the EV fleet is the shortage of recharging facilities.

Agriculture in Finland, which accounts for 20% of GHG emissions, receives amongst the highest support payments in Europe. Progressively replacing these subsidies by payments for environmental benefits, such as carbon sequestration, would reduce emissions and yield budget savings.

MAIN FINDINGS	KEY RECOMMENDATIONS
Ensuring fiscal sustainability and financial stability in the wake of the COVID-19 crisis	
The government has provided substantial fiscal support in 2020 to businesses and households in response to the COVID-19 pandemic.	Stand ready to provide further fiscal stimulus in case the economic recovery is delayed.
The government aims to stabilise the debt-to-GDP ratio by the end of the decade, which will entail reducing the structural deficit by around 2% of GDP. Increasing employment by 80 000 would contribute around 40% of this adjustment. Finland's tax burden is high. Social benefits would automatically compensate for an increase in VAT through indexation.	Once the economic recovery is underway, implement consolidation measures, mainly by reducing expenditure, including on subsidies and tax expenditures, and also by increasing taxes that do not impose large economic distortions, such as VAT (broadening the standard-rate base) and recurrent real estate taxes.
Care chains are currently highly decentralised and fragmented, resulting in inefficiencies and regional inequalities in care. The government plans to transfer responsibility for organising health and social services from municipalities to 18 autonomous counties and to focus more on prevention and basic services. There are no numerical targets for fiscal savings.	Enact the social and health-care reform before Parliament. Set numerical targets for fiscal savings to be achieved from these reforms to help the government plan reforms that maximise cost efficiency while ensuring equal access to quality services.
Housing loan maturities are long but interest rates are revised annually. Highly indebted households may have difficulty servicing debts when interest rates return from the current very low levels to more normal levels. Preferential tax treatment for investors buying rental property through a housing company and lower stamp duty on transfers of housing company shares than on direct property transactions boost housing company loans.	Introduce a maximum debt-to-income ratio for household loans and a maturity limit for housing loans. Remove the preferential tax treatment on capital repayments of housing company loans for investors and align the stamp duty rate on direct property transactions with that on transfers of shares in housing companies.
The measures adopted by the ECB and the Bank of Finland to boost banks' lending may reduce their risk-bearing capacity.	The prudential supervisors should monitor the effects of looser capital adequacy, regulations and criteria for NPLs and collateral eligibility and tighten them as the economy recovers.
Getting people back into viable jobs and increasing employment	
Employers have few incentives to limit temporary layoffs to jobs they believe can be restarted as those using the scheme pay no more in social security contributions than other employers.	Require employers to contribute to the unemployment benefit costs of hours not worked (in addition to employers' unemployment benefit contributions).
Only laid-off people who are members of unemployment insurance funds are entitled to earnings-related unemployment insurance benefits, despite the funds only paying 6% of such benefits.	Create a government unemployment insurance fund into which either all workers or those who are not members of another fund are automatically enrolled.
Individuals receiving unemployment benefit at age 61 can have the benefit extended up to the statutory retirement age of 65. This encourages older workers to retire early, by first receiving the unemployment benefit for up to 500 workdays and then the extension (unemployment tunnel).	Phase out extended unemployment benefit by progressively increasing the eligibility age to 65 by 2029, the maximum age for receiving the benefit, and then abolish it.
The probability of inflow into disability benefits increases when individuals turn 60, the age at which more lenient eligibility criteria for disability benefits, including non-medical factors, apply.	Align the conditions for awarding disability benefit to persons aged 60 or over with those for other applicants, notably by no longer taking into consideration non-medical factors.
The generous homecare allowance discourages work by mothers with young children. Long absences from the labour force negatively affect their career prospects and earnings mobility, contributing to a large gender wage gap.	Reduce the homecare allowance to increase incentives for mothers of young children to work.
Early childhood education and care (ECEC) services are not sufficient to meet some parents' needs in some municipalities, mainly due to a lack of convenient places available.	Improve access to ECEC services by ensuring that those municipalities that do not provide sufficient places in convenient locations with suitable opening hours do so.
Boosting productivity	
Skill shortages are growing, and the recent trend in graduation rates will further exacerbate them.	Ease the transition from secondary to tertiary education by reforming the highly selective tertiary education admission system and increasing the number of available study places.
Some rail-passenger reforms to promote competition were suspended. The retail sale of pharmaceutical products is subject to numerous constraints.	Reduce barriers to competition in transport, energy, and retail.
Sector collective agreements normally include flexibility clauses but the law prohibits employers from using them if they are not members of the employers' association that negotiated the agreement, reducing productivity.	Repeal the legal restriction that prevents some employers from using the enterprise-bargaining flexibility clauses in their sector collective agreement, as planned.
Achieving the government's greenhouse gas abatement objectives	
Finland aims to reduce GHG emissions in EU burden-sharing sectors by 39% from the 2005 level by 2030. The burden-sharing sectors with the greatest emissions are transport, agriculture and energy sectors not covered by the EU Emissions Trading Scheme, including heating. Taxes on the use of peat (12% of GHG emissions) are lower than for other fossil fuels for heat production.	Reduce GHG emissions in the burden-sharing sectors using the most cost effective abatement measures, including making full use of available flexibility mechanisms. Subject heat production using peat to the same tax regime as for other fossil fuels used for heating.
Support payments subsidies for agriculture (accounting for 20% of GHG emissions) are among the highest in Europe.	Progressively replace national agricultural subsidies by subsidies for environmental benefits.

1 Key policy insights

The COVID-19 pandemic has plunged Finland into its deepest recession since the early 1990s. Distancing (whether voluntary or obligatory), to limit the spread of the virus, drastically reduced supply, primarily in service sectors, many of which have frequent social interactions. Exports also fell sharply as Finland's trading partners cut demand for its exports. The economic and social impact of this contraction has been substantial as services account for a high proportion of value added and tend to be labour intensive (Box 1.1). The number of people temporarily or permanently laid off amounted to 15% of the population aged 15-74 by mid-August and job opportunities for people entering the labour market, notably the young, and for the unemployed dried up. The ensuing labour market crisis has hit low-income households harder than high-income households, most of which switched to teleworking, had more secure employment contracts and were entitled to unemployment insurance benefits in the event of a layoff. Women also fared less well on average than men did (Helsinki Graduate School of Economics, 2020[1]).

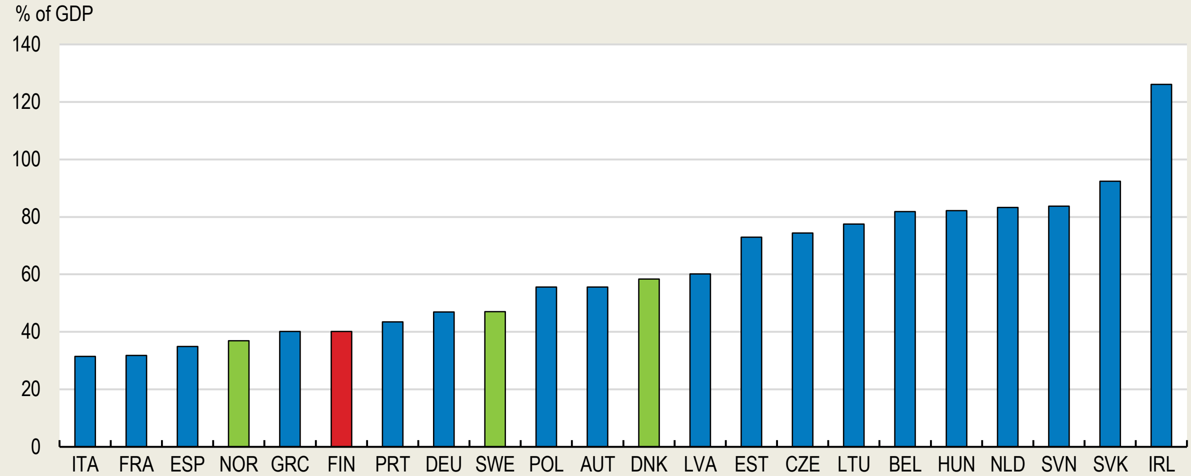
The crisis hit against a background of an economy that was already slowing and of rising financial stability risks. Economic growth had slowed markedly since the last *Survey*, when Finland was in the midst of a cyclical upswing after years of weak growth following the global financial crisis and drastic shrinking of Nokia and related industries as well as of a more gradual but equally-sized slump in the wood and paper industries (OECD, 2014[2]). The slowdown reflected diminishing economic slack and global trade tensions, which had cut growth in Finland's main export markets. The housing market was strong in and around Helsinki, underpinning a residential construction boom. However, business investment remained weak. Household indebtedness had continued to rise, reaching historical record levels, albeit remaining lower than in other Nordic countries. Macro-prudential supervision had been progressively tightened. Nordea, which has assets equivalent to one-and-a-half times GDP, completed its move to Finland in October 2018. This brought bank assets to 450% of GDP, the highest ratio in the euro area.

Box 1.1. Key features of the Finnish economy

Finland has a small population (5.5 million) but a relatively large land mass (338 thousand square kilometres, which is almost as big as Germany). As in most other OECD countries, services account for over 70% of value added and primary production is marginal. The largest service activities are real estate, human health and social work, and wholesale and retail trade. In industry, the largest sectors are wood and paper products, and manufacture of computer, electronic and optical products. Finland's largest categories of exports are forestry, chemicals and metal products. It is highly dependent on European export markets - almost two thirds of exports are to EU countries, with the largest country destinations being Sweden, Germany and the Netherlands. Finland's export ratio (38%) is considerably lower than the average for Scandinavian countries (Denmark, Norway and Sweden, which are also Nordics), which are the most comparable countries to Finland, and similar-sized European countries (Figure 1.1), which could be partly explained by trade sanctions on Russia and relatively low inward foreign direct investment (OECD, 2017[3]). Finland is relatively well integrated in global value chains (GVCs) in terms of the use of imported inputs in its exports (Figure 1.2, Panel A) but not so much as a provider of inputs to other countries' production to meet final demand (Panel B). A recent study based on firm-level data found that the dependence of Finland on imported inputs to produce its exports could be even higher than these estimates (OECD and Statistics Finland, 2020[4]), highlighting Finland's exposure to foreign supply shocks propagated through GVCs.

Figure 1.1. Finland's export intensity is low for a small EU country

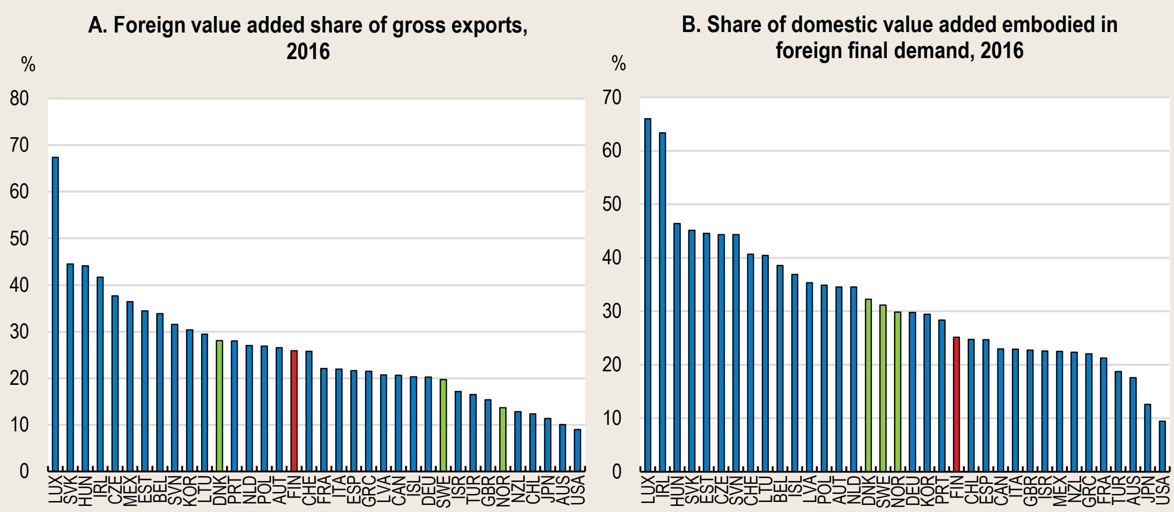
Exports of goods and services, 2019



Source: OECD National Accounts at Glance database.

StatLink https://stat.link/iht1f6

Figure 1.2. Finland is not highly integrated in global value chains



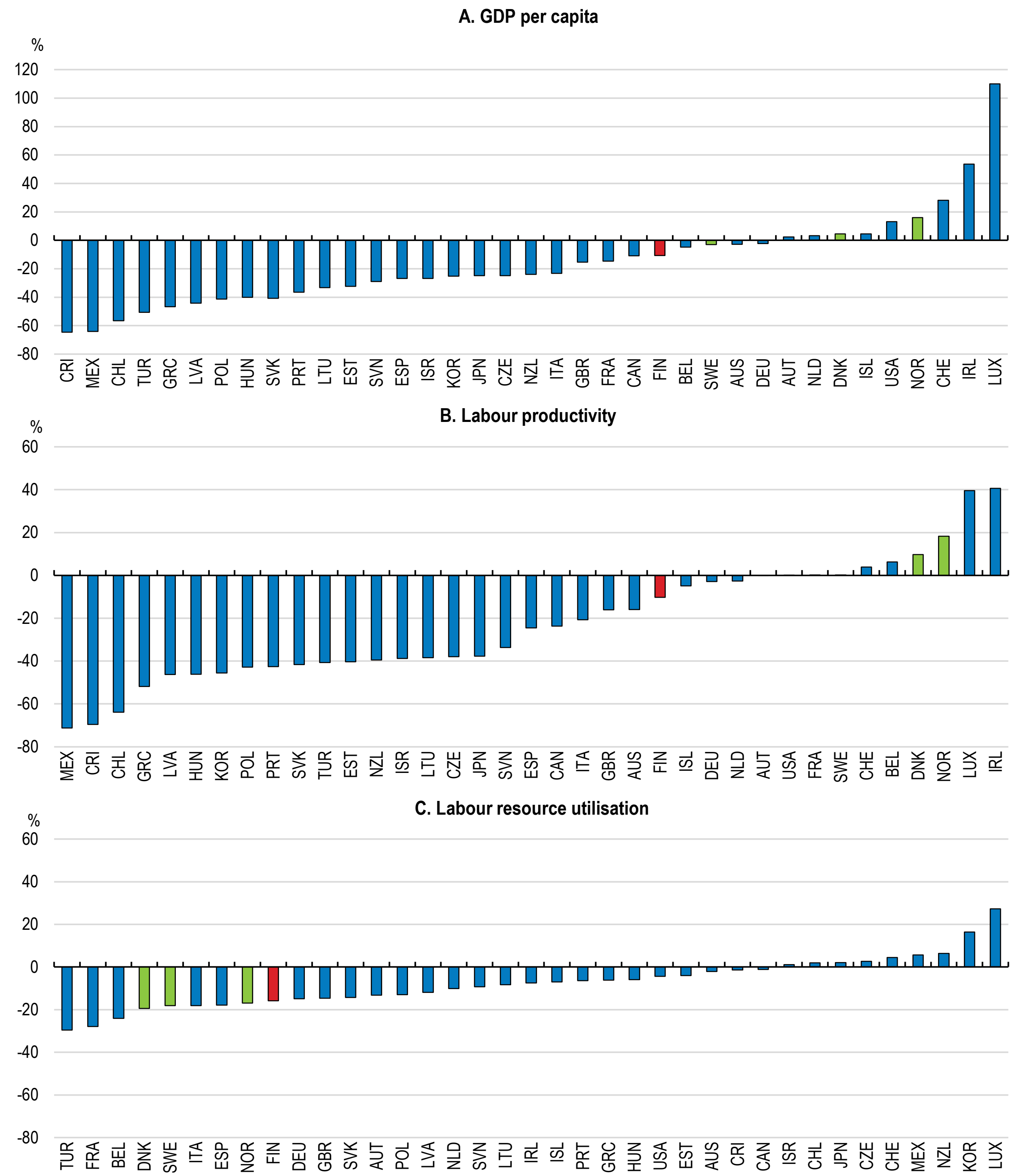
Source: OECD, Trade in Value Added database.

StatLink https://stat.link/jwz9o5

GDP per capita (at PPP exchange rates) in 2018 was somewhat below the median of the upper half of OECD countries and levels in Scandinavian countries (Figure 1.3, Panel A). These shortfalls reflected lower labour productivity and, for the shortfall vis-à-vis the upper half of OECD countries, both lower labour productivity and labour resource utilisation (Panels B and C). High skills shortages, low investment and resource misallocation have been holding back labour productivity. When combined with Finland's high tax burden (Figure 1.4), the moderate per capita income level translated into below OECD average levels of average earnings, household income and net wealth (Figure 1.5). Nevertheless, Finns scored highly on most other well-being indicators (OECD, 2017[5]). Overall outcomes were particularly good for education and skills, social support, environmental quality, feelings of safety and the (relatively low) incidence of labour market insecurity, job strain and very long regular working hours. In addition, subjective life satisfaction was higher than in any other OECD country.

Figure 1.3. GDP per capita is lower in Finland than the median of the upper half of OECD countries owing to lower productivity and resource utilisation

Percentage difference vis-à-vis the median for the upper half of OECD countries, 2019



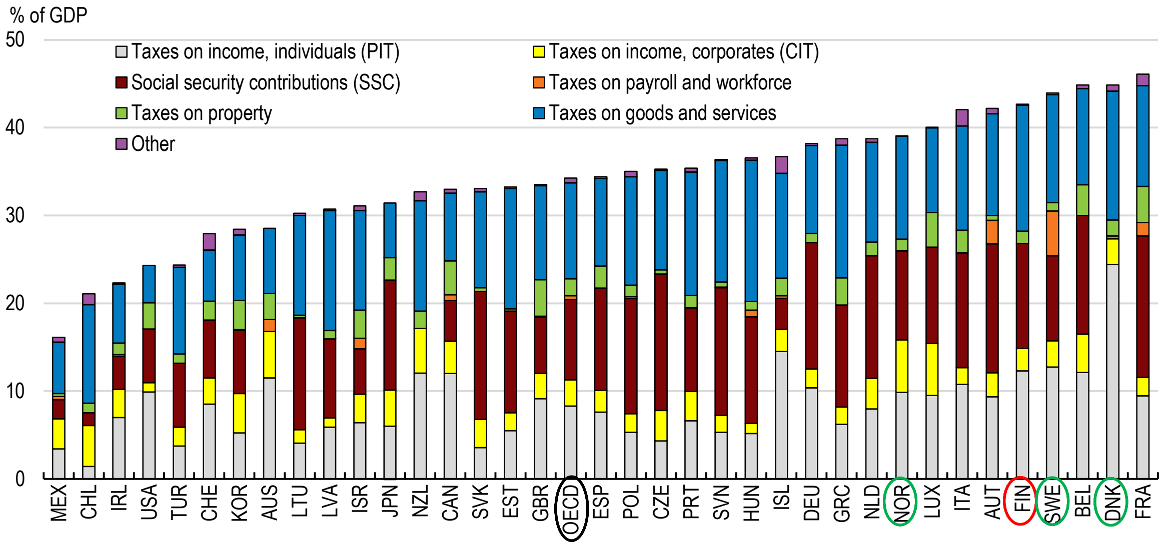
Note: GDP per capita is at current PPPs. Labour productivity is GDP per hour worked. Labour resource utilisation is the total number of hours worked per capita.

Source: OECD Productivity database.

StatLink https://stat.link/3drop9

Figure 1.4. Finland's tax burden is high

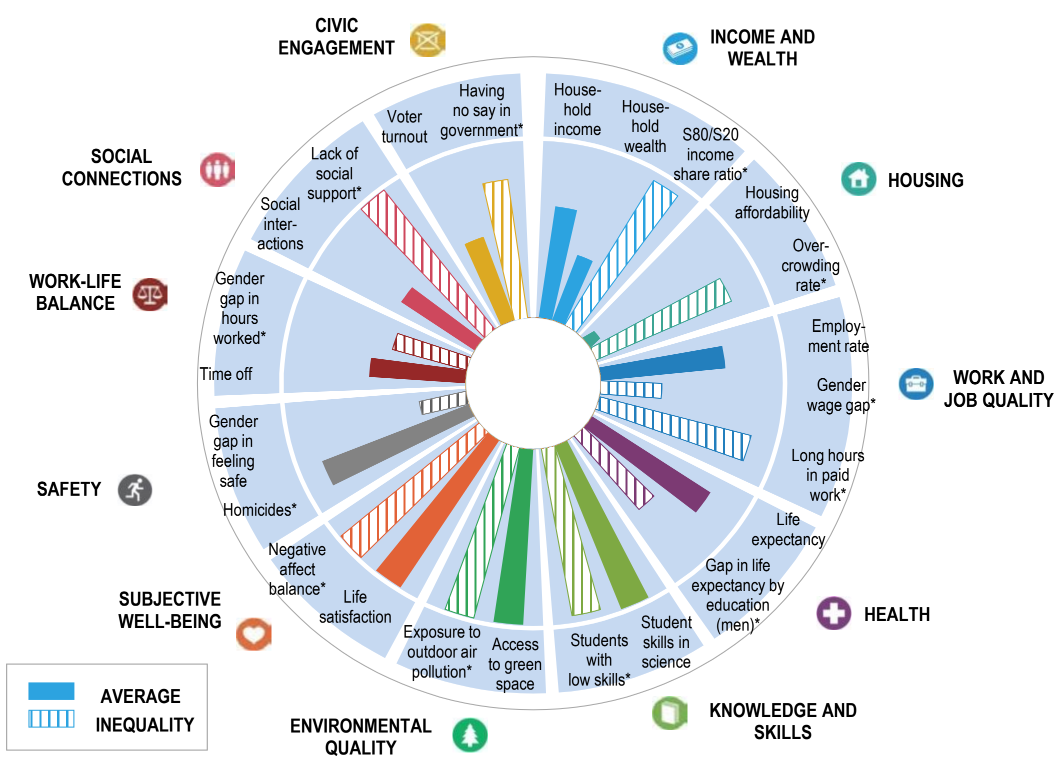
2018 or latest



Source: OECD Revenue Statistics Database.

StatLink https://stat.link/8asuz6

Figure 1.5. On average, Finland performs well on many OECD How's Life Indicators

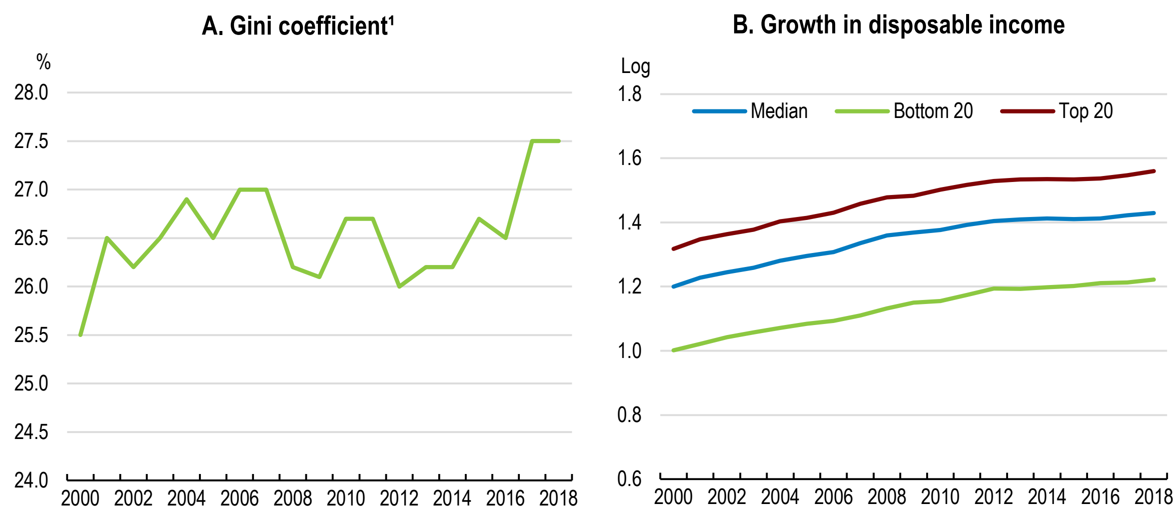


Note: This chart shows Finland's relative strengths and weaknesses in well-being when compared with other OECD countries. For both positive and negative indicators (such as homicides, marked with an *), longer bars always indicate better outcomes (i.e. higher well-being), whereas shorter bars always indicate worse outcomes (lower well-being). Indicator referring to inequalities (gaps between top and bottom outcomes, differences between groups, people falling under a deprivation threshold) are shaded with stripes. If data are missing for any given indicator, the relevant segment of the circle is shaded in white.
Source: OECD calculations based on OECD How's Life? 2020.

StatLink https://stat.link/hrwl9p

Income inequality has edged up since the turn of the century (Figure 1.6). As in other Nordic countries, disposable income inequality remains low by international comparison thanks to high redistribution through taxes and transfers (Figure 1.7, Panel A). The relative poverty rate (the share of households with disposable incomes less than 50% of the median) is one of the lowest OECD-wide (Panel B).

Figure 1.6. Income inequality has edged up since the beginning of the century

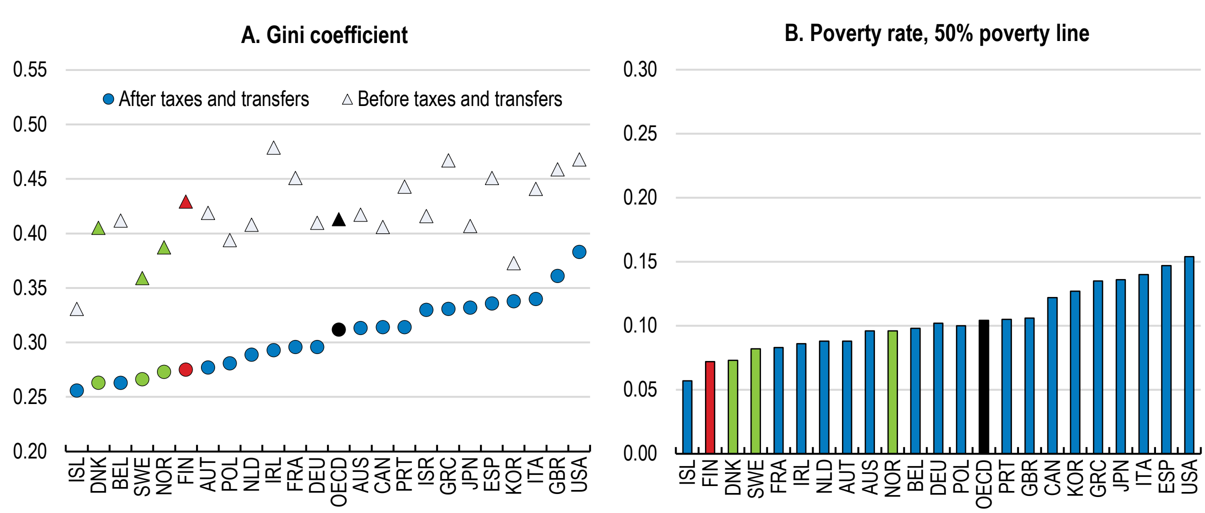


1. Gini coefficient after taxes and transfers relative to those aged 18-64 years old.
Source: OECD, Income Distribution and Poverty database.

StatLink https://stat.link/che5sg

Figure 1.7. Income inequality and relative poverty rates are below the OECD average

Population aged 18-65, 2018 or latest available year



Source: OECD, Income Distribution database.

StatLink https://stat.link/o2sju4

One of the rare domains in which inequality is greater in Finland than in most other OECD countries is earnings by gender. Median wages for full-time female employees are 18% lower than for their male counterparts, compared with an OECD average of 14% and considerably smaller gaps in Scandinavian countries (Figure 1.8, Panel A). While part of the OECD gap is explained by shorter working hours for women than for men, this difference is smaller in Finland (4 percentage points) than the OECD average (7 percentage points), suggesting that the hourly earnings gender gap is even bigger than the wage gap (Panel B). Korkeamäki and Kyyrä (2006[6]) find that task segregation is the most important factor explaining the gender wage-rate gap. Task segregation starts at the beginning of careers, with women being placed in less complex jobs partly because they are less likely than men to have obtained educational qualifications in technical fields, and intensifies over time because women get fewer promotions than men (Kauhanen and Napari, 2011[7]). Women's slower career progression is likely attributable to mothers opting for lower-skilled jobs close to home, as in Denmark (Lundborg, Plug and Rasmussen, 2017[8]).

Figure 1.8. The gender full-time wage gap is large in Finland

2019 or latest

Note: Panel A. Data for Australia, Austria, Costa Rica, Denmark, Finland, Germany, Greece, Israel, Poland, Portugal and Switzerland refer to 2018, Data for Belgium refer to 2017, and data for Hungary, Iceland and Italy refer to 2016. Panel B. Data for Australia refer to 2018.
Source: OECD Social Protection and Well-being Database.

StatLink https://stat.link/8vta1u

The government took measures that add to the existing arsenal (notably the temporary layoff scheme and unemployment benefits) to provide a bridge for households and firms to traverse the COVID-19 crisis. Such measures focus on protecting jobs, sustaining household incomes and supporting businesses (especially SMEs) to reduce bankruptcy risks. These measures and automatic stabilisers substantially increased the budget deficit. Together with highly accommodative monetary policy, expansionary fiscal policy will speed recovery by ensuring that demand is available as production expands from the current depressed level. A speedy recovery will reduce lasting economic damage, including by limiting labour market hysteresis effects. Nevertheless, GDP per capita will remain below the former trajectory for many years.

The widening of the budget deficit dwarfs the short-term increases in the government's coalition agreement destined to finance an expansion in social programmes. Accordingly, the objective of eliminating the structural budget deficit by 2023 has been abandoned. Instead, the government is aiming to stabilise the debt-to-GDP ratio by the end of the decade. Increasing the employment rate towards rates in other Nordic countries, which was the main means by which fiscal consolidation was to be achieved according to the government programme and is the topic of the thematic chapter in this *Survey*, is now more important than ever. But given the greater reduction in the deficit needed to stabilise the debt ratio, more ambition for increasing employment is now warranted and other consolidation measures will need to play a role. Increasing the employment rate would also help restore GDP per capita to its former trajectory. Prior to the COVID-19 crisis the government had announced numerous labour and product market reforms, not all of which will increase per capita incomes (Box 1.2).

Box 1.2. Recently announced labour and product market reforms

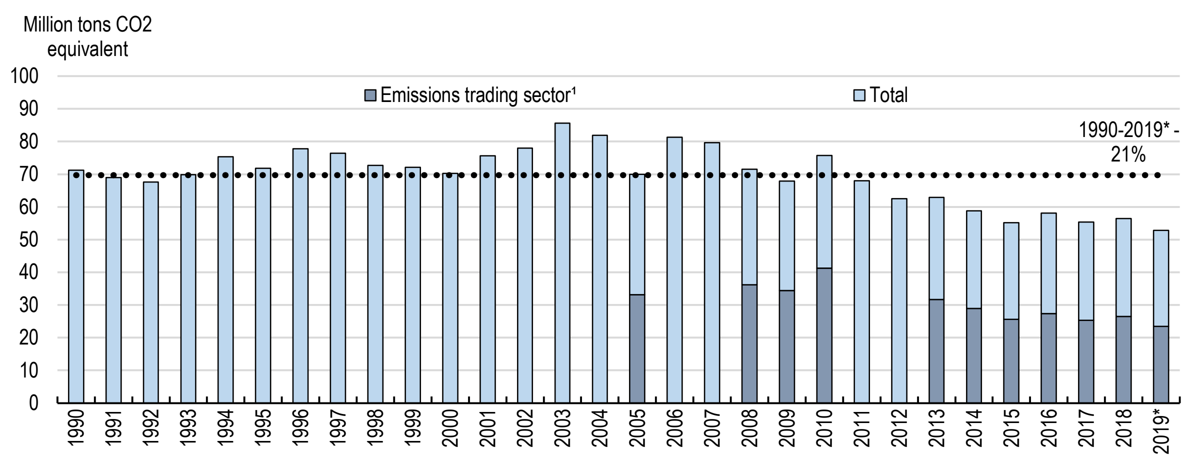
The government proposed a policy package in 2019 to increase the employment rate, involving an increase in resources for the Public Employment Service, more intense job counselling, reform and increased use of wage subsidies, a plan to increase the activity rate and ultimately employment among the disabled and an increase in work-related immigration. Only EUR 300 million was budgeted for the package, which is unlikely to be sufficient to implement it fully. At the same time, the main elements of the activation model implemented by the last government were cancelled, despite evidence that it had encouraged job search among the unemployed (Kyyrä et al., 2019[9]). A problem with the model was that some people had their benefits docked (by around 5%) because they could not participate in training classes that were full. It also will be important to reduce displacement effects of the wage subsidy scheme – beneficiaries get jobs at the expense of non-subsidised applicants – if it is to be effective increasing the employment rate. In 2019, the government legislated an increase in the minimum age to qualify for extended unemployment benefit (for the unemployed who have exhausted their earnings-related entitlements) from 61 to 62 years for persons born in 1961 or later; hence, the maximum duration of extended unemployment benefit is to fall from four to three years. However, the legislation also set the maximum age for extended unemployment benefit equal to the retirement age for people born after 1965 – hence, the maximum duration of extended unemployment benefit will begin to rise again after 2030, when the retirement age will be linked to life expectancy.

Product market regulations are more restrictive in Finland than in Scandinavian countries and the OECD average, notably in energy, retail distribution and transport. Reforms aimed at improving the regulatory environment were implemented in 2017, including the liberalisation of shop opening hours and easing of land-use planning restrictions. The Act on Transport Services was implemented in 2018 to facilitate interactions between different transport modes. The gas market was also opened up to competition on 1 January 2020. However, the government suspended some rail passenger transport reforms opening up the heavily-regulated transport market to greater competition, partly because preparations to establish rolling stock and real estate companies to take over trains and depots from the government-owned railway company had not been completed.

The government plans to implement reforms to ease skills shortages. The residence permit process for specialists will be streamlined to attract more foreign skilled workers. Moreover, the government is to take steps to raise the tertiary attainment rate for the 25-34 age group from 41%, which is below the OECD average, to 50% by 2030. An important reform in this regard is to enhance school leavers' access to tertiary education places from 2020. The government announced in the fourth supplementary budget package (June 2020) to deal with the COVID-19 crisis that such access would be further expanded. The government also plans further measures to train adults with low basic skills and to raise the minimum school leaving age to 18.

Recovery from the COVID-19 recession provides an opportunity to make economic growth more environmentally sustainable. Finland has substantially reduced its greenhouse gas (GHG) emissions since the early 1990s (Figure 1.9) and is on track to meet its 2020 EU burden-sharing abatement target (Honkatukia, 2019[10]). However, it will need further measures to reach the 2030 target cut (39% of 2005 emissions, compared with a 22% reduction without further measures − a gap of 6Mt CO_2 eq.). The government has also brought forward the target date for Finland to reach net zero GHG emissions – meaning that emissions are offset by net land use, land use change and forestry (LULUCF) sinks and/or purchases of foreign emission permits - to 2035. This target would be very difficult to meet from domestic sources alone as gross annual emissions are projected to be 49 Mt CO_2 eq. in the baseline and LULUCF sinks to be 20 Mt CO_2 (Ministry of Economic Affairs and Employment of Finland, 2017[11]).

Figure 1.9. Measures have been effective in reducing GHG emissions



Note: 1. Emission levels in sectors covered by the EU Emissions Trading System (ETS). Shown only when data is available. 2. Preliminary data for 2019.
Source: Statistics Finland; and Energiavirasto (Finnish Energy Authority).

StatLink https://stat.link/psku68

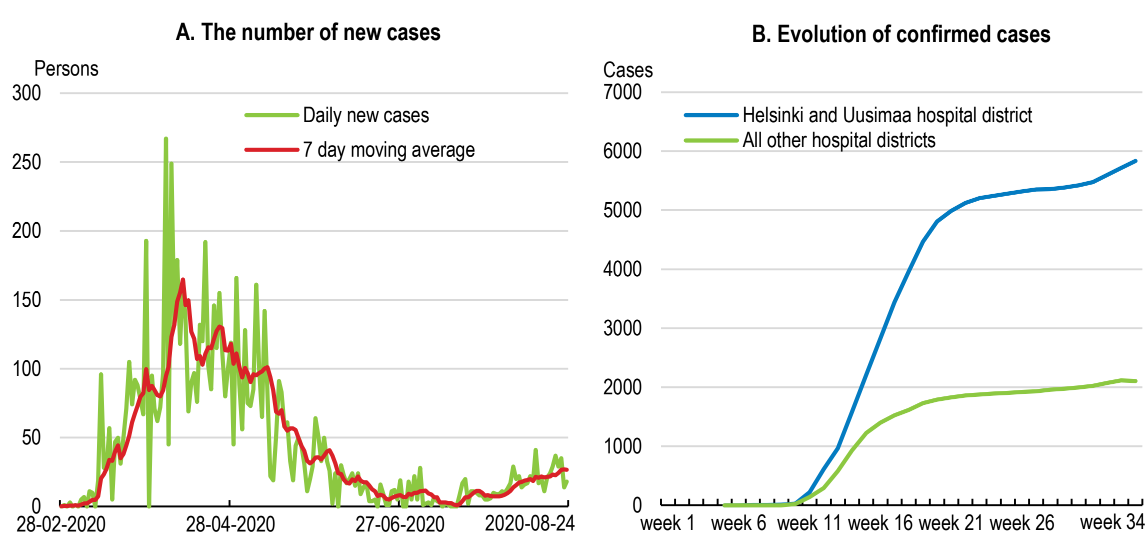
Against this background, the key messages of the *Survey* are that:

- Restoring economic activity and reducing unemployment to pre-crisis levels quickly is vital for minimising lasting economic and social damage;
- Increasing the employment rate, especially for seniors, and productivity, notably by enhancing the supply of skilled workers and easing regulations that hamper business dynamism, would help reverse the relative long-term erosion in living standards and increase in government debt caused by the crisis;
- Recovery from the crisis provides an opportunity to move to a more environmentally sustainable growth trajectory that is compatible with meeting Finland's demanding GHG emissions abatement targets.

The pandemic caused an economic slump in the first half of 2020

Finland confirmed its first COVID-19 case on 29 January 2020 and experienced rapid growth in the number of new cases through March (Figure 1.10, Panel A). The Uusimaa region, which includes Helsinki and contains nearly one-third of Finland's population, experienced the fastest growth in cases, which reached about two-thirds of the national total (Panel B). Finland was successful in quickly containing the first wave of the epidemic. Finns started avoiding places where they would be in close proximity to others, such as public transport, shops and restaurants, about 10 days before the state of emergency was declared on 16 March, sharply reducing the movement of people and economic activities (Figure 1.11). The government's policy response was swift but less stringent than in most other OECD countries (see the Annex).

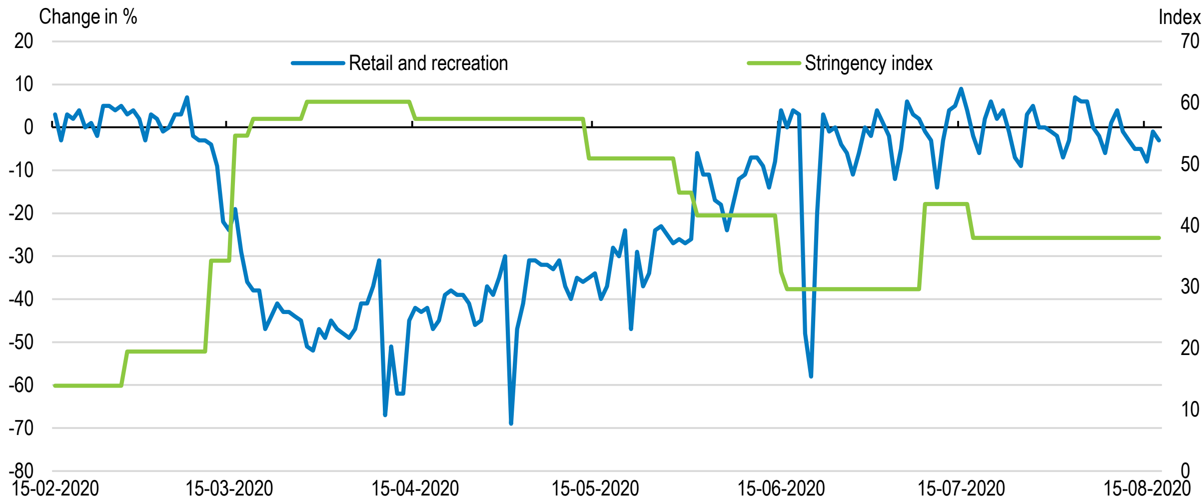
Figure 1.10. COVID-19 cases surged in March mainly in the greater Helsinki area



Source: Finnish Institute for Health and Welfare.

StatLink https://stat.link/29pcoh

Figure 1.11. Mobility dropped ahead of the state of emergency measures



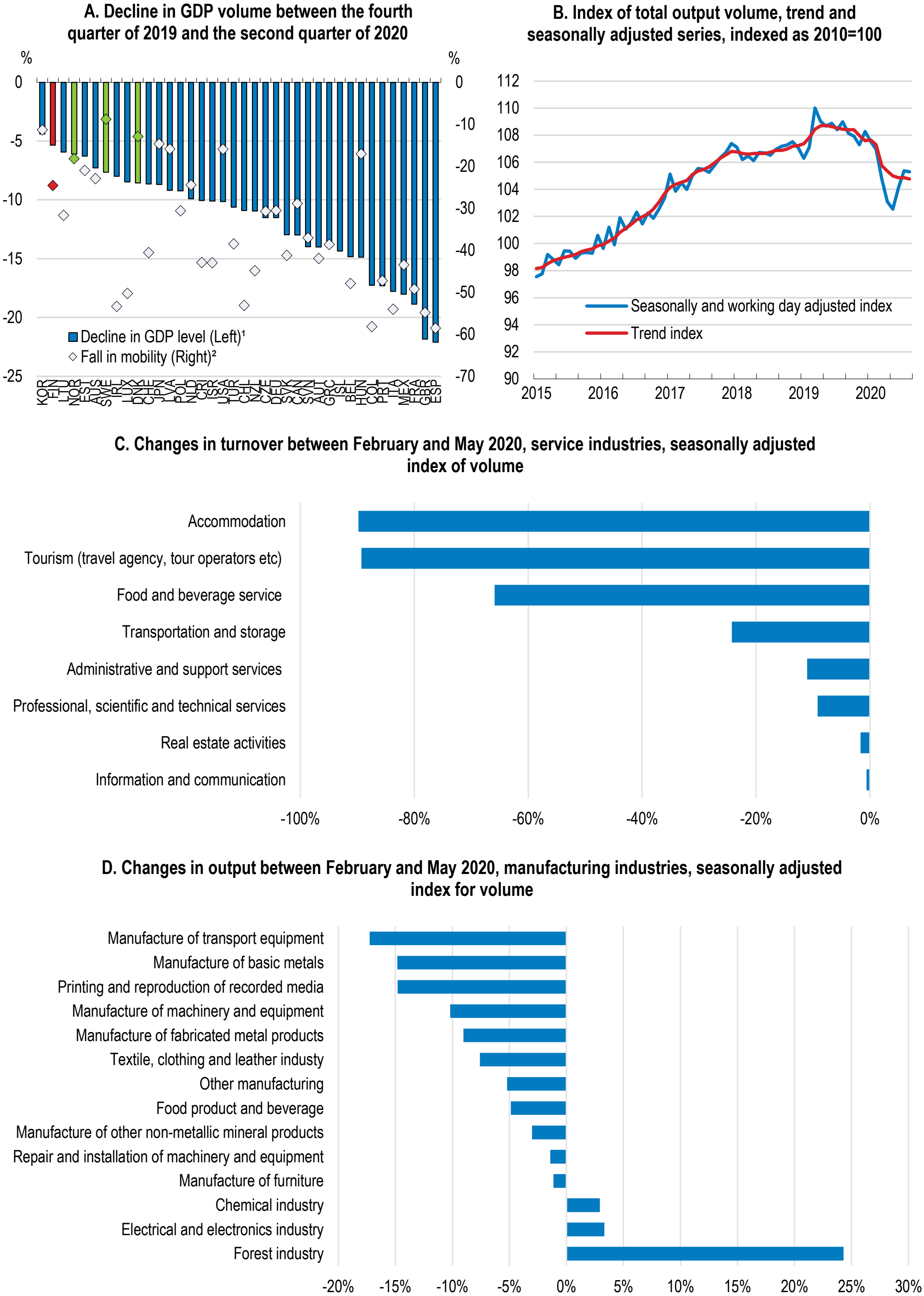
Note: The Oxford Government Response Stringency Index captures the strictness of 'lockdown style' policies that primarily restrict people's behaviour. It is a composite measure based on nine response indicators including school closures, workplace closures, and travel bans, rescaled to a value from 0 to 100 (100 = strictest response). For more information, see: https://www.bsg.ox.ac.uk/research/research-projects/coronavirus-government-response-tracker#data. Mobility change is a comparison relative to a baseline day before the pandemic outbreak. Baseline days represent a normal value for that day of the week, given as median value over the five-week period from January 3rd to February 6th 2020.
Source: Google LLC, Google COVID-19 Community Mobility Reports, https://www.google.com/covid19/mobility/; Hale, T., Webster, S., Petherick, A., Phillips, T. and Kira, B. (2020). Oxford COVID-19 Government Response Tracker, Blavatnik School of Government.

StatLink https://stat.link/tce16l

Finland's GDP contracted by 3.9% in the second quarter of 2020, with its level falling by 5% compared with the level in 2019 fourth quarter. However, this economic contraction was among the smallest in the OECD (Figure 1.12, Panel A), partly thanks to more targeted confinement measures and a relatively small loss of mobility.

The economic contraction resulted from supply shocks with the shutdown of production in industries requiring person-to-person interactions or where teleworking is not feasible, and demand shocks with reduced mobility and substantial weakening of consumer and business spending. Output fell sharply in March (Figure 1.12, Panel B) when non-essential businesses shut down, indicating a large contraction in production capacity. Service industries were particularly hard hit by both supply and demand shocks, with sales volume contracting by close to 90% in hospitality and tourism between February and May 2020 and by 66% in restaurants and cafés (Panel C). These are the activities for which electronic card spending dropped the most (Koivu, Nummelin and Suomi, 2020[12]). Most manufacturing industries also suffered significant contraction, especially shipbuilding, with the exception of forestry, which recovered from a strike earlier in the year (Panel D). Finland's goods exports collapsed on the back of worldwide weakening in business investment, owing to the high share of capital goods (Bank of Finland, 2020[13]).

Figure 1.12. Economic activity collapsed as a result of pandemic



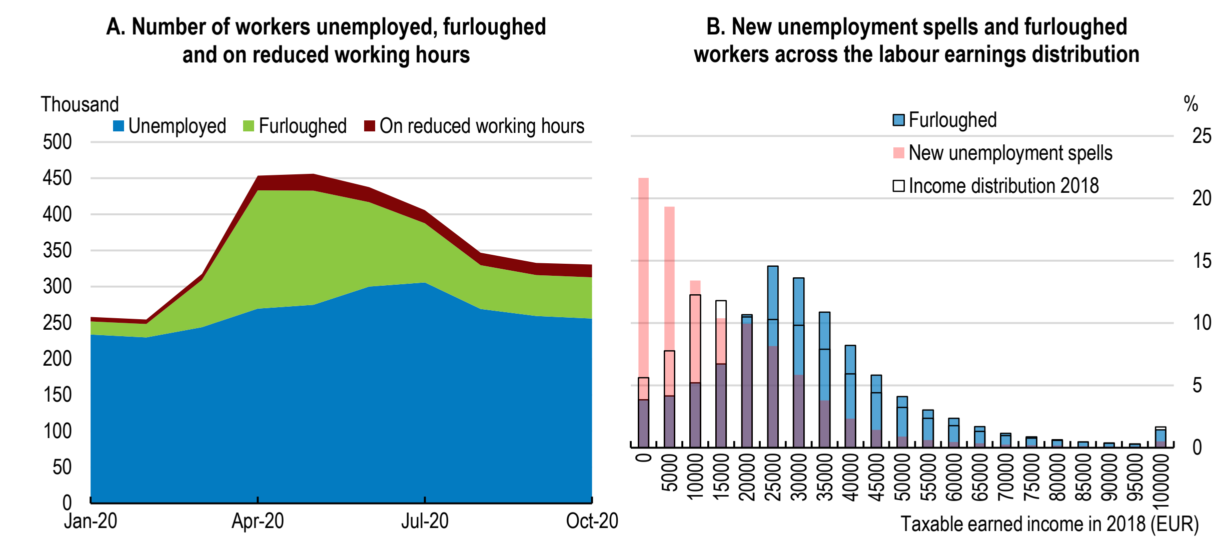
1. Values refer to the percentage difference between 2019Q4 and 2020Q2 GDP levels. 2. Mobility change is a comparison relative to a baseline day before the pandemic outbreak. Baseline days represent a normal value for that day of the week, given as a median value over the five-week period from January 3rd to February 6th 2020. Data refers to the fall in mobility from the baseline between 1st of March and 27th of June.

Source: Panel A: OECD, National Accounts database; Google LLC, Google COVID-19 Community Mobility Reports, https://www.google.com/covid19/mobility/; Panel B: Statistics Finland, Trend Indicator of Output; Panel C: Statistics Finland, Turnover of service industries; Panel D: Statistics Finland, Volume index of industrial output.

StatLink https://stat.link/wxnr0d

To date, the labour market impact of the crisis has been attenuated by the temporary layoff scheme (Box 1.3). The number of furloughed workers (classified as being employed in labour market statistics) shot up in the spring of 2020, limiting the increase in unemployment, but has gradually declined since then as outflows from furlough exceeded inflows (Figure 1.13, Panel A). The increase in the number of employees laid off on a full-time basis by spring was almost twice as much as during the previous peak in 1991 (Ministry of Finance, 2020[14]). Low-income workers have been overrepresented among those becoming unemployed while middle-income workers have been overrepresented among those furloughed (Panel B). Unemployment and furloughs increased most in manufacturing, retail trade, and hotel and restaurants (Helsinki Graduate School of Economics, 2020[1]). The number of employed persons with positive earnings decreased mostly among the young, particularly young women (Figure 1.14, Panel A), and workers in hospitality and retail trade (Panel B). The trend employment rate, which had been increasing since 2017, has declined but has not yet reversed all of the gains in recent years (Figure 1.15); the employment rate (15-64 years) in September 2020 was 72.0%, 0.7 percentage point lower than a year earlier. The unemployment rate increased to 7.6% by September 2020, 1.7 percentage points higher than a year earlier.

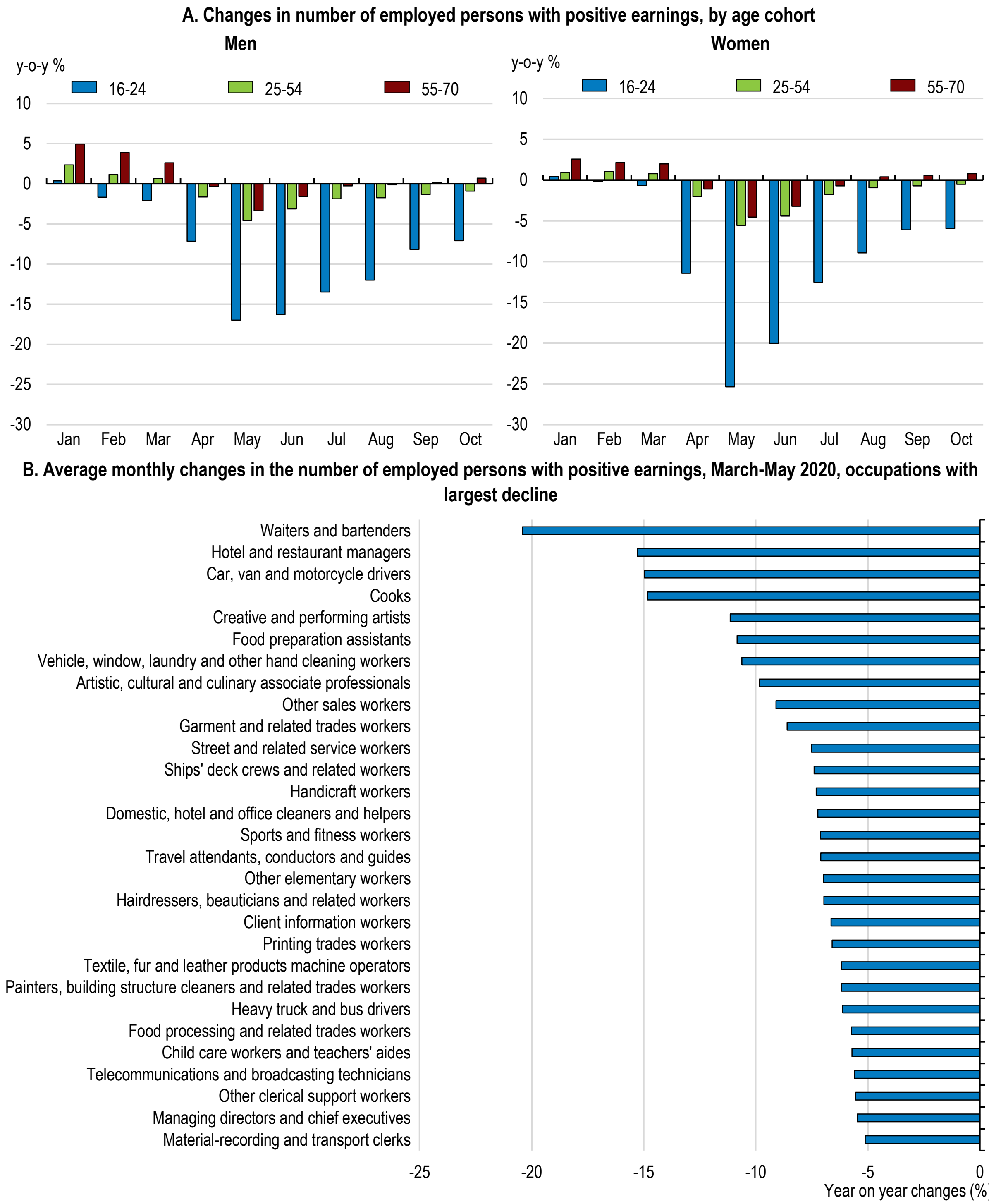
Figure 1.13. Temporary layoffs increased sharply, mostly among middle-income workers



Note: Panel B: The data on layoffs and unemployed by income groups refer to the period between 15 March and early August 2020. Income distribution 2018 refer to the share of wage earners in the indicated interval in the year 2018.
Source: Statistics Finland's Px Web databases; Helsinki Graduate School of Economics Situation Room (www.helsinkigse.fi).

StatLink https://stat.link/ht2m0d

Figure 1.14. Young women and workers in hospitality and retail trade were hardest hit



Note: Panel B: Only occupations where the number of employees with positive earnings declined more than the 75 percentile of all decline across occupations are displayed.
Source: Helsinki Graduate School of Economics Situation Room (www.helsinkigse.fi).

StatLink https://stat.link/b1ypdq

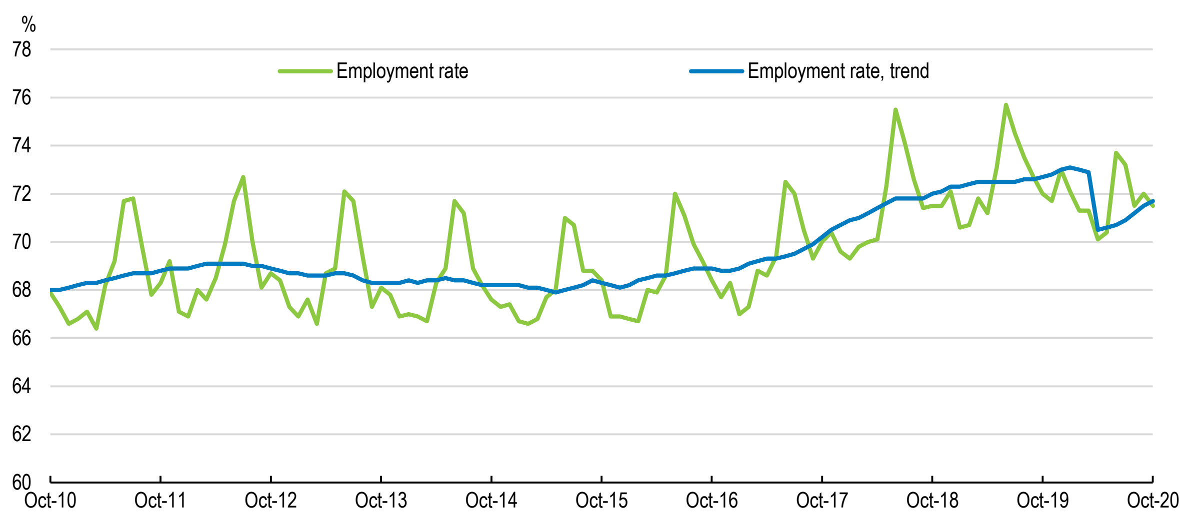
Box 1.3. The temporary layoff scheme

The temporary layoff scheme, created in 2006, allows employers facing a large drop in activity to lay off employees temporarily for whom other suitable work or training cannot reasonably be provided. Employees temporarily laid off are effectively obliged to take unpaid leave. With the exception of reduced working time and pay, both of which fall to zero with a full-time layoff, all other aspects of the employment contract remain in force. Temporary layoffs may last for up to 90 days, but can be renewed if laid-off employees return to work between layoff spells. During the layoff period, the employee may work for another employer and/or is entitled to receive unemployment benefits under the same conditions as an unemployed person. Temporarily laid-off employees are entitled to the same public employment services as those who have been made redundant, such as assistance with job search, vocational labour market training and skills development.

Before the COVID-19 crisis, only employees on indefinite-term contracts or their replacements on fixed-term contracts could be temporarily laid off, employers had to give at least 14 days' notice and, if they had more than 20 employees, had to enter into cooperation negotiations with employee representatives for a period of up to six weeks. To help employers adapt to the crisis, coverage was extended to employees on fixed-term contracts and the minimum notice- and negotiation periods were reduced to five days. These changes will remain in place until the end of 2020.

Figure 1.15. The trend employment rate has turned down but the gains since 2017 have not yet been fully reversed

Employment rate and trend employment rate 2010/10-2020/10, persons aged 15-64



Statistics Finland, Labour force survey.
Source: Statistics Finland, Labour force survey.

StatLink https://stat.link/2ocg0a

Finland adopted teleworking vigorously as a response to the pandemic, which helped to save jobs and contain economic costs. According to a survey (Eurofound, 2020[15]), some 60% of Finnish workers switched to teleworking after the pandemic, the highest share in the European Union. Finnish workers undertake tasks that can be performed online more than workers in other OECD countries (Brussevich, Dabla-Norris and Khalid, 2020[16]), giving more room for teleworking. Increases in teleworking are likely to have mostly preserved the jobs of high-skilled workers, as low-skilled workers tend to engage in tasks for which teleworking is less feasible (Brussevich, Dabla-Norris and Khalid, 2020[16]). Nevertheless, a large increase in layoffs among high-income workers (Figure 1.13 Panel B) indicates that teleworking has not shielded high-skilled jobs from the shock.

The government provided a bridge to businesses and households to traverse the crisis

Measures to support employment and income

Soon after declaring a state of emergency, the government strengthened the temporary layoff scheme to preserve more jobs. It extended access to workers on fixed-term contracts, reduced the periods for notice and negotiation of terms and prolonged re-employment obligations (from six months to nine). Firms were also required to report layoffs to the local public employment service (PES). To protect incomes of workers temporarily or permanently laid off, the waiting period for unemployment benefits and the labour market subsidy were eliminated. For the first time, eligibility for unemployment benefits was extended to entrepreneurs and the self-employed. All of these measures will remain in force until end 2020.

While the temporary layoff scheme has played a vital role in protecting jobs that will be viable after the crisis, employers have few incentives to limit its use to such jobs as those using the scheme pay no more in social security contributions than other employers. To encourage employers to limit temporary layoffs to jobs that they believe can be restarted after the crisis, employers should be required to contribute to the unemployment benefit costs of hours not worked by their employees (in addition to the unemployment benefit contributions paid by all employers) (OECD, 2020[17]). To facilitate early PES interventions to help workers out of jobs that are unlikely to be viable even in the longer term, registration with the PES for temporarily laid-off workers, which is currently voluntary, should be made compulsory. Moreover, participation in training for temporarily laid-off workers should be encouraged to increase their productivity and opportunities to move to better paying jobs.

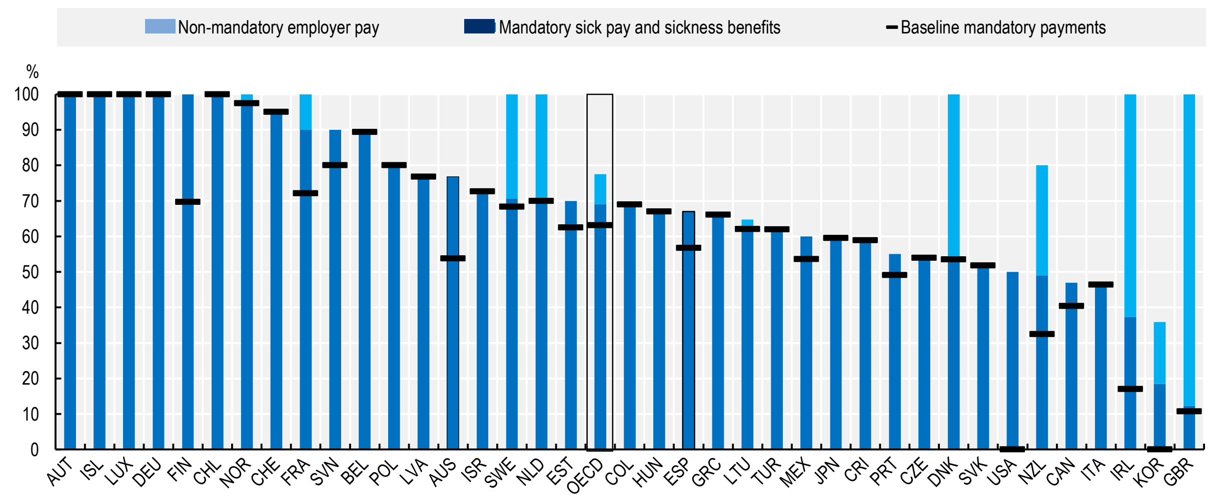
A weakness in the unemployment benefit system highlighted by the crisis is that only those people temporarily or permanently laid-off who are members of unemployment insurance funds are entitled to (earnings-related) unemployment insurance benefits; non-fund members are only entitled to the basic unemployment allowance (EUR 32.40 per working day). An estimated 15% of employees are not members of an unemployment fund, with younger and/or part-time workers most likely not to be fund members. Many more people than usual were affected by this lacuna owing to the scale of temporary layoffs - 30 000 of the 120 000 people temporarily laid off in May 2020 were not members of unemployment insurance funds. This situation left many people without adequate replacement income and was unfair given that unemployment insurance funds only pay 6% of the cost of earnings-related unemployment benefits; 56% is met from statutory unemployment social security contributions, which do not depend on fund membership, and the remainder from general taxation. To provide laid-off workers with adequate replacement income and make unemployment benefits fairer, the government should create an unemployment insurance fund into which either all workers or those who are not members of another fund are automatically enrolled.

Adequate sickness benefits play an important role in containing COVID-19 by encouraging workers to comply with government instructions to self-isolate and preventing workers from reporting back to work while still sick. Finland is among the few countries that fully compensate labour income lost due to COVID-19 (Figure 1.16), with a special sickness benefit for infectious diseases available for the entire duration of the absence from work, self-isolation or quarantine. The benefit also applies to workers who need to be absent from work to care for their quarantined child. However, the requirement to obtain a sick leave certificate or quarantine order from a doctor employed by a municipality or hospital district resulted in long delays in receiving the benefit, as these doctors were already overburdened. Furthermore, the order was only issued to a handful of people reasonably suspected of suffering from COVID-19 and not to those self-isolating with a risk of infection. The government also provided a temporary flat-rate income support of

EUR 723 monthly to all parents on leave without pay to care for children under 10 during the school shutdown. This income support was extended to persons arriving from abroad placed under quarantine-like conditions without pay. While this income support was welcome, it could have been better targeted to households for whom the consequences of losing labour income are most serious, such as single parent households (OECD, 2020[18]), so that a larger benefit could have been paid with the same fiscal cost.

Figure 1.16. Finland is one of the few countries where paid sick leave fully replaces lost earnings for COVID-19 sickness

Cumulated gross sick-leave payments in the first four weeks of sick leave as a percentage of previous earnings for a person who fell sick with COVID-19, rules valid in mid-May 2020



Note: The results refer to a person who is married with no children, age 40, earning an average wage and working with the same employer for one year. “Mandatory sick pay and sickness benefits” refer to mandatory payments directly paid to individuals by the government and payments made to individuals by employers, which are often partly subsidised by the government. "Non-mandatory employer sick pay" includes employer sick pay commonly agreed via collective agreements or other arrangements; these payments are included for those countries were the majority of employees would receive such payments. Baseline leave entitlements refer to regulations in place in 2019, except for Australia, Israel, Japan, Korea, New Zealand and Turkey (all 2018). Countries emphasised with a black border (Australia and Spain) are those where individuals are entitled to a benefit other than a dedicated sickness benefit.
Source: ‘Paid sick leave to protect income, health and jobs through the COVID-19 crisis’, OECD Policy Responses to Coronavirus (COVID-19), Paris.

StatLink https://stat.link/xy72kd

Measures to support businesses

The government mobilised substantial financial support for SMEs and microenterprises, especially in the service sector, to help them survive the slump in economic activity caused by the pandemic. The state’s financing and export credit company, Finnvera, increased loan guarantees by EUR 10 billion. Business Finland and the Centre for Economic Development, Transport and the Environment offered business subsidies (more than EUR 1 billion) for new business development. Finnish Industry Investment set up a new investment fund providing private equity-type financing to SMEs with high growth potential but experiencing temporary liquidity difficulties. However, these support measures were not suited for assisting firms in financial distress as the government financial institutions disbursing the funds were prevented by law from financing such firms. The government introduced a more general support measure covering business costs of up to EUR 500 thousand for two months for firms that lost over 30% of turnover in April-May 2020. The government also supported specific industries particularly hard hit by the pandemic, through a state credit guarantee to air and sea transportation firms, as well as compensation for up to 15%

of the loss of turnover for restaurants and cafés and a subsidy of EUR 1 000 for each laid-off worker they re-hired.

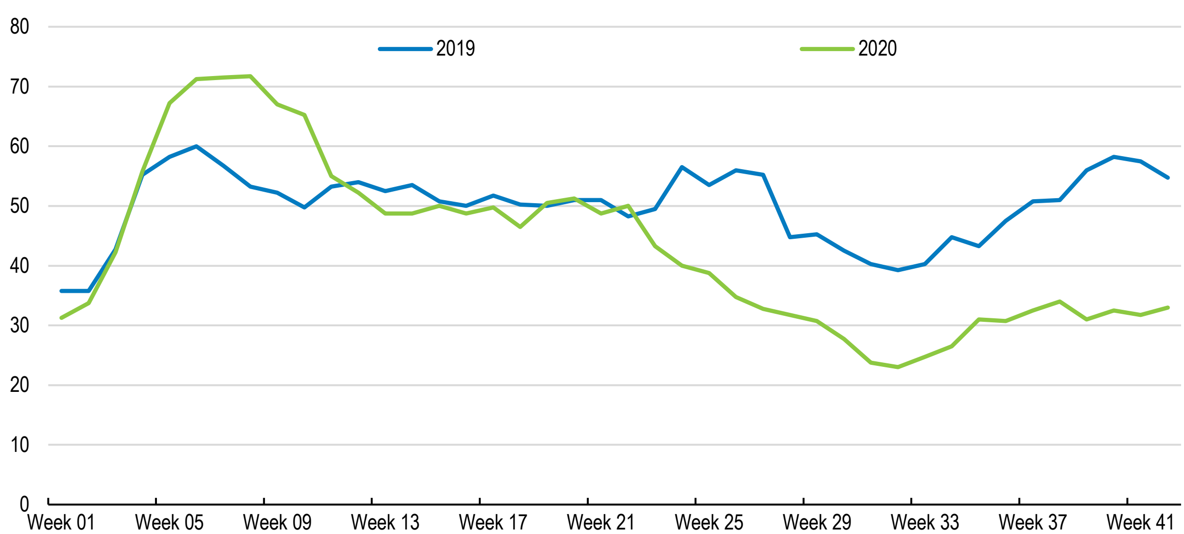
The government reduced tax burdens and social security contributions temporarily, easing firms' cash flow. Firms in financial difficulties could request an extension for payments of corporate income tax by up to 24 months and those with justifiable reasons, such as COVID-19 sickness, could request an extension for the delay in filing corporate income and value added tax returns. The interest rate for late payment for corporate income and real estate taxes was reduced from 7% to 4%, while penalties for late filing of value added tax (VAT) returns could be waived with a justifiable reason. The government also reduced employers' pension contributions between May and December 2020 by 2.6 percentage points and allowed employers and self-employed persons to defer their pension contributions in early 2020 by three months without late payment penalties.

The government also amended the Finnish Bankruptcy Act, limiting creditors' right to petition for bankruptcy until 31 October 2020. It specifically removed the risk that a debtor be considered bankrupt if it cannot repay a clear and due claim within a week from receiving a notice by the creditor to file for bankruptcy. The relief did not apply to proceedings initiated before 1 May 2020 or those initiated later on debts that had fallen due before 1 March 2020. It also did not prevent creditors petitioning for a debtor's bankruptcy where they can prove that it is unable to pay its debts.

These measures were successful in avoiding mass bankruptcies (Figure 1.17). Considering that loan guarantees and subsidies were targeted to firms with development potential and clear end dates were set for more general measures, such as the insolvency relief, these measures are unlikely to prevent the exit of firms that were non-viable even before the pandemic. However, care should be taken in prolonging these measures beyond the original timeline not to hold back the exit of non-viable firms and reallocation of labour and capital to more productive uses.

Figure 1.17. The number of bankruptcies remains low for the time being

Number of enterprises where bankruptcy was instigated, four-week moving average



Source: Statistics Finland (2020) instant preliminary statistics on bankruptcies.

StatLink https://stat.link/4tl2am

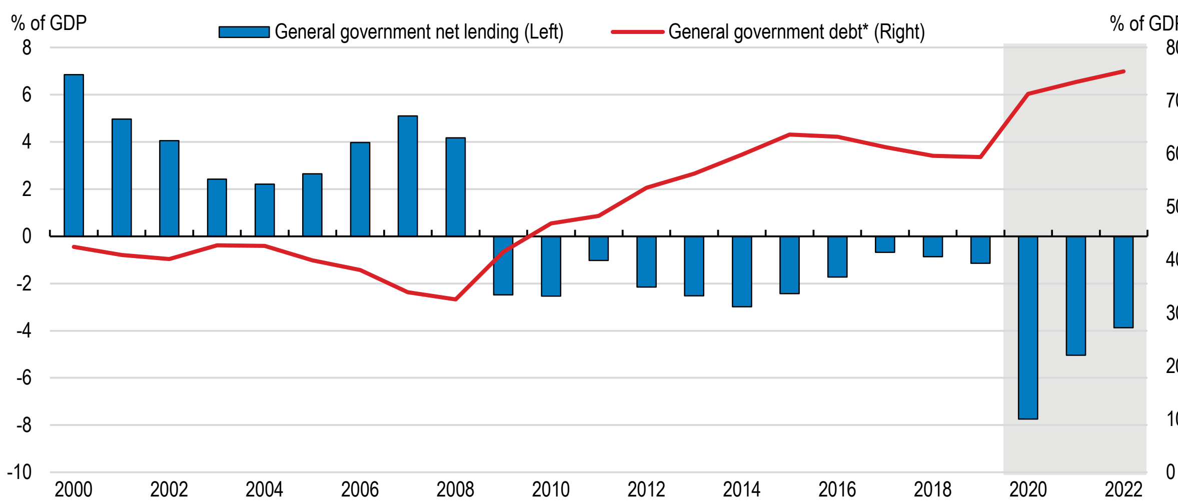
In the absence of robust recovery in the near term, bankruptcies are likely to surge after these temporary measures expire. Finland's insolvency regime is relatively efficient, with generous treatment of failed entrepreneurs. Debtors can also apply for restructuring in cases where there is a threat of insolvency, which would enable an early rehabilitation of firms in financial distress (Adalet McGowan, Andrews and Millot, 2017[19]). However, in practice, debtors often apply for restructuring too late. The government is currently developing early warning tools.

Government policies are supporting a strong rebound from the slump

Fiscal policy is expansionary in 2020

Assuming that the economy shrinks by 4.5% in 2020, the Ministry of Finance (2020[20])estimates that the general government deficit will jump from 1.1% of GDP in 2019 to 7.7% in 2020 (Figure 1.18). Most of this increase is attributable to rising expenditure. Three quarters of the 3.4% of GDP in discretionary measures taken by the government that increase the 2020 budget deficit arise from the COVID-19 pandemic with the remainder reflecting decisions taken in 2019. Among the COVID-19-related measures amounting to EUR 6 billon (2.6% of GDP), the most costly measures were business subsidies and cost support for enterprises (0.8% of GDP), the temporary reduction in employer private-sector pension contributions (0.4% of GDP) and extending the coverage of unemployment benefits and making cash transfers to parents of small children on unpaid leave (0.4% of GDP). As COVID-19 measures unwind and the economy begins to recover, the budget deficit is projected to fall by 2.7% of GDP in 2021 and more gradually thereafter. The Ministry of Finance projects a leap in general government debt in 2020 with smaller subsequent increases.

Figure 1.18. 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.

StatLink https://stat.link/yedua9

In addition to the COVID-19-related expenditure, temporary easing of corporate income and value added tax payment arrangements provided short-run relief of EUR 845 million (0.3% of GDP), although these measures do not affect the budget deficit but rather only the timing of government cash receipts or payments. Increases in government loan authorisations and guarantees by EUR 10 billion also support economic activity. They also expose the government to the risk of additional fiscal costs in case of defaults. These risks may not be small because contingent liabilities from government guarantees already stood at 34% of GDP in 2019 (Eurostat, 2020[21]), by far the largest in the European Union, and are concentrated in a small number of sectors and companies.

While Finland's fiscal stimulus was relatively small compared with many other OECD countries (IMF, 2020[22]), so was the economic hit from the pandemic (Figure 1.12). Fiscal support is set to unwind in 2021-22 as many of the one-off stimulus and COVID-19-related expenditure measures expire. In the event that economic recovery is delayed, the government should increase fiscal support to put the recovery firmly back on track. In this regard, it is considering issuing vouchers for purchasing domestic services in late 2020 and 2021. Further fiscal support will come from spending the EUR 3.1 billion of grants that Finland expects to receive from the newly established EU recovery instrument between 2021 and 2023; however the counterpart is that Finland will contribute a much larger amount (around EUR 6.6 billion) for the repayment of the associated European Commission debt from 2028 (Ministry of Finance, 2020[20]).

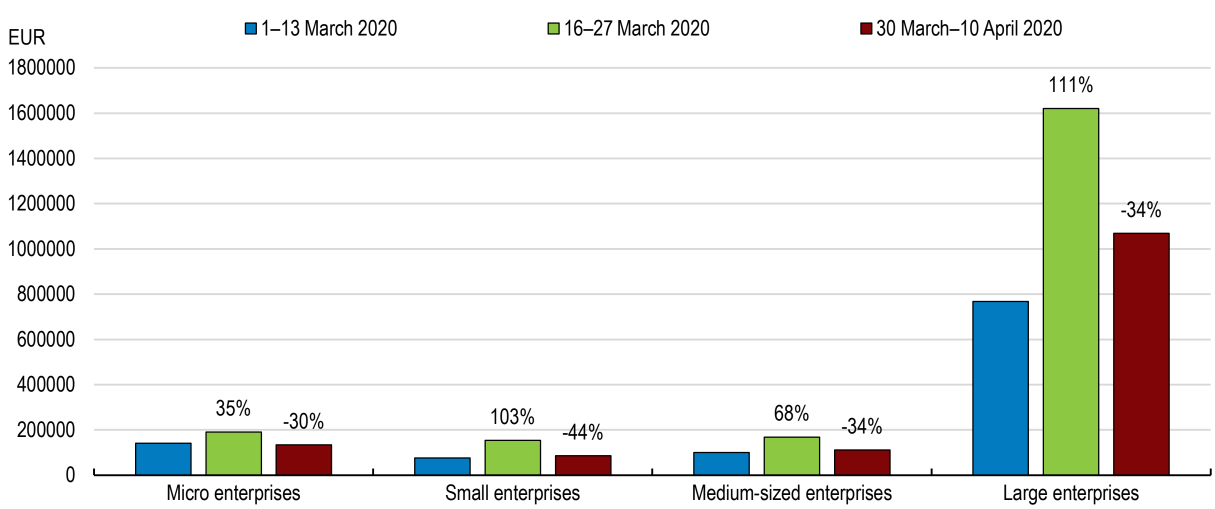
Monetary policy is boosting credit supply and keeping interest rates low

To boost credit supply and banks' lending capacity, the European Central Bank (ECB) introduced new non-targeted longer-term refinancing operations (PELTRO), cut the interest rate applied in targeted longer-term refinancing operations (TLTRO III) to below zero and expanded its asset purchase programme by EUR 1 470 billion (12.3% of the euro area 2019 GDP). The Bank of Finland granted banks TLTRO III refinancing amounting to EUR 17 billion and initiated a EUR 1 billion domestic commercial paper purchase programme. The ECB also lowered bank capital requirements and introduced flexibility regarding the treatment of non-performing loans for the largest Finnish financial institutions directly under its supervision. Finland's Financial Supervision Authority decreased all main solvency requirements by approximately 1.0% in March. These measures were estimated to increase the domestic lending capacity of Finnish credit institutions by EUR 30 billion (12% of GDP) (Bank of Finland, 2020[23]). Furthermore, the ECB and the Bank of Finland eased collateral requirements, so that banks can accept collateral of lower credit quality.

New corporate loans by banks in the second half of March jumped by more than 90% compared to the first half of the month, with over three-quarters going to large firms (Figure 1.19). Microenterprises, particularly in the service sector, demonstrated caution in taking on new loans owing to uncertainty about future revenues and/or a lack of collateral (Bank of Finland, 2020[23]). New lending decreased in early April partly because firms started drawing various business subsidies launched in mid-March. Long-term government bond rates and the spread against German bonds increased at the onset of the COVID-19 crisis but have since fallen back to low levels (Figure 1.20).

Figure 1.19. New loan expanded drastically in the latter half of March 2020

New loan per firm size with % change from the previous period

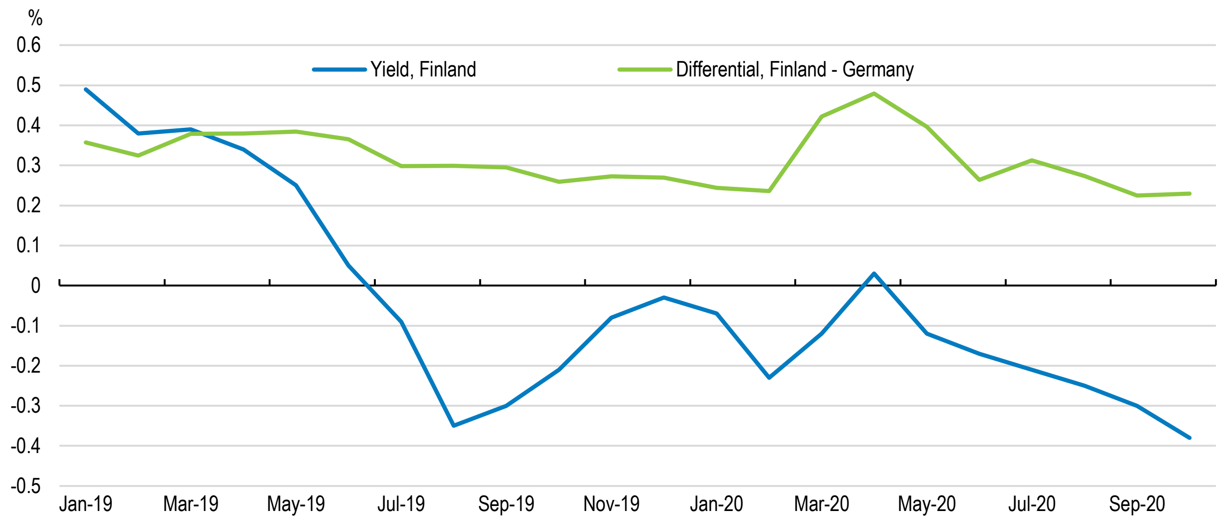


Source: FIN-FSA, Bank of Finland and Ministry of Finance (2020) Survey of Finnish credit institutions.

StatLink https://stat.link/u1lo26

Figure 1.20. Long-run interest rates are low

Yield on 10-year Finnish government bonds and differential with Germany



Source: OECD, Main Economic Indicators database.

StatLink https://stat.link/60hyxz

Macro prudential policies should be tightened as the economy recovers to contain financial stability risks

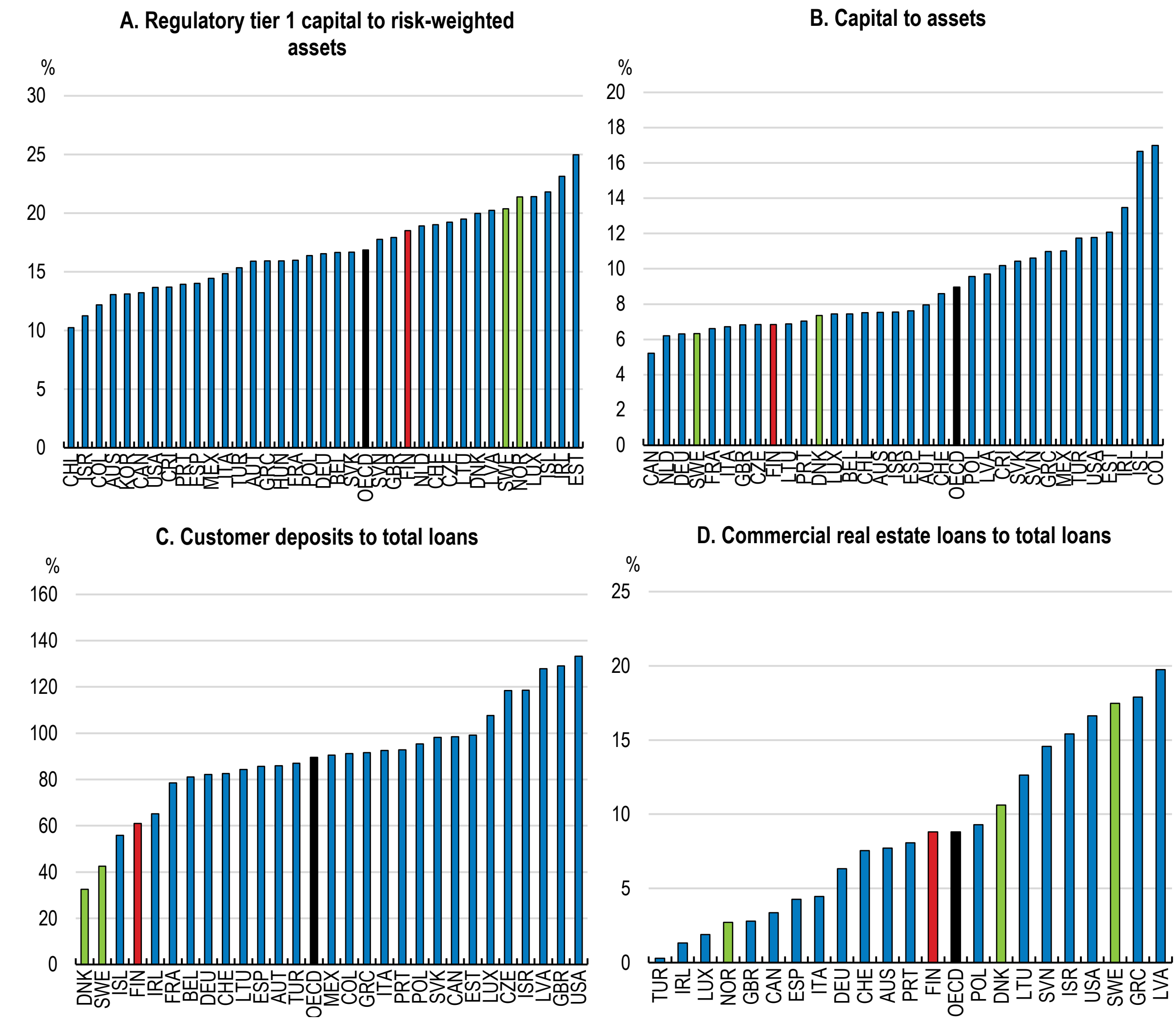
Finnish banks entered this crisis in sound shape. Common Equity Tier 1 capital was above the OECD average in 2019 (Figure 1.21, Panel A). They were also highly profitable thanks to the low share of non-performing loans (NPLs), extensive use of digital technologies to enhance cost-efficiency and high concentration. However, the ratio of total capital to assets was relatively low (or equivalently, the leverage ratio was relatively high) (Panel B). Finnish banks also relied less on retail deposits (Panel C) and thus more on wholesale markets for financing their loans than banks in most other countries. This exposes them more to changes in risk sentiment in global financial markets than banks in most other OECD countries. Exposure to commercial real estate loans, which has become much more risky in all countries following the COVID-19 crisis, is around the OECD average (Panel D). The share prices of large banks dropped steeply at the outbreak of the crisis, like elsewhere, and the yields on covered bonds, an important funding source for Nordic banks, rose. However, the banks' share prices have recovered since and covered bond yields remain very low and negative on the back of expansionary monetary policy, keeping bank funding costs low (Bank of Finland, 2020[24])

Finland's banking sector has grown very large owing to the re-domiciliation to Helsinki of Nordea bank (with assets equal to 150% of Finland's annual GDP) in October 2018. The European Central Bank and the European Resolution Framework, which bails in creditors, directly supervise Nordea. However, for bail in to work in the resolution framework the Minimum Requirement for Own Funds and Eligible Liabilities (MREL) framework need to be implemented consistently and efficiently and banks need to fulfil their MREL requirements. The government has introduced legislation (the "Banking Package") to enhance this framework.

Profitability and capital adequacy of Finnish banks has increasingly come to rely on developments in residential- and commercial real estate markets in Nordic countries (Bank of Finland, 2019[25]). A large fall in house prices in Norway and Sweden, where prices are high relative to fundamentals, would reduce Finnish banks' capacity to supply credit (Bank of Finland, 2019[25]) as would a large increase in commercial real estate loan defaults, which has become more likely in the wake of the sanitary crisis. Banks have also been increasingly investing in riskier and more illiquid assets in search of yield in the persistent low-interest rate environment (IMF, 2019[26]), increasing liquidity and solvency risks in the event of a banking crisis.

Figure 1.21. The banking sector is well capitalised but with structural vulnerabilities

2019 or latest



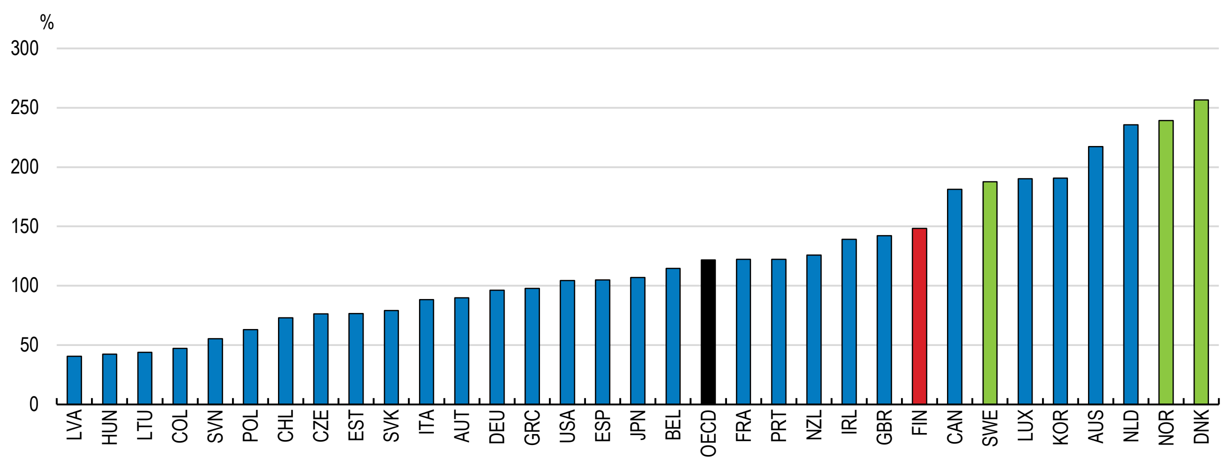
Note: OECD averages exclude countries not shown in the figure.
Source: IMF, Financial Soundness Indicators database.

StatLink https://stat.link/c4lfpb

High household debt has been a primary structural vulnerability of Finland's economy. Debt has reached 148% of net household disposable income, a record high for Finland but still lower than in other Nordic countries (Figure 1.22). Most (75%) household debt consists of housing loans. These include housing company loans, which grew very rapidly (78%) over the past four years. Housing companies take out these loans for renovation and new construction using their real estate as collateral and then charge shareholders, who have occupancy rights to individual residential units in the company property, a monthly fee that amortises each owner's share of loan repayments. Shareholders can finance up to 70% of the price of their residential units via housing company loans and the rest with their own housing loans, which can be taken out using their share in their housing company as collateral. Because housing company loans are mutually guaranteed by all shareholders (those who occupy the units themselves and investors, who typically let them), fee payment defaults by some shareholders have to be paid by others, a fact that many shareholders are unaware of. Housing company loans are thus associated with mispriced risks resulting from the cross-subsidisation of high-risk shareholders by others. Investors who purchase property for rent are encouraged to do so through a housing company because principal repayments can be deducted from rental income for tax purposes on housing company loans but not on other loans. Ownership through housing companies is also encouraged by the lower stamp duty rates on transfers of shares in a housing company (2%) than on direct property transactions (4%).The government should remove these tax preferences for housing companies relative to direct ownership. To stem risks from the rapid growth in housing company loans, the prudential regulator requires banks to incorporate a household's share in housing company loans when calculating the loan-to-collateral ratio for new housing loans, which is capped at 90% (95% for first-time buyers). The Finnish Financial Supervisory Authority (FSA) lowered this ratio to 85% in 2018 but recently restored it to 90% to mitigate the impacts of COVID-19 on the housing market. The FSA should reduce this ratio in a timely manner once the housing market starts recovering.

Figure 1.22. Household debt as a share of net household disposable income is above the OECD average

Household debt, % of net disposable income, 2019 or latest



Source: OECD, National Accounts at Glance database.

StatLink https://stat.link/usi0ck

As the economy recovers, the prudential supervisors should phase in more effective measures to curb household debt. A working group report previously recommended introducing debt-to-income ratios of 4.5 times the annual gross income for all household loans, including those via housing corporations (Working group on macroprudential supervision tools limiting household indebtedness, 2019[27]), which is consistent with past OECD recommendations (Table 1.1). As interest rates on housing loans are floating (they are tied to the 12-month Euribor rate), a debt-to-income ceiling in the current context of very low interest rates is a more useful macro-prudential tool than a debt-servicing ceiling, which would fail to limit repayment difficulties arising from an increase in interest rates. Consumer credit, including from foreign digital banks and payday loans, is growing rapidly, contributing to a record-high number of payment defaults by households. The government introduced an interest rate cap of 20% on consumer credit in September 2019, and recently lowered it to 10% until the end-2020. Finland does not have a comprehensive credit registry that provides credit institutions with a clear overview of households' debts (The European Comission, 2020[28]). To reduce banking sector risks, the government is working to put in place legislation by 2023 establishing a credit registry managed by a public entity.

Table 1.1. Past recommendations on financial stability and actions taken

Main recent OECD recommendations	Actions taken since 2018
Contain growth in household debt through macro-prudential tools, such as a loan-to-income cap, a debt-service-to-income ratio or higher risk weights on mortgages.	The working group of the Ministry of Finance proposed introducing a debt-to-income ratio of 4.5 times gross annual income for all household loans.

The measures adopted by the ECB and the Bank of Finland to boost banks' lending capacity described above risk reducing the quality of banks' capital and their ability to bear lending risks. The prudential supervisors should carefully monitor the effects of looser capital adequacy, regulations and criteria for NPLs and collateral eligibility and tighten them as the economy recovers.

The recovery will be gradual and subject to risks

Economic recovery will be gradual, especially in light of the second coronavirus wave now spreading across Europe and North America, and subject to many risks (Table 1.2). As economic activity rises from the trough, employment will increase, supporting private consumption. Deferred household spending during the first coronavirus wave will also boost consumption in the latter half of 2020. Exports will rise as well, provided that Finland's main trade partners successfully contain COVID-19 and recover economically. Investment will be slow to pick up owing to weakened balance sheets, low capacity utilisation and high uncertainty. Output is only likely to recover the pre-COVID 19 level by 2022. Unemployment and bankruptcies are likely to increase in the short run, as relief measures run out toward the end of 2020. Inflation pressure will be moderate, reflecting the large output gap, slack in the labour market that constrains wage growth and subdued commodity prices. The recovery would be stymied if the recent resurgence of coronavirus infections is not soon reined in or if there were to be further serious outbreaks, external demand remains weak owing to a prolonged global pandemic or banking losses were greater than expected, leading to tighter credit conditions.

Table 1.2. Macroeconomic indicators and projections

	2017	2018	2019	2020	2021	2022
	Current prices EUR billion	Percentage changes, volume (2010 prices)				
GDP at market prices	225.9	1.5	1.1	-3.3	2.1	1.8
Private consumption	120.3	1.8	0.8	-4.4	3.0	2.1
Government consumption	51.6	1.6	1.1	-0.4	-1.0	-1.5
Gross fixed capital formation	52.9	3.9	-1.0	-2.8	-0.5	3.3
Final domestic demand	224.7	2.3	0.5	-3.1	1.2	1.5
Stockbuilding[1,2]	1.1	0.5	-0.9	0.5	-0.4	0.0
Total domestic demand	225.8	2.9	-0.4	-2.5	0.7	1.5
Exports of goods and services	85.0	1.7	7.7	-10.8	3.7	4.7
Imports of goods and services	84.9	5.4	3.3	-7.5	3.8	3.7
Net exports[1]	0.1	-1.4	1.7	-1.4	-0.1	0.3
Memorandum items						
Output gap (% of potential GDP)	_	-0.1	-0.1	-4.2	-3.0	-2.0
GDP deflator	_	1.9	1.8	1.6	0.7	1.5
Harmonised index of consumer prices	_	1.2	1.1	0.5	1.0	1.4
Harmonised index of core inflation[3]	_	0.3	0.7	0.5	0.9	1.4
Unemployment rate (% of labour force)	_	7.4	6.7	7.9	8.3	7.7
Household saving ratio, net (% of disposable income)	_	-0.8	0.4	6.1	1.0	1.1
General government financial balance (% of GDP)	_	-0.9	-1.0	-7.0	-4.4	-3.0
General government underlying primary balance (% of potential GDP)	_	-0.7	-0.8	-4.3	-2.6	-1.9
General government gross debt (% of GDP)	_	72.7	72.7	78.6	84.5	89.2
General government debt, Maastricht definition (% of GDP)	_	59.6	59.3	63.8	68.7	72.5
Current account balance (% of GDP)	_	-1.7	-0.2	-0.4	-0.6	-0.3

1. Contributions to changes in real GDP, actual amount in the first column.
2. Including statistical discrepancy.
3. Harmonised index of consumer prices excluding food, energy, alcohol and tobacco.
Source: Projection based on OECD Economic Outlook 108, updated for the National Account release on 27 November 2020.

Table 1.3. Possible severe shocks affecting the Finnish economy

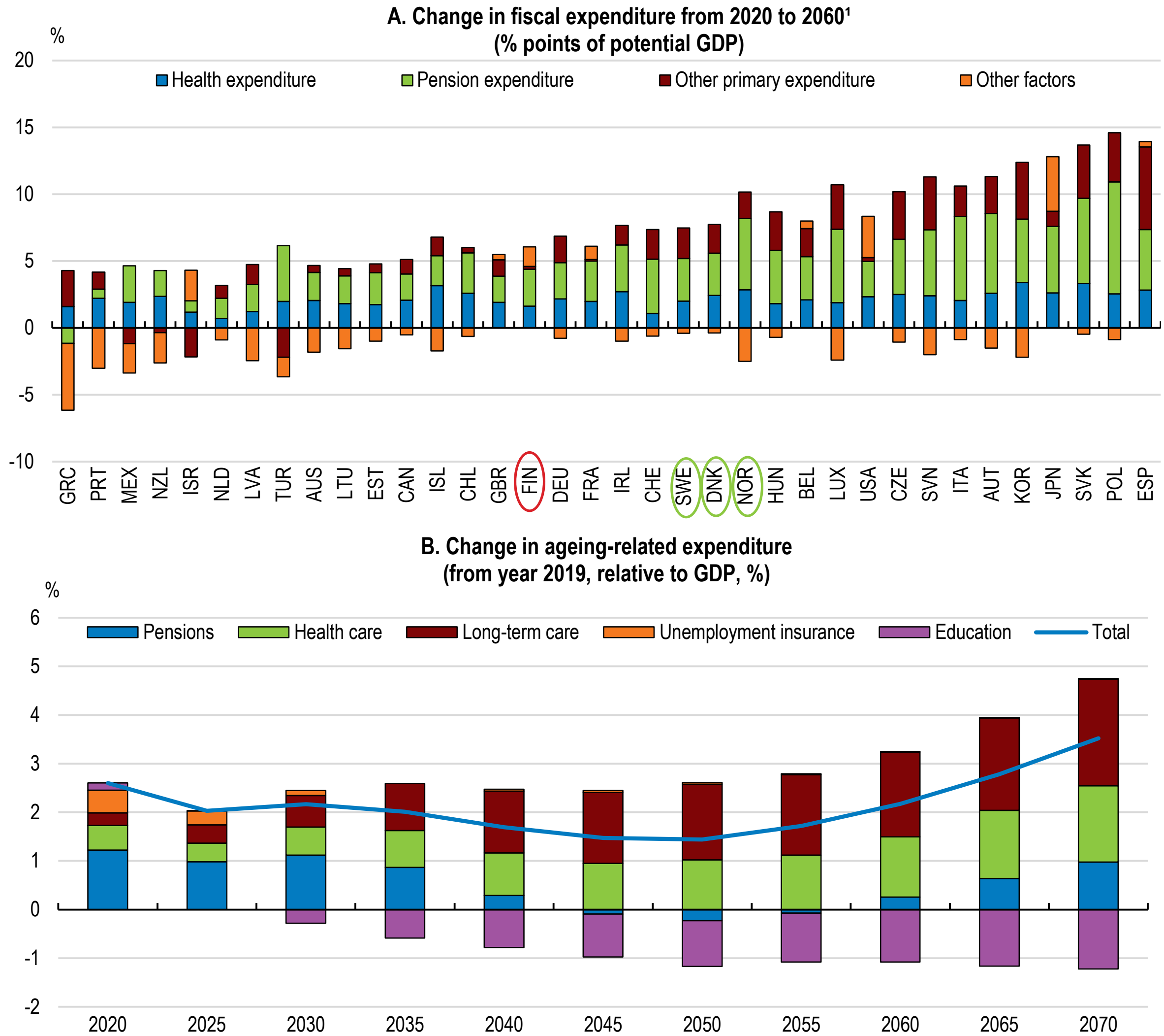
Shock	Possible impact
Much worse pandemic outcome and/or slower development of vaccine than assumed	Another virus outbreak comparable to the one in Spring 2020 would require a wide range of social and economic activities to shut down, resulting in large GDP and job losses. A long delay in the development of an effective vaccine would hamper recovery of some sectors, notably hospitality and transportation, for several years.
Intensification of trade tensions	Prolonged weakness in external demand and disruptions in supply chains would curb exports and investment.
Global financial crisis	An increase in non-performing loans and a sharp drop in real estate prices at home or in neighboring Nordic countries would damage banks' balance sheets and reduce credit supply.

Restoring public finance sustainability

Public finances have substantially deteriorated owing to the COVID-19 crisis. Under current policies, the Ministry of Finance projects an increase in the structural budget deficit in 2023 from 1.5% of GDP before the crisis to 2.6% now and in general government debt (Maastricht definition) from 59% of GDP in 2019 to 75.3% in 2023 (Ministry of Finance, 2019[29]; Ministry of Finance, 2020[20]). While the government has set an objective of stabilising the general government debt-to-GDP ratio by the end of the decade, it has not yet set out a clear pathway for getting there. To reach this objective smoothly and build room to respond to crises beyond 2023, the government should establish a clear plan for fiscal consolidation until the end of the decade with numerical targets that should come into effect once the economic recovery is firmly underway.

Finland faces rising fiscal pressures mostly driven by ageing-related costs, namely pension and health expenditures, that are almost entirely publicly financed (Figure 1.23, Panel A). The Ministry of Finance (Ministry of Finance, 2019[30]) projects smaller increases in pension costs (Panel B) than the OECD, mainly because pension levels are to be lowered with longer life expectancy (see below), a feature not taken into account in the OECD projection. On the other hand, the Ministry projects a more sizable increase in health expenditure than the OECD, namely in long-term care costs, which are projected to rise by 2.2% of GDP by 2070 (Panel B). Long-term care in Finland is publicly provided either in kind by municipalities and private firms (but publicly financed) or through allowances and financial support to family members caring for their relatives. The government held (mainly pension-related) financial assets amounting to 136% of GDP in 2019, largely exceeding gross general government debt (73% of GDP, System of National Accounts (SNA) definition). On current policies, the OECD projects that ageing-related costs will push up gross- and net general government debt to 180% and 45% of GDP, respectively, by 2060 and continue rising thereafter (Figure 1.24).

Figure 1.23. Future expenditure increases will be driven by population ageing

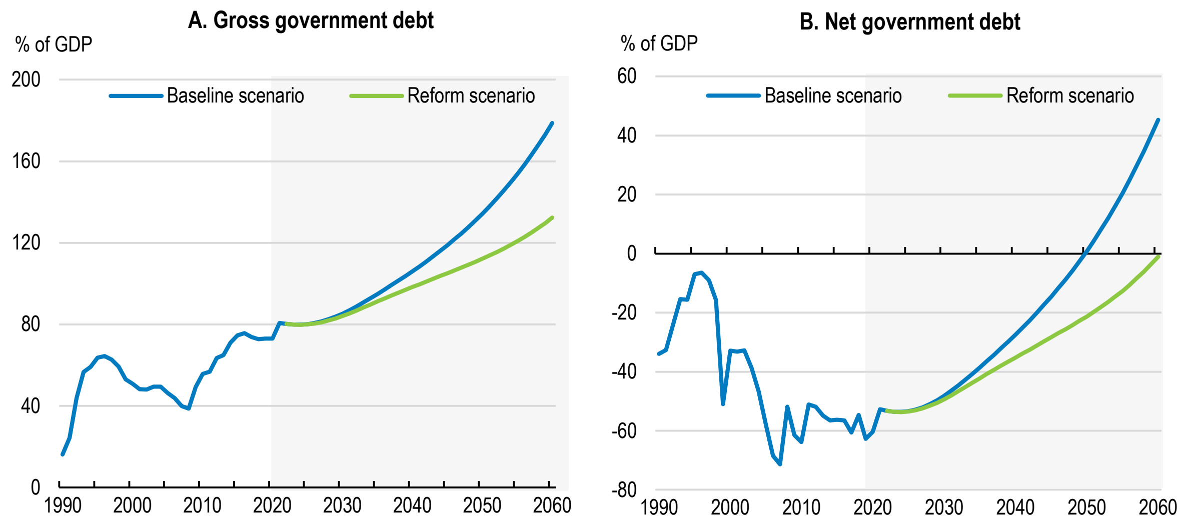


1. The chart shows how the ratio of structural primary revenue to GDP must evolve over time in order to keep the gross debt-to-GDP ratio stable near its current value.

Source: Panel A: Simulations using the OECD Economics Department Long-term Model; Panel B: Ministry of Finance (2019) Economic Survey, Autumn 2019.

StatLink https://stat.link/cf0dto

Figure 1.24. Government debt would increase substantially under unchanged policies



Note: The baseline scenario incorporates the 2017 pension reform that gradually raises the minimum retirement age to 65 by 2025 and links it to life expectancy from 2030. It however does not take into account the adjustment of pension level through the life expectancy coefficient. The reform scenario corresponds to the case where the effective retirement age (64.3 for men and 63.4 for women in 2018) converges to the minimum retirement age over the projected period.
Source: Simulations based on the OECD Economics Department Long-term Model.

StatLink https://stat.link/qhe3zf

The government estimates that a structural budget surplus of 1% of GDP in 2024 would be needed to prevent population-ageing spending pressures from causing an unsustainable rise in public debt (Aalto et al., 2020[31]). Combined with the structural budget deficit now projected for 2024, the amount of fiscal consolidation needed to ensure sustainable public finances in the long run (the fiscal sustainability gap) is about 4% of GDP. The government's objective of stabilising the debt-to-GDP ratio by the end of the decade will entail increasing the structural budget balance by around EUR 5 billion (2% of GDP). While this will not close the fiscal sustainability gap – ageing-related expenditures are projected to continue increasing beyond the 2020s – it will help prepare the country to meet the budgetary challenges of population ageing, rebuild room for manoeuvre to attenuate the effects of future crises and maintain investor confidence in Finnish government debt.

Increasing the employment rate of older workers to the Scandinavian average would make a significant contribution towards stabilising the debt-to-GDP ratio. It would increase the employment rate (15-64 years) by about 1.3 percentage points, reducing the structural budget deficit by about 0.8 percentage points, with about half coming from additional tax revenue and the other half from savings on unemployment benefits (Box 1.4).

Box 1.4. The impacts of key structural reforms

This box summarises potential long-term impacts of selected structural reforms included in the key recommendations on GDP (summarised in Table 1.4) and fiscal balance (Table 1.5). The quantified impacts are merely indicative and do not incorporate dynamic responses to the reforms. They are also expected to materialise gradually over the long term. The GDP and fiscal impacts of some key recommendations are not quantified because they are very small. This is the case notably for reducing homecare allowance (by EUR 100 per month) to increase incentives for mothers of young children to work and aligning the conditions for awarding disability benefit to persons aged 60 or over with those for other applicants, which concerns a small group of people. In the case of reducing the homecare allowance, fiscal savings from reduced expenditure on the allowance and additional labour income tax revenue would be offset by increased costs for childcare services and unemployment benefits for low-skilled mothers returning to the labour force.

The selected key reforms that are quantifiable are expected to boost the level of GDP by 2.4% (Table 1.4). They will improve the structural budget balance as a share of GDP by 0.8 percentage point (Table 1.5). The structural balance can be further improved by 1.3 percentage points if the recommendation to raise more revenue through non-distortive taxes is also implemented. It is difficult to quantify the impacts of these tax increases on GDP, but reforms that shift the weight of taxation from direct to indirect taxes are considered to be conducive to growth (Arnold et al., 2011[32]).

Table 1.4. The long-term impact of selected reforms on employment, productivity and GDP levels

	Impact on employment	Impact on multi-factor productivity	Impact on GDP
		%	
Phasing out extended unemployment benefit[1]	2.0		1.1
Easing the transition from secondary to tertiary education[2]		0.8	0.8
Reducing barriers to competition in transport, energy, and retail[3]		0.5	0.5
Total impact	2.0	1.3	2.4

1. This scenario is modelled as an increase of the eligibility age for extended unemployment benefit by four years starting from 2023, instead of one year as decided in January 2020, aligning the eligibility age with the retirement age of 65. The scenario exploits the experience from the 2005 reforms that increased the eligibility age by two years, which extended working lives by seven months over a period of 10 years (Kyyrä and Pesola, 2020[33]). 2. This scenario assumes that the share of persons aged 25-64 with tertiary educational attainment increases from the current 46% to 50% as the long-run consequence of the government successfully raising the tertiary educational attainment among those aged 25-34 from 42% to 50% by 2030. The GDP impact is computed as the gain in income from higher education attainment. 3. This scenario assumes a reduction in barriers to competition with reforms in upstream service sectors of an average intensity observed across OECD countries (Égert and Gal, 2017[34]). Employment growth is translated into GDP growth by applying the 2017 labour income share (54.8%) taken from: (OECD, 2019[35]).
Source: OECD Secretariat calculations based on OECD National Accounts database.

Table 1.5. The impact of selected recommendations on the fiscal balance

	Impact on the structural budget balance
	Percentage of GDP
Phasing out extended unemployment benefit[1]	+0.8
Easing the transition from secondary to tertiary education[2]	-0.2
Reducing barriers to competition in transport, energy, and retail[3]	+0.2
Reductions in subsidies and tax expenditures and increases in taxes that do not impose large economic distortions[4]	+1.3
Total impact	+2.1

1. The fiscal impact reflects larger tax revenue due to the GDP level gain and saving on the unemployment benefit payment. 2. The fiscal impact reflects larger tax revenue due to the GDP level gain and additional fiscal expenditure to increase the provision of study places so that the rejection rate of the tertiary education institutions is lowered from the current 67% (see section 1.6.2) to 30% (the average of 13 OECD countries with the data available: (OECD, 2019[36])) 3. The fiscal impact reflects larger tax revenue due to the GDP level gain. 4. The fiscal impact reflects additional tax revenue from scrapping reduced VAT rates, which reduced tax revenue by EUR 2 billion (1% of GDP) in 2014 (OECD, 2018[37]), and increasing the weight of recurrent taxes on immovable property in GDP (currently 0.8%) to the average level in OECD countries (1.1%).
Source: OECD Secretariat calculations based on OECD National Accounts database.

Fiscal consolidation should also be achieved through reducing subsidies and tax expenditures and increasing taxes that do not impose large economic distortions (Table 1.6). In this regard, VAT receipts could be increased by eliminating preferential rates, which reduce receipts by 7.4% of the VAT base (Institute for Advanced Studies, 2019[38]). While the size of the VAT gap (OECD, 2018[37]) is smaller than in many other European countries, it far exceeds Sweden's (1.5%). Preferential rates typically apply to necessities to limit the tax burden on low-income households. This objective could be achieved at less cost by eliminating preferential rates and directly compensating low-income households for the increase in living costs; this occurs automatically for households receiving social benefits because they are indexed to the CPI. Recurrent real estate taxation, which is also lower as a share of GDP than in Sweden and does not impose large economic costs, could also be increased, possibly in the context of updating cadastral values. Increasing taxes on the use of peat for heating to the same rates as for other fossil fuels would also increase tax revenue (and reduce greenhouse gas emissions).

Table 1.6. Past recommendations on fiscal policy and tax reform and actions taken

Main recent OECD recommendations	Actions taken since 2018
Timely strengthening of budget buffers is needed.	No action taken.
Further reduce the tax burden on labour.	The earned income taxation of those on low and middle incomes was eased by approximately EUR 200 million in 2020.
Increase minimum- and maximum rates on recurrent taxes on immovable property, and better align the tax base with market valuations.	No action taken.
Continue to phase out mortgage interest deductibility.	Deductibility will be phased out from 25% of interest in 2019 to 15% in 2020 and to 0% in 2023.
Broaden the consumption tax base and phase out reduced VAT rates.	No action taken.
Increase environmentally-related taxes.	Energy taxes were increased on fuels used for heating and off-road purposes in 2019 and on transport fuels in August 2020. The government decided to increase taxes on heating fuels in 2021 (including a reduction in tax expenditure on CHP) and phase out refunds for energy intensive businesses.
Phase out environmentally harmful subsidies and better align the tax rate on emissions across sectors.	The energy tax rebate mechanism for energy-intensive industries will be phased out by 2025 and tax subsidies for paraffinic diesel will be phased out by 2023.
Rationalise the organisation of health services to achieve a better balance between primary and specialised care.	No action taken.
Lower the normal interest rate used in the calculation of the unincorporated business taxation equity allowance.	No action taken.

In light of mounting fiscal sustainability concerns, a sound and transparent plan to contain ageing-related expenditure, with numerical targets and a clear time frame, should be established. In particular, the foreseen rise in long-term care costs highlights the need to restructure the provision of health and social services. Care chains are currently highly decentralised and fragmented, resulting in inefficiencies and regional inequalities in access to high-quality care (OECD/European Observatory on Health Systems and Policies, 2019[39]). The government will present a Bill to Parliament in December that transfers responsibility for organising health and social services from municipalities to 18 autonomous counties and increases the focus on basic-level services and prevention. This reform is in line with that proposed by the previous government except that the public sector is now to remain the primary service provider, with the private sector only serving as a supplementary service provider. Given the limited room for competition between public- and private healthcare providers, the cost savings from such reforms are highly uncertain, and the government has not quantified them. Setting numerical targets on fiscal savings to be achieved from such reforms may help the government plan reforms that maximise cost efficiency while ensuring equal access to quality services.

Pension expenditure is to be kept in check by adjusting the retirement age and the pension level. The 2017 reform raised the minimum retirement age gradually from 63 in 2017 to 65 in 2027 (Table 1.7) and linked it to life expectancy from 2030. This reform built on an earlier one that reduced pensions as a function of life expectancy through the life expectancy coefficient set for each age cohort. For instance, the coefficient is to decline from 0.963 in 2017 to 0.925 in 2025 and to 0.849 in 2085. The target retirement age, at which individuals can just offset the pension reduction from the life expectancy coefficient by retiring later, will rise to near 70, which is the age limit for pension contributions. Those born after 1985 cannot avoid lower pension levels because their target retirement age exceeds 70. To enable them to offset the pension reduction by working longer, the age limit for pension contributions should be raised to the extent necessary above 70. Despite the scheduled increases in the minimum- and target retirement ages, increases in contribution rates will be required from the 2040s to ensure that the pension system remains sustainable.

Table 1.7. Age limits of the earnings-related pension system

The 2019 long-term projection

Year of birth	Minimum retirement age	Target retirement age	Age at which insurance obligation ends (the upper limit of pension contribution)
1955	63 years 3 months	64 years 1 month	68 years
1960	64 years 6 months	65 years 10 months	69 years
1962	65 years	66 years 7months	69 years
1965	65 years 2 months	67 years	70 years
1970	65 years 8 months	67 years 9 months	70 years
1975	66 years 2 months	68 years 6 months	70 years
1980	66 years 8 months	69 years 2 months	70 years
1985	67 years 1 month	69 years 10 months	70 years
1990	67 years 5 months		70 years
1995	67 years 10 months		70 years
2000	68 years 2 months		70 years

Note: The target retirement ages for those born in 1990 and after cannot be computed, as they exceed 70 years.
Source: Finnish Centre for Pensions website.

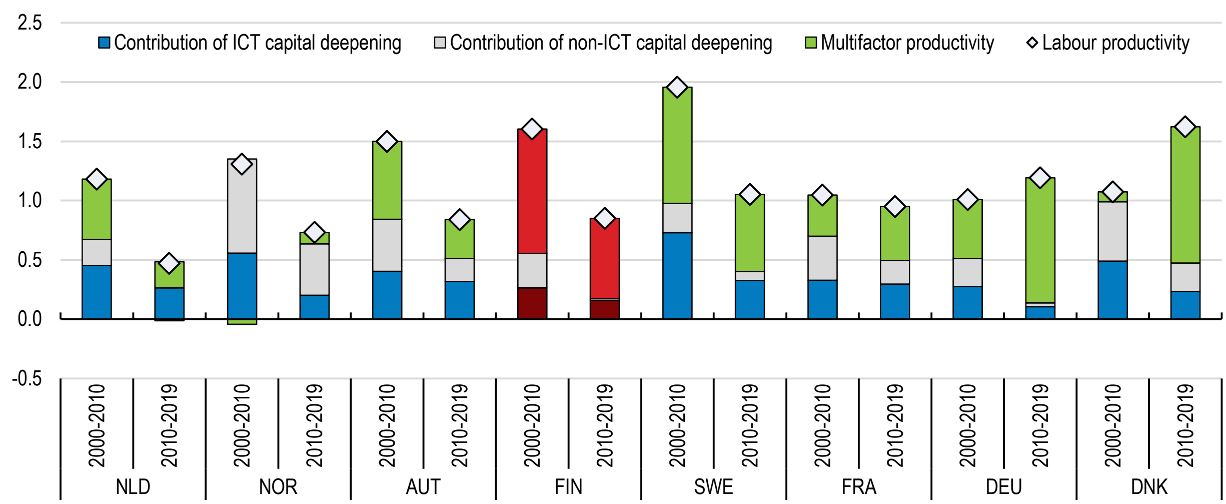
Boosting productivity growth

Vigorous productivity growth is essential for strong economic recovery because it enhances Finland's competitiveness, stimulates investment and supports high paying jobs. Labour productivity growth in Finland averaged 1.3% in the 2000s, higher than in many comparable European advanced economies, but fell to only 0.6% over 2010-19, lower than in these economies (Figure 1.25). The slowdown reflected both a lower contribution from capital deepening and lower multifactor productivity (MFP) growth. Both lower productivity growth within sectors, especially manufacturing, and a shift in resources from sectors with higher productivity levels, notably manufacturing, to sectors with lower levels, namely services, contributed to the slowdown (Figure 1.26). The strong multifactor productivity (MFP) growth in the 2000s reflects the prominent role of Information and Communications Technology (ICT) industries spearheaded by Nokia in driving rapid technological development (OECD, 2016[40]). These sectors contributed to a large increase (2.5% of GDP) in R&D expenditure during 1998-2007, boosting innovation. The decline in Nokia and related ICT firms after the financial crisis resulted in weaker MFP growth and lower R&D, holding back labour productivity growth. Reforms are needed to reinvigorate innovation, particularly among SMEs, which produce a large share of services.

The decline in the contribution of capital deepening to productivity growth mainly reflected non-ICT capital, the capital-deepening contribution of which fell to zero (Figure 1.25) primarily owing to negative growth in the non-ICT capital stock in the business services sector (Finnish Productivity Board, 2020[41]). The weakness of non-ICT investment partly reflects the larger role of intangible capital, the stock of which has grown faster than that of physical capital in Finland, as in other countries (Demmou, Stefanescu and Arquie, 2019[42]). Nevertheless, low non-ICT capital investment can hold back MFP growth and competitiveness of Finnish firms because new technologies are often embodied in new capital goods (Greenwood, Hercowitz and Krusell, 1997[43]). While inward foreign direct investment (FDI) during 2010-

19 averaged around 2.2% of GDP yearly, which was higher than in the Scandinavian Nordics, the inward FDI stock (31% of GDP) is among the smallest in the OECD (Figure 1.27).

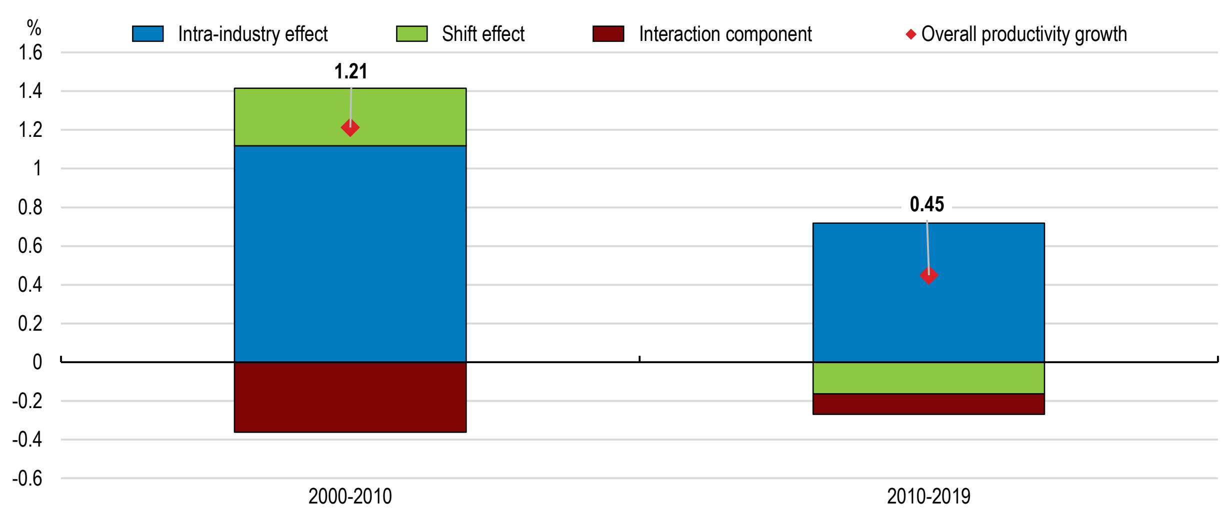
Figure 1.25. Labour productivity growth has been weak



Source: OECD Productivity database.

StatLink https://stat.link/et37zn

Figure 1.26. Productivity growth slowed within sectors while resource shifted to low productivity sectors



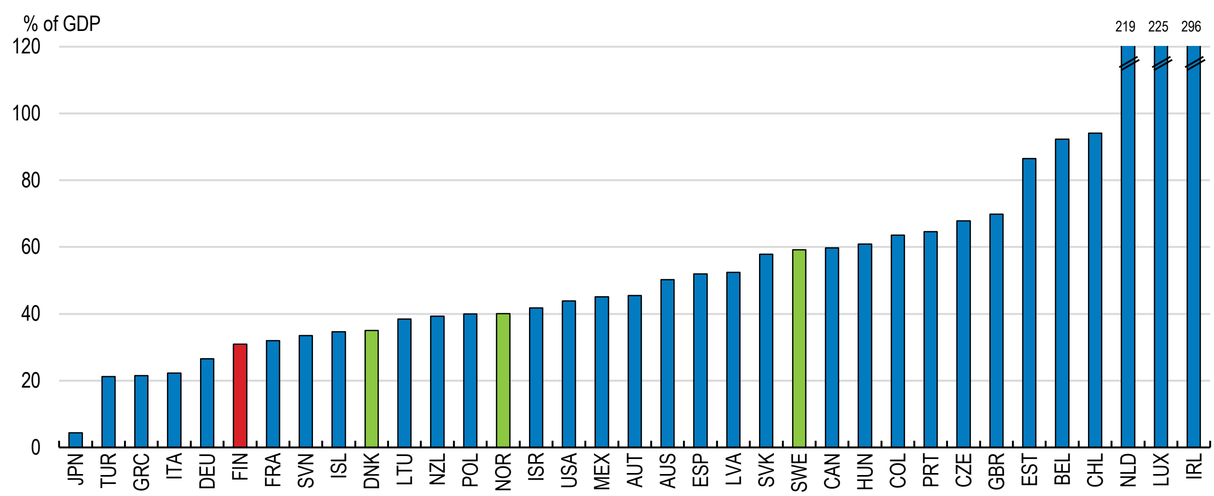
Note: The intra-industry effect is counterfactual productivity growth that would have prevailed in absence of any shift in labour across industry. The shift effect is the effect on aggregate productivity growth that arises solely from the reallocation of labour across industries, in absence of any within-industry productivity growth. Its positive (negative) contribution implies that labour has moved to industries with higher (lower) initial productivity levels. The interaction component captures the changes in both labour share and productivity in each industry. The negative contribution indicates that productivity has been growing in contracting industries while declining in expanding industries.
Source: OECD staff calculations based on OECD National Accounts database.

StatLink https://stat.link/vtexj5

Swift reallocation of resources to firms that are more productive increases MFP and, by enabling innovative firms to grow larger, facilitates investment in innovation and technology diffusion (Andrews, Criscuolo and Menon, 2014[44]). In Finland, allocative efficiency - the extent to which firms that are more productive attract more labour – in the manufacturing sector was low compared with the Scandinavian Nordics in 2011 (Figure 1.28), but has been improving since the early 2000s (Finnish Productivity Board, 2020[41]). Nevertheless, there is room to boost growth of young firms, which often leverage new technologies, but currently contribute less to job creation and employment growth in Finland than in other OECD countries (OECD, 2017[45]). Finland has a relatively large venture capital market, which provides good access to capital to entrepreneurs. However, tertiary education attainment is lower than in most other OECD countries (Figure 1.29), resulting in skills shortages that often holds back the adoption of new technologies by making it difficult for more productive firms to hire the qualified workers needed to innovate (Brunello and Wruuck, 2019[46]).

Figure 1.27. The stock of foreign direct investment is smaller than in many other countries

Inward foreign direct investment stock as % of GDP, 2019

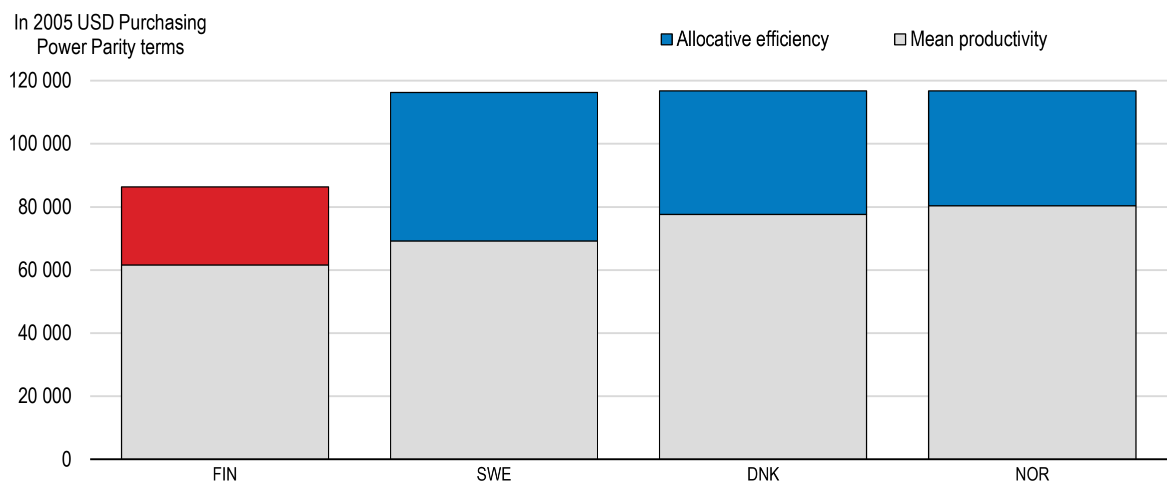


Note: The inward FDI stock is the value of foreign investors' equity in and net loans to enterprises resident in the reporting economy.
Source: OECD International Direct Investment Statistics.

StatLink https://stat.link/7950md

Figure 1.28. Efficiency of resource allocation is lower in Finland than in the Scandinavian Nordics

Decomposition of labour productivity into mean productivity and allocative efficiency, manufacturing sector, 2011

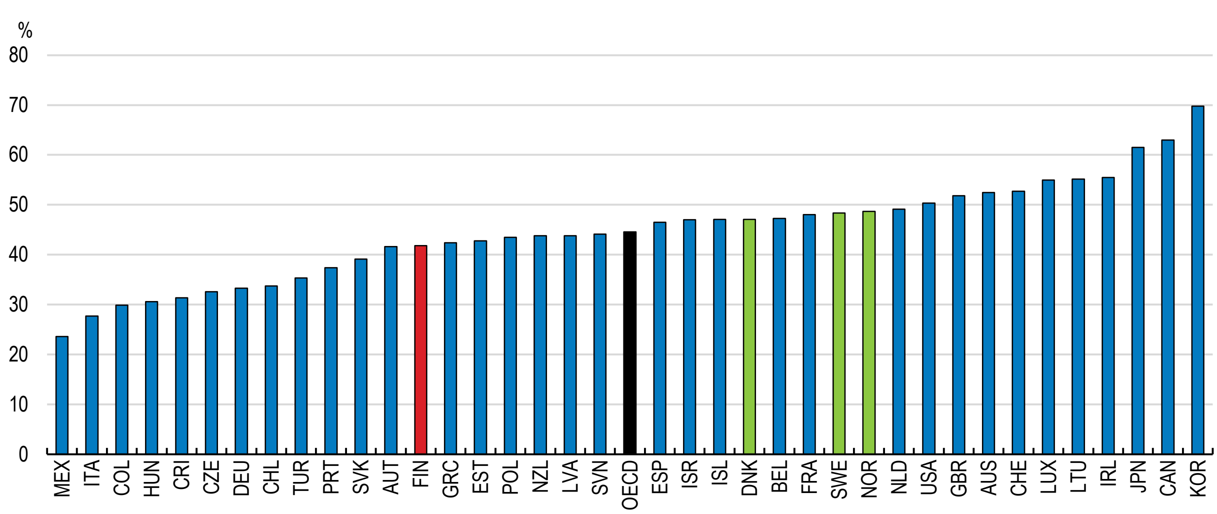


Note: The Olley-Pakes method decomposes aggregate productivity into the contribution of two terms, an unweighted productivity term representing average firm level productivity, and a covariance term that links productivity to firm size (defined by employment shares). The latter term (known as the OP gap) is a measure of allocative efficiency, since it increases if more productive firms capture a larger share of resources in the sector.
Source: Berlingieri et al. (2017), "The Multiprod project: A comprehensive overview", OECD Science, Technology and Industry Working Papers, No. 2017/04, OECD Publishing, Paris.

StatLink https://stat.link/zt2i3b

Figure 1.29. The tertiary educational attainment rate is low

% of 25-34 year-olds completing tertiery education, 2019 or latest available



Source: OECD (2020), Education at a Glance 2020.

StatLink https://stat.link/dks7rn

Fostering the supply of skilled workers

The government aims to lift the tertiary attainment rate for the 25-34 age group to 50% by 2030. The main factors holding back tertiary attainment are the lack of available study places and an overly selective entrance system (OECD, 2019[36])– some 67% of applicants are rejected each year, more than twice the OECD average. Only a quarter of young people in the country are consequently able to start their tertiary studies immediately after completing upper-secondary education. The matriculation backlog delays the transition to tertiary education: the age at which students enter is amongst the highest in the OECD and the median age of entrants to doctoral programmes is 31 years, versus 29 on average in the OECD (OECD, 2019[36]). In turn, young people enter the labour market later than in other OECD countries, even though nearly 60% of students in tertiary education start working before graduation. Reform to university admission procedures in 2020 bases more than one half of placements on secondary education qualifications, which allows secondary school graduates to enter tertiary studies without having to pass an entrance exam. Another factor limiting the number of available university places is that people seeking continuing education courses often apply for full degree programmes that are free of fees instead of shorter continuing education programmes (see chapter 2). A 2018 reform may help to alleviate this problem by obliging universities to offer continuing education modules. So would shortening degree programmes, which are long by international comparison. Even so, more study places will need to be financed to reduce the overall rejection rate. Such funding will need to come from government sources because the Finnish population is strongly opposed to tertiary education fees. The fourth supplementary budget in 2020 included EUR 124 million for a one-off increase in student intake in higher education institutions, with the aim of increasing available study places by 4 800. The government has also decided recently to increase study places by nearly 6 000 during 2021-2022. While welcome, this spending should be made permanent. The government has also decided to increase the age of compulsory education from 16 to 18 years.

The government plans to attract more foreign skilled workers. In spring 2018, the residence permit process for specialists was streamlined so that the first residence permit can now be granted for two years at a time instead of one year. At the same time, a residence permit for start-ups directed to growth entrepreneurs was introduced. It has been of particular interest to technology-sector specialists. According to the annual statistics of the Finnish Immigration Service, however, a total of 10 805 applied for work-based residence permits in 2018, and only around 1 500 among them concerned specialist tasks (14% of applicants), which is too low to fill the vacancies.

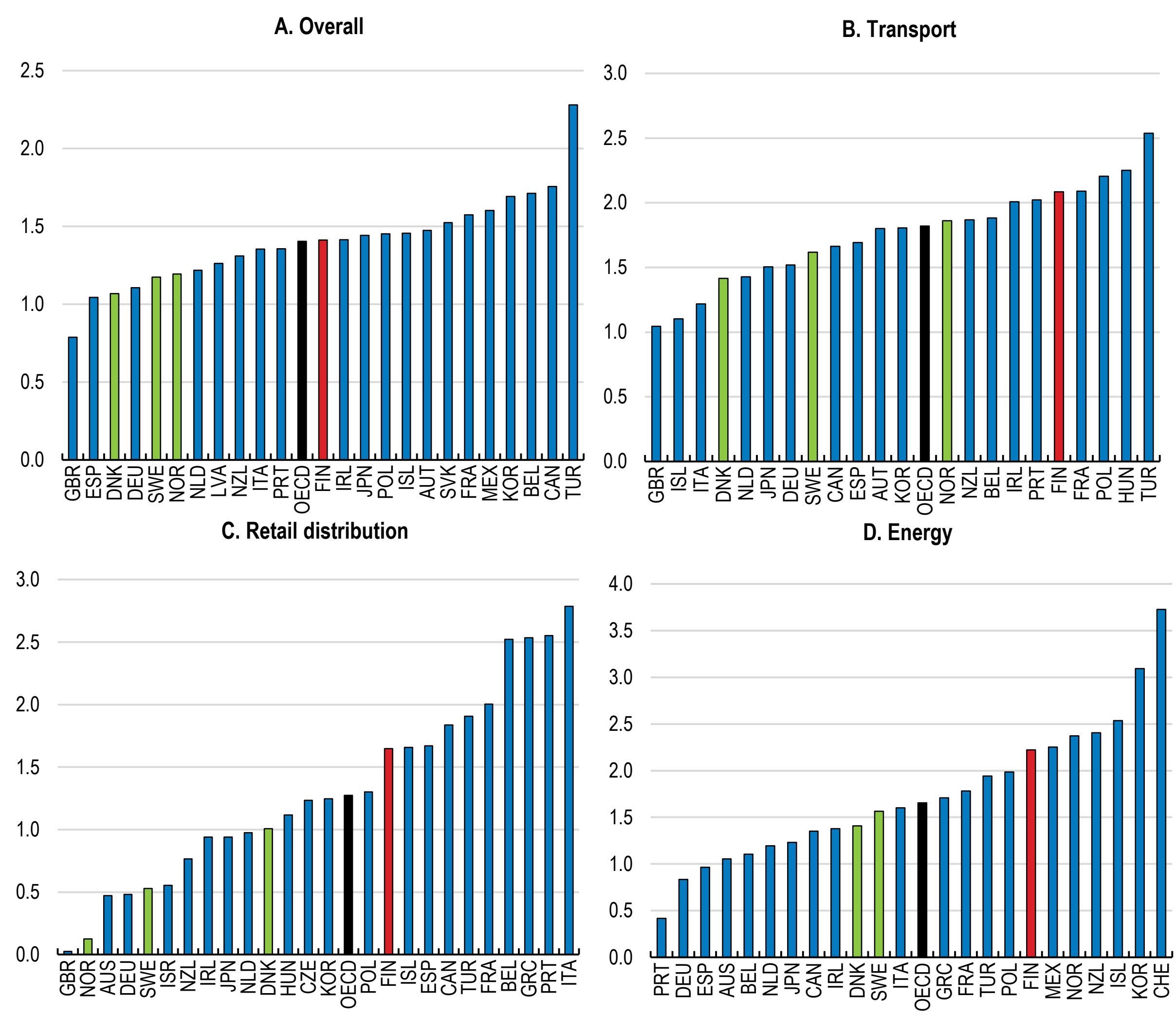
Easing regulatory barriers to competition

Overall, business regulations in Finland are conducive to competition, with administrative burdens to start-ups and barriers to trade and FDI being lower than the OECD average (2018 OECD Product Market Regulation indicator). However, regulatory barriers to competition in upstream service sectors, such as energy and transport and retail are relatively high (Figure 1.30). They hold back investment in these important sectors and impede resource reallocation as incumbents face less pressure to allocate resources more efficiently within their organisations. The government has implemented regulatory reforms to enhance competition, as recommended by the OECD (Box 1.2 and Table 1.8). However, there is still considerable scope to reduce regulatory barriers to competition. Rail passenger transport reforms that were to liberalise this heavily-regulated market were suspended (Box 1.2). In the retail sector, the online sales of some goods and services are allowed only if the retailer has a brick and mortar shop and require special licences or authorisations, hindering the creation of e-retail outlets. The sale of pharmaceutical products is subject to numerous constraints, such as on the number and ownership of pharmacies and on where non-prescription medicines can be sold. Reforming these regulations would stimulate investment and, by improving resource allocation, increase MFP growth.

Labour market institutions can also hold back productivity growth depending on their design. In particular, collective wage bargaining that leaves little room for adjustment to firm-level conditions is often detrimental to firms' productivity performance (OECD, 2017[47]). In Finland, trade union density is higher than in most OECD countries (Figure 1.31, Panel A) and, with legal extension, some 90% of employees are covered by collective bargaining (Panel B). Although sector collective agreements allow firm-level bargaining over certain aspects, such rights are reserved for employers who are members of the employer association that made the sectoral agreement. However, over three quarters of firms are not members of employer organisations, and are usually small or medium-sized (Yrittäjät, 2019[48]). These SMEs by law cannot opt out of collective agreements by using the enterprise-bargaining flexibility clauses in the agreement, which weighs on their productivity. Such arrangements also run the risk of being anti-competitive – large firms may agree to arrangements that they can opt out of and that are harmful to other, smaller employers. The government plans to repeal this legal restriction, which would be welcome.

Figure 1.30. Regulatory barriers to competition are high in some upstream sectors

Index from 0 to 6 (0 least strict, 6 most strict), 2018

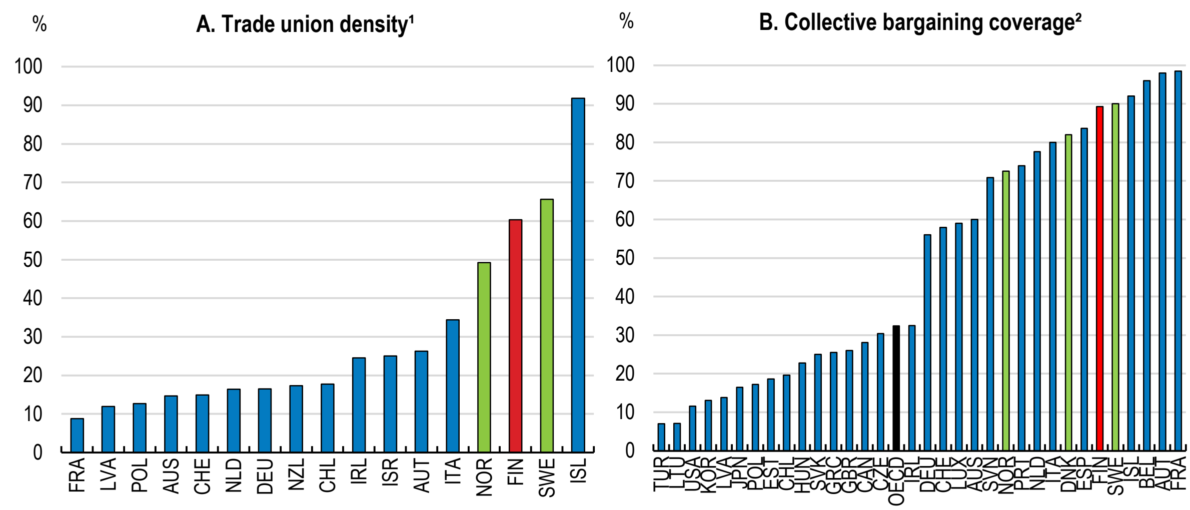


Source: OECD 2018 Product Market Regulation database.

StatLink https://stat.link/9a7ydc

Figure 1.31. Union density is high, as is collective bargaining coverage

2018 or latest



1. Number of trade union members who are employees as a share of the total number of employees in a given industry or country. Based on administrative data. 2. Number of employees covered by the collective agreement, divided by the total number of wage and salary earners.
Source: OECD Labour database.

StatLink https://stat.link/lst9do

Table 1.8. Past recommendations on productivity and actions taken

Main recent OECD recommendations	Actions taken since 2018
Streamline regulations in retail trade, transport and construction.	The Act on Transport Services was implemented in 2018 to facilitate interactions between transport modes.
Use funding criteria for higher-education institutions or R&D vouchers to reinforce co-operation between companies, particularly start-ups, and universities.	In 2018, Business Finland facilitated the creation of network projects responding to business needs and contributed to financing them.

Further measures are needed to achieve Finland's GHG emissions abatement objectives

Finland's energy intensity is above the OECD average (Figure 1.32, Panel B), owing to the cold climate, low population density and specialisation in energy-intensive industries (notably pulp and paper). However, CO_2 emissions intensity has steadily declined and is below the OECD average (Panel A), notably thanks to a relatively high share of renewables in primary energy supply (Panel C). Net land use, land-use change and forestry (LULUCF) sinks have also grown and, at around 25 million tonnes of CO_2 equivalent (Mt CO_2 eq.), now represent about 40% of total emissions excluding LULUCF (Table 1.9).

Finland is on track to meet its 2020 EU burden-sharing abatement target (covering non-EU Emissions-Trading-Scheme (ETS) sectors and excluding LULUCF) of 16% of 2005 emissions by means of domestic emission reduction measures and banking and borrowing emission allowances (emissions were 0.4% above the annual allocation in 2018 but 0.5% below the cumulative allocation for 2013-18 (Honkatukia, 2019[10]). The Medium-term Climate Change Plan identifies measures to reach the 2030 target cut (39% of 2005 emissions, compared with a 22% reduction without these measures, implying a gap of 6Mt CO_2 eq.). With existing, already implemented measures in the Plan, the gap in 2020 should be reduced to 2.5Mt

CO_2 eq. Finland should adopt the most cost-effective measures to reach this target, including making full use of available flexibility mechanisms (including the purchase of EU emissions permits from other countries). In the context of the EU objective of raising the share of renewables in final energy consumption, Finland aims to increase its renewables share to 38% in 2020 and 50% in 2030. This share is estimated to be 42% already, but without further measures it is projected to fall short in 2030, at 47% (Ministry of Economic Affairs and Employment of Finland, 2017[11]). Participation in the EU ETS, which will reduce emission permits by 21% by 2020 and 43% by 2030 (and 90% by 2050) from the 2005 level, will also drive down Finland's emissions. The government has also brought forward the target date for Finland to reach net zero GHG emissions (emissions being offset by net LULUCF sinks and/or purchases of foreign emission permits) to 2035. This target would be very difficult to meet from domestic sources alone as gross annual emissions are projected to be 39 Mt CO_2 eq. with currently implemented measures (36 Mt CO_2 eq. including Plan measures not yet implemented) and LULUCF sinks to be 21 Mt CO_2 (Cederlöf and Siljander, 2020[49]).

Table 1.9. GHG emissions (+) and removals (-) by sector

	2013	2014	2015	2016	2017	2018 [1)]
	million tonnes of CO2 equivalent					
Emissions without LULUCF sector[2)]	63.0	58.8	55.2	58.1	55.4	56.5
CO2-emissions from civil aviation	0.2	0.2	0.2	0.2	0.2	0.2
Emissions trading sector emissions[3)]	31.5	28.8	25.5	27.2	25.1	26.2
Energy sector	27.6	25.1	21.6	23.0	21.1	22.0
Industrial processes	4.0	3.7	3.9	4.2	4.0	4.2
Difference between the emissions trading registry and the inventory[4)]	-0.1	0.0	-0.1	0.1	0.0	
Non-emissions trading sector emissions[5)]	31.3	29.8	29.5	30.7	30.1	30.0
Energy sector	20.4	19.1	18.8	20.2	19.7	20.2
Transport[5)]	11.8	10.7	10.7	11.9	11.3	11.5
Off-road vehicles and other machinery	2.6	2.5	2.4	2.3	2.4	2.5
Other energy sector emissions[6)]	6.0	5.9	5.7	6.0	6.0	6.2
Industrial processes and products use	1.9	1.9	2.0	1.9	1.9	1.7
Industrial processes (excluding F-gases)[7)]	0.5	0.5	0.5	0.5	0.6	0.4
Consumption of F-gases[7)]	1.5	1.5	1.4	1.4	1.3	1.3
Agriculture	6.5	6.6	6.5	6.6	6.5	6.3
Waste management	2.3	2.2	2.1	2.0	1.9	1.8
Indirect CO_2 emissions	0.1	0.1	0.1	0.1	0.1	0.1
Difference between the emissions trading registry and the inventory[4)]	0.1	0.0	0.1	-0.1	0.0	
LULUCF sector[2)]	-19.0	-21.8	-20.1	-18.5	-20.4	-14.2

1. Proxy estimate.
2. LULUCF refers to the land use, land-use change and forestry sector, which does not come under the scope of the Emissions Trading System or the reduction targets under the Effort Sharing Decision.
3. Source: Energy Authority.
4. Divergence caused by methodological and definitional differences in total emissions in the emissions trading sector between the data of the Energy Authority and the Greenhouse Gas Inventory.
5. Excluding CO_2 emissions from domestic civil aviation according to the inventory.
6. Includes emissions from e.g. residential and commercial heating, waste incineration and fuel use in manufacturing.
7. F-gases refer to fluorinated greenhouse gases (HFC, PFC compounds, SF6 and NF3).

Source: Ministry of the Environment and Statistics Finland (2017), *Finland's Seventh National Communication under the United Nations Framework Convention on Climate Change*.

The greatest potential for reducing emissions is in transport, which accounts for 40% of effort-sharing-sector emissions (Table 1.9); agriculture and other energy-sector emissions, which include emissions from residential and commercial heating, each contribute 20%. Transport's planned contribution to the 2030 burden-sharing target is 20 percentage points (transport emissions are to halve from their 2005 level), representing half of the overall reduction. To achieve this abatement objective, additional measures will be needed to reduce transport emissions by 30% (around 3 Mt CO_2 eq.) by 2030 relative to the projected level without additional measures. In the government's abatement plan, approximately one half of this reduction is to be achieved by replacing fossil fuels with renewables and low-emissions fuels and power sources. To this end, the physical share of biofuel energy content in all fuels sold for road transport is to be increased to 30% by 2029. While Finland has considerable potential to increase the production of forestry-based bio-fuels, the energy demands of the transport sector are such that increased energy efficiency will also have to play a significant role (1 Mt CO_2 per year in the plan (Ministry of Economic Affairs and Employment of Finland, 2017[11]; Ministry of the Environment, 2017[50])).

To realise these efficiency gains, the share of electric vehicles (EVs, including hydrogen powered and rechargeable hybrids) would need to increase 50-fold from the current level of 15 000 out of 2.7 million cars. Electricity for charging EVs could partly be supplied from existing production capacity, 78% of which is renewable or nuclear, as they are mainly re-charged during off-peak times (i.e., night time). But there would also need to be an expansion in wind power generation, which is the most economical renewable energy source in Finland, 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 (Granskog et al., 2018[51]). Granskog et al. estimate that EVs will be cost-competitive on a life-cycle basis in the course of the current decade, with small EVs becoming cost competitive before larger EVs. However, for substantial diffusion of EVs to occur, policies that internalise the social costs of driving fossil-fuel cars need to be complemented by greater support for the rollout of EV charging stations than required by the relevant EU directive and a requirement for new buildings to have in-house charging facilities. The car registration tax, which depends on the vehicle's CO_2 emissions per kilometre, supports the purchase of EVs: the tax ranges from 2.7% of the tax inclusive price for a zero-emission EV to 48.9% for a vehicle emitting 360 grams of CO_2 per kilometre.

With the additional measures planned in the agriculture- and building-specific heating sectors, emissions could be reduced by a further 0.8 Mt CO_2 eq. by 2030 (Ministry of the Environment, 2017[50]). Fiscal stimulus to support the recovery provides an opportunity to go further in encouraging the retrofitting of residential buildings with improved insulation.

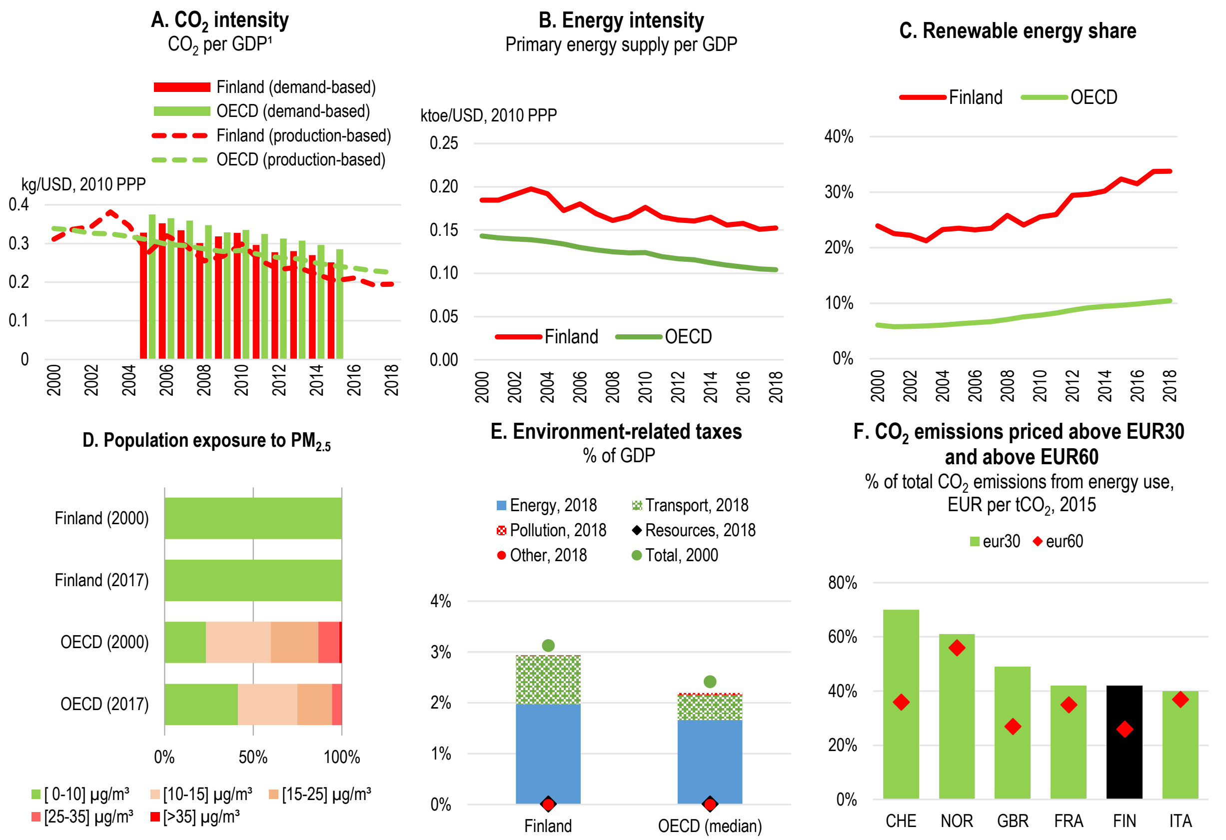
There is also potential to go further in reducing emissions in the agricultural sector. Finland has among the highest levels of producer support for agriculture in Europe, albeit considerably lower than in Norway and Switzerland. When Finland joined the European Union, it negotiated the right to provide additional subsidies to agriculture to those available through the Common Agricultural Policy (CAP). If Finland were to reduce these agricultural support payments and instead shift support towards environmental benefits, such as carbon sequestration, GHG emissions (and water pollution, notably in the Baltic Sea) would be reduced. Such a measure would also increase productivity as agricultural production, which has very low value added net of subsidies, would decline. There could also be budget savings once the inevitable costs of supporting those adversely affected to transition to an alternative career or retirement had passed.

The very low tax rate on peat combustion, which accounts for 12% of Finland's GHG emissions (excluding the land-use sector), is being increased (Table 1.10) but would need to rise further to come into line with the rates paid by other fossil fuels used for heating. Coal, which is used for industrial heat processes and a small amount of electricity generation, is not taxed for industrial heat processes (OECD, 2019[52]) but will be phased out by 2029 as will all other energy uses of coal.

Table 1.10. Past recommendations on green growth and actions taken

Main recent OECD recommendations	Actions taken since the previous *Survey*
To reduce greenhouse gas emissions further, phase out environmentally harmful subsidies and better align the tax rate on emissions across sectors.	The government is phasing out tax refund for energy intensive businesses, increasing rates for mining and peat and combined heat and power production.
Increase taxes on peat.	The tax rate on peat was in increased from EUR 1.9/MWh to EUR 3.0/MWH in 2019 and will rise to EUR 5.7/MWh at the beginning of 2021.

Figure 1.32. Green growth indicators



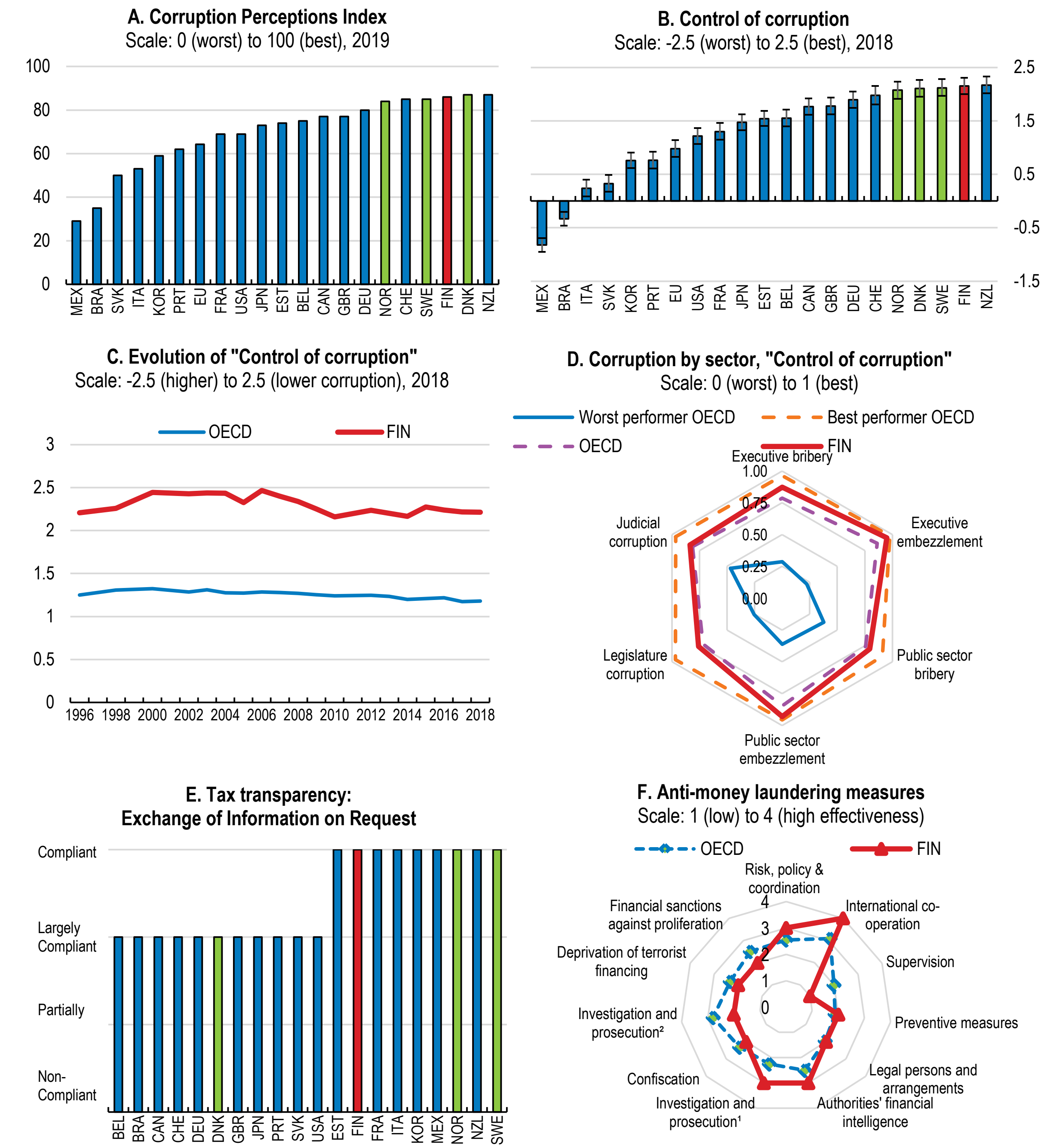
Note: Included are CO_2 emissions from combustion of coal, oil, natural gas and other fuels. Gross Domestic Product (GDP) is expressed at constant 2010 USD using PPP.
Source: OECD (2019), Green Growth Indicators (database).

StatLink https://stat.link/ei8hrs

Perceived corruption is low, tax transparency is high but some aspects of anti-money laundering measures need strengthening

Perceptions of corruption (Figure 1.33, Panel A) and of the use of public power for private gain, captured by the 'Control of Corruption' indicator (Panel B) are low, albeit higher in the latter case than before the global financial crisis (Panel C). Finland scores higher on the 'Control of Corruption' indicator in each sector-based subcomponent than the OECD average except for judicial corruption, for which the score is the same (Panel D). At the same time, Finland has a mixed record on implementing the OECD Working Group on Bribery's Finland Phase 4 recommendations (OECD, 2017[53]): the Working Group concluded that Finland had only fully implemented two of its recommendations, had partially implemented a further seven and not implemented the remaining six (OECD, 2019[54]). The Working Group expressed major concerns in its Phase 4 report about the courts' application of the Finnish foreign bribery offense and the applicable evidentiary threshold: 'The courts have consistently applied an extremely high evidentiary threshold to the foreign bribery offence, appearing to require direct evidence of the defendants' knowledge of all aspects of the crime, including elements outside the scope of the offense' (OECD, 2017, p. 10[53]). A related concern was that foreign bribery cases were not heard by judges with specialised skills and experience. These factors contributed to the 100% acquittal rate for the five foreign bribery cases that have gone to court. Finland has not yet made progress in addressing these concerns.

Figure 1.33. Perceived corruption is low, tax transparency is high but some anti-money laundering measures need to be strengthened



Note: Panel B shows the point estimate and the margin of error. Panel D shows sector-based subcomponents of the “Control of corruption” indicator by the Varieties of Democracy Project. Panel E summarises the overall assessment on the exchange of information in practice from peer reviews by the Global Forum on Transparency and Exchange of Information for Tax Purposes. Peer reviews assess member jurisdictions' ability to ensure the transparency of their legal entities and arrangements and to co-operate with other tax administrations in accordance with the internationally agreed standard. The figure shows first round results; a second round is ongoing. Panel F shows ratings from the FATF peer reviews of each member to assess levels of implementation of the FATF Recommendations. The ratings reflect the extent to which a country's measures are effective against 11 immediate outcomes. "Investigation and prosecution[1]" refers to money laundering. "Investigation and prosecution[2]" refers to terrorist financing.

Source: Panel A: Transparency International; Panels B & C: World Bank, Worldwide Governance Indicators; Panel D: Varieties of Democracy Institute; University of Gothenburg; and University of Notre Dame; Panel E and F: OECD Secretariat’s own calculation based on the materials from the Global Forum on Transparency and Exchange of Information for Tax Purposes; and OECD, Financial Action Task Force (FATF).

StatLink https://stat.link/bqkflc

The Global Forum on Transparency and Exchange of Information for Tax Purposes peer review of Finland finds that it is fully compliant with its exchange of information obligations (Panel E). Similarly, the Financial Action Task Force (FATF) peer review of Finland finds that international co-operation on anti-money laundering (AML) and terrorist financing (TF) is highly effective (Panel F). The authorities' financial intelligence, investigation and prosecution of money laundering and risk, policy and coordination are also more effective than the OECD average. However, the FATF review finds that supervisors need to finalise the development of their methodology on a risk-sensitive basis and implement it (FATF, 2019[55]). In addition, supervisors need more resources, the beneficial ownership registry needs to be verified and gaps in the common understanding of money laundering and terrorist financing risks need to be filled.

MAIN FINDINGS	RECOMMENDATIONS (Key recommendations in bold)
Ensuring fiscal sustainability and financial stability in the wake of the COVID-19 crisis	
The government has provided substantial fiscal support in 2020 to businesses and households in response to the COVID-19 pandemic.	**Stand ready to provide further fiscal stimulus in case the economic recovery is delayed.**
The government aims to stabilise the debt-to-GDP ratio by the end of the decade, which will entail reducing the structural deficit by around 2% of GDP. Increasing employment by 80 000 would contribute around 40% of this adjustment. Finland's tax burden is high. Social benefits would automatically compensate for an increase in VAT through indexation.	**Once the economic recovery is underway, implement consolidation measures, mainly by reducing expenditure, including on subsidies and tax expenditures, and also by increasing taxes that do not impose large economic distortions, such as VAT (broadening the standard-rate base) and recurrent real estate taxes.**
Care chains are currently highly decentralised and fragmented, resulting in inefficiencies and regional inequalities in care. The government plans to transfer responsibility for organising health and social services from municipalities to 18 autonomous counties and to focus more on prevention and basic services. There are no numerical targets for fiscal savings.	**Enact the social and health-care reforms before Parliament. Set numerical targets for fiscal savings to be achieved from these reforms to help the government plan reforms that maximise cost efficiency while ensuring equal access to quality services.**
Housing loan maturities are long but interest rates are revised annually. Highly indebted households may have difficulty servicing debts when interest rates return from the current very low levels to more normal levels. Preferential tax treatment for investors buying rental property through a housing company and lower stamp duty on transfers of housing company shares than on direct property transactions boost housing company loans.	**Introduce a maximum debt-to-income ratio for household loans and a maturity limit for housing loans.** **Remove the preferential tax treatment on capital repayments of housing company loans for investors and align the stamp duty rate on direct property transactions with that on transfers of shares in housing companies.**
The measures adopted by the ECB and the Bank of Finland to boost banks' lending may reduce their risk bearing capacity.	**The prudential supervisors should monitor the effects of looser capital adequacy, regulations and criteria for NPLs and collateral eligibility and tighten them as the economy recovers.**
Containing COVID-19	
COVID-19 testing is confined to symptomatic cases and to people in health professions, limiting the effectiveness of testing in containing the propagation of the virus.	The government should extend testing first to a wider range of occupations that involve contact with the public and then to asymptomatic cases.
Getting people back into viable jobs and increasing employment	
Employers have few incentives to limit temporary layoffs to jobs they believe can be restarted as those using the scheme pay no more in social security contributions than other employers.	**Require employers to contribute to the unemployment benefit costs of hours not worked (in addition to employers' unemployment benefit contributions).**
Temporarily laid-off workers are not required to register with the public employment service (PES), delaying interventions to help workers out of jobs that are unlikely to be viable even in the longer term.	Make registration with the PES compulsory for temporarily laid-off workers.
The government is increasing PES resources from a low level but these increases are unlikely to be sufficient to cope with the effects of the crisis.	Increase the PES budget and enhance efficiency in service delivery to meet the rise in demand for services.
Only people temporarily or permanently laid-off who are members of unemployment insurance funds are entitled to earnings-related unemployment insurance benefits, despite the funds only paying 6% of such benefits.	**Create a government unemployment insurance fund into which either all workers or those who are not members of another fund are automatically enrolled.**
Boosting productivity	
Skill shortages are growing, and the recent trend in graduation rates will further exacerbate them.	**Ease the transition from secondary to tertiary education by reforming the highly selective tertiary education admission system and increasing the number of available study places.**
Some rail-passenger reforms to promote competition were suspended. The retail sale of pharmaceutical products is subject to numerous constraints.	**Reduce barriers to competition in transport, energy, and retail.**
Sector collective agreements normally include flexibility clauses but the law prohibits employers from using them if they are not members of the employers' association that negotiated the agreement, reducing productivity.	**Repeal the legal restriction that prevents some employers from using the enterprise-bargaining flexibility clauses in their sector collective agreement, as planned.**
Achieving the government's greenhouse gas abatement objectives	
Finland aims to reduce GHG emissions in EU burden-sharing sectors by 39% from the 2005 level by 2030. The burden-sharing sectors with the greatest emissions are transport, agriculture and energy sectors not covered by the EU Emissions Trading Scheme, including heating. Taxes on the use of peat (15% of GHG emissions) are lower than for other fossil fuels for heat production.	**Reduce GHG emissions in the burden-sharing sectors using the most cost effective abatement measures, including making full use of available flexibility mechanisms.** **Subject heat production using peat to the same tax regime as for other fossil fuels used for heating.**
Support payments subsidies for agriculture (accounting for 20% of GHG emissions) are among the highest in Europe.	**Progressively replace national agricultural subsidies by subsidies for environmental benefits.**

Annex A. Finland's early policy response against the COVID-19

The government declared a state of emergency on 16 March 2020 and introduced several containment measures (Table A.1). Finland was in the middle of the range of OECD countries in terms of the swiftness in introducing confinement measures after the number of cases surpassed one per million persons (Figure A.1 Panel A). However, at that time, the cumulative number of cases was only 267 (48 per million of population) and there had been no COVID-19 related deaths. Many other OECD countries introduced significant confinement measures only when larger numbers of cases and deaths per million of population were confirmed (Panel B and C), requiring more restrictive or longer lasting measures to get the epidemic under control (i.e., to reduce the reproduction number (R_0) to below one).

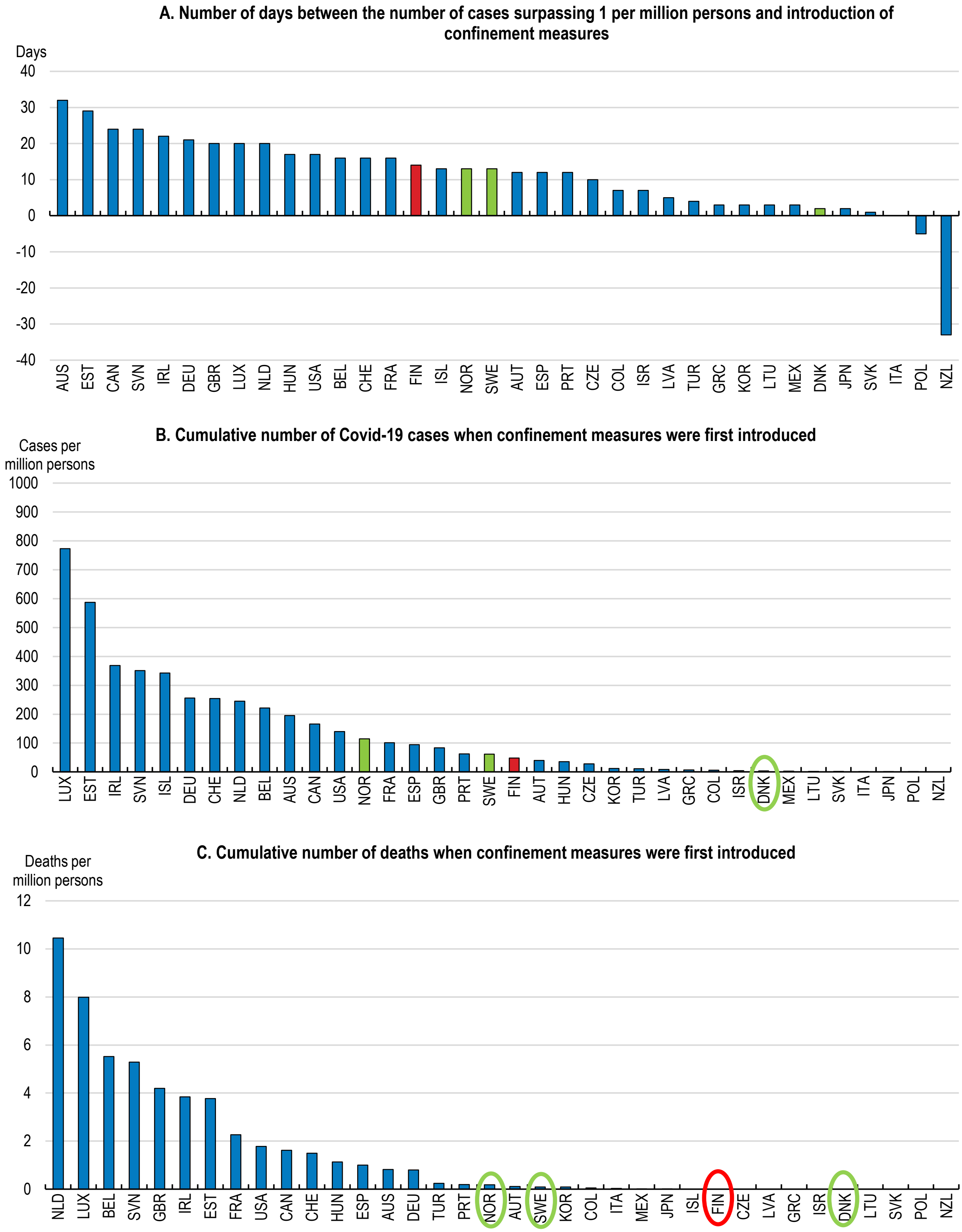
Table A.1. Principal containment measures to combat the first wave of COVID-19

Date	Measures
16 March	Public gatherings of more than 10 people were banned
	Visits to nursing homes were banned.
	The government recommended that people aged over 70 avoid contact with other people as much as possible.
	The government recommended that workers telework if possible. Non-essential businesses were advised to close.
	The government recommended that people only go out of their homes for essential purposes.
18 March	Schools and universities were closed and, while nurseries and day-care centres remained open, parents were advised to keep their children at home.
19 March	Activities gathering large numbers of people in close proximity, such as theatres, gyms, nightclubs and museums, were shut down.
	The border was closed, and while Finnish citizens were allowed to return home, they were subject to a mandatory two-week quarantine at home.
27 March	The Uusimaa region was quarantined from the rest of the country for three weeks, with exceptions for work-related travel.
4 April	Restaurants and cafés were shut down except for takeaway services until 31 May 2020.

Source: OECD COVID-19 Policy Tracker.

Figure A.1. Finland initiated confinement measures earlier than many other OECD countries

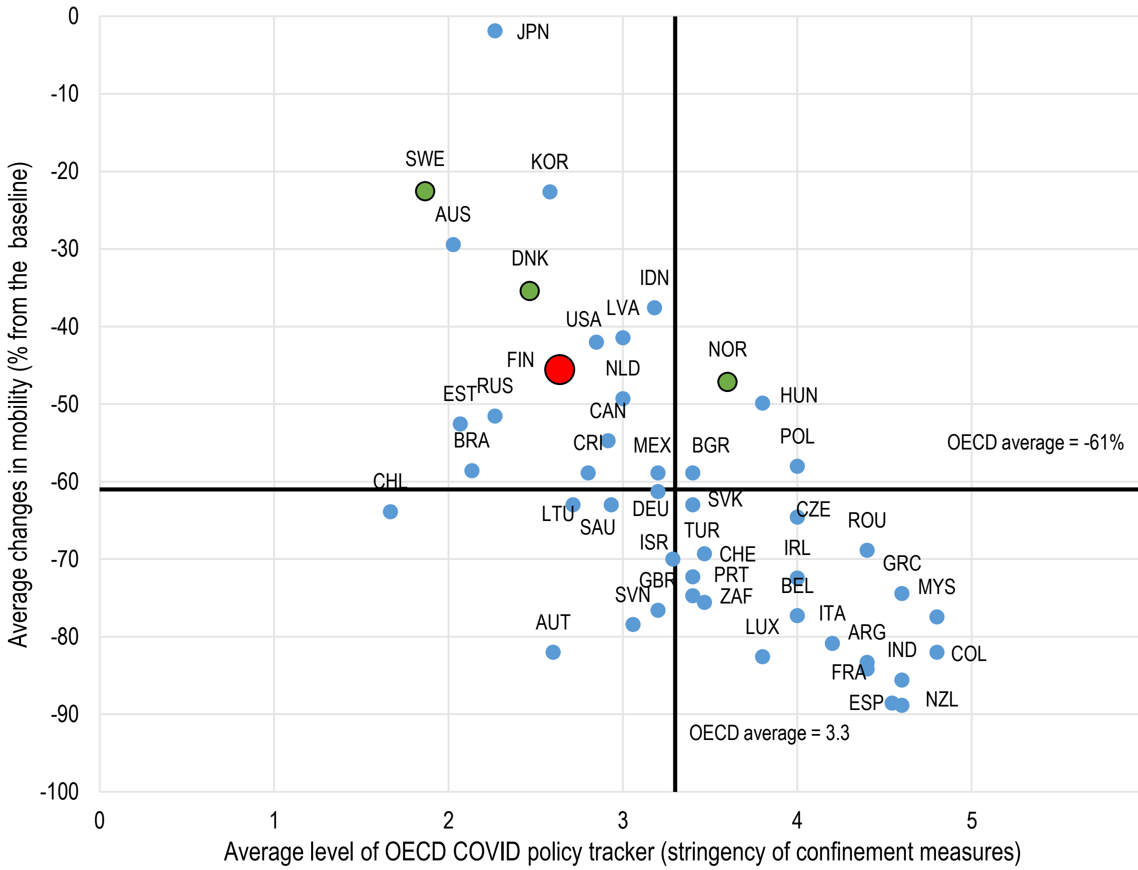
Daily new cases and deaths when significant confinement measures were first introduced



Note: The timing of an introduction of confinement measures is captured by the date when the OECD COVID-19 Policy Tracker recorded significant confinement measures for the first time since the onset of the pandemic.
Source: OECD COVID-19 Policy Tracker; OurWorldInData.org.

StatLink https://stat.link/ds5mep

Figure A.2. Stringency of confinement and mobility loss were relatively moderate in Finland



Note: Mobility trends for places like restaurants, cafés, shopping centres, theme parks, museums, libraries and movie theatres. Mobility change is a deviation of the average value from day 21 to day 27 after confirmed cases surpassed one per million of population from the baseline, which is a median value between January 3rd and February 6th 2020. See the source for more information.
Source: Pareliussen, J. and D. Glocker (2020), Lockdown policies and people in the age of COVID-19: Lessons from the OECD Policy Tracker, OECD ECOSCOPE, Paris.

StatLink https://stat.link/jsucma

In early May, the government shifted the focus of containment policies from confinement to more extensive testing and tracing, as well as targeted restrictions on large-scale gatherings, restaurants and cafés accommodating many customers in a confined space, elderly people and people entering the country. Finland quickly ramped up its testing capacity and by early November 2020 was conducting about 12 thousand tests per day. The government intends to boost the daily testing capacity to 30 thousand in 2021. Tests are conducted for individuals with symptoms and for some individuals without symptoms, such as those working or housed in social and healthcare units, asylum seeker reception centres and prisons. Contact tracing capacity, especially in large cities, was boosted by the introduction of a mobile phone application that identifies persons that the user spent more than 15 minutes with and alerts her if any of them has tested positive. The government also amended the Communicable Diseases Act and other legislation, which now allows the government to control medical resources, close down restaurants and other commercial facilities and schools, impose detailed regulations on public gatherings and isolate individuals at home or in facilities, without having to issue a state of emergency.

References

Aalto, A. et al. (2020), "Sustainability of Finland's public finance", *Publications of the Ministry of Finance*, No. 2020:59, Ministry of Finance, Helsinki. [31]

Adalet McGowan, M., D. Andrews and V. Millot (2017), "Insolvency regimes, zombie firms and capital reallocation", *Economics Department Working Papers*, No. 1399, OECD. [19]

Andrews, D., C. Criscuolo and C. Menon (2014), "Do Resources Flow to Patenting Firms?: Cross-Country Evidence from Firm Level Data", *OECD Economics Department Working Papers*, No. 1127, OECD Publishing, Paris. [44]

Arnold, J. et al. (2011), "Tax Policy for Economic Recovery and Growth", *Economic Journal*, Vol. 121/550, p. 59. [32]

Bank of Finland (2020), "A fragile recovery from the pandemic crisis has begun", Vol. 94/3. [24]

Bank of Finland (2020), "Bank of Finland forecast", *Bank of Finland Bulletin*, Vol. 94 (3). [13]

Bank of Finland (2020), "Financial Stability Report", *Bank of Finland Bulletin*, Vol. 94 (2). [23]

Bank of Finland (2019), "Financial Stability Report", *Bank of Finland Bulletin*, Vol. 93 (3). [25]

Brunello, G. and P. Wruuck (2019), *Skill Shortages and Skill Mismatch in Europe: A Review of the Literature*, Institute of Labor Economics (IZA). [46]

Brussevich, M., E. Dabla-Norris and S. Khalid (2020), "Who will Bear the Brunt of Lockdown Policies? Evidence from Tele-workability Measures Across Countries", *IMF Working Paper*, No. WP/20/88, International Monetary Fund. [16]

Cederlöf, M. and R. Siljander (2020), *Annual Climate Report 2020*, Ministry of the Environment. [49]

Demmou, L., I. Stefanescu and A. Arquie (2019), "Productivity growth and finance: The role of intangible assets - a sector level analysis", *OECD Economics Department Working Papers*, No. 1547, OECD Publishing, Paris. [42]

Égert, B. and P. Gal (2017), "The quantification of structural reforms in OECD countries: A new framework", *OECD Economics Department Working Papers*, No. 1354, OECD Publishing, Paris. [34]

Eurofound (2020), *Living, working and COVID-19 data | Eurofound*, https://www.eurofound.europa.eu/fr/data/covid-19. [15]

Eurostat (2020), *Structure of government debt - Statistics Explained*, https://ec.europa.eu/eurostat/statistics-explained/index.php/Structure_of_government_debt. [21]

FATF (2019), *Anti-money laundering and counter-terrorist financing measures Finland Mutual Evaluation Report*, Financial Action Task Force , Paris. [55]

Finnish Productivity Board (2020), "The State of Productivity in Finland Why did its growth stop? Will it start again?", *Publications of the Ministry of Finance*, No. 2020:60, Ministry of Finance, Helsinki. [41]

Granskog, A. et al. (2018), *Cost-efficient emission reduction pathway to 2030 for Finland*, Sitra. [51]

Greenwood, J., Z. Hercowitz and P. Krusell (1997), “Long-Run Implications of Investment-Specific Technological Change”, *The American Economic Review*, Vol. 87/3, pp. 342-362. [43]

Helsinki Graduate School of Economics (2020), *Situation room report 16.07.2020 - latest developments in the labor market, households and firms – Helsinki GSE*, https://www.helsinkigse.fi/corona/situation-room-report-16-07-2020-latest-developments-in-the-labor-market-households-and-firms/. [1]

Honkatukia, O. (2019), *Multilateral Assessment-Finland*, Ministry of the Environment, Helsinki. [10]

IMF (2020), *Fiscal Policies Database*, https://www.imf.org/en/Topics/imf-and-covid19/Fiscal-Policies-Database-in-Response-to-COVID-19. [22]

IMF (2019), *Global Financial Stability Report: Lower for Longer*. [26]

Institute for Advanced Studies (2019), *Study and Reports on the VAT Gap in the EU-28 Member States: 2019 Final Report TAXUD/2015/CC/131*, European Commission. [38]

Kauhanen, A. and S. Napari (2011), *Miksi naisten euro on 80 senttiä?*, Elinkeinoelämän Tutkimuslaitos, Helsinki. [7]

Koivu, T., K. Nummelin and R. Suomi (2020), *Corona Barometer for Finland : Consumption now 25 % lower than prior to the crisis*, Nordea Bank Abp, https://e-markets.nordea.com/article/57214/corona-barometer-for-finland-consumption-now-25-lower-than-prior-to-the-crisis. [12]

Korkeamäki, O. and T. Kyyrä (2006), “A gender wage gap decomposition for matched employer-employee data”, *Labour Economics*, Vol. 13/5, pp. 611-638. [6]

Kyyrä, T. et al. (2019), “Aktiivimallin vaikutukset työttömiin ja TE-toimistojen toimintaan”*, VATT Tutkimuset*, No. 189, VATT Institute for Economic Research, Helsinki. [9]

Kyyrä, T. and H. Pesola (2020), “Long-term effects of extended unemployment benefits for older workers”, *Labour Economics*, Vol. 62, p. 101777. [33]

Lundborg, P., E. Plug and A. Rasmussen (2017), “Can women have children and a career? IV evidence from IVF treatments”, *American Economic Review*, Vol. 107/6, pp. 1611-1637. [8]

Ministry of Economic Affairs and Employment of Finland (2017), *Government report on the National Energy and Climate Strategy for 2030*, Ministry of Economic Affairs and Employment of Finland, Helsinki. [11]

Ministry of Finance (2020), *Economic Survey, Autumn 2020*, Ministry of Finance, Helsinki. [20]

Ministry of Finance (2020), *Economic Survey, Summer 2020*, Ministry of Finance, Helsinki. [14]

Ministry of Finance (2019), *Economic Survey, Autumn 2019*, Ministry of Finance, Helsinki. [30]

Ministry of Finance (2019), *Economic Survey, Winter 2019*, Ministry of Finance, Helsinki. [29]

Ministry of the Environment (2017), *Government Report on Medium-term Climate Change Policy Plan for 2030 Towards Climate-Smart Day-to-Day Living MINISTRY OF THE ENVIRONMENT*, Ministry of the Environment. [50]

OECD (2020), *OECD Employment Outlook 2020: Worker Security and the COVID-19 Crisis*, OECD Publishing, Paris. [17]

OECD (2020), *Supporting people and companies to deal with the COVID-19 virus: Options for an immediate employment and social-policy response*, OECD. [18]

OECD (2019), *Implementing the OECD Anti-Bribery Convention Phase Two-Year Follow-Up Report Finland*. [54]

OECD (2019), *Investing in youth : Finland.*, OECD Publishing, Paris. [36]

OECD (2019), *OECD Compendium of Productivity Indicators 2019*, OECD Publishing, Paris. [35]

OECD (2019), *Taxing Energy Use 2019: Using Taxes for Climate Action*, OECD Publishing, Paris. [52]

OECD (2018), *OECD Economic Surveys: Finland 2018*, OECD Publishing, Paris. [37]

OECD (2017), *Entrepreneurship at a Glance 2017*, OECD Publishing, Paris. [45]

OECD (2017), *Finland: Trade and Investment Statisical Note*. [3]

OECD (2017), *How's Life? 2017: Measuring Well-being*, OECD Publishing, Paris. [5]

OECD (2017), *Implementing the OECD Anti-Bribery Convention Phase 4 Report: Finland*, OECD. [53]

OECD (2017), *OECD Employment Outlook 2017*, OECD Publishing, Paris. [47]

OECD (2016), *OECD Economic Surveys: Finland 2016*, OECD Publishing, Paris. [40]

OECD (2014), *OECD Economic Surveys: Finland 2014*, OECD Publishing, Paris. [2]

OECD and Statistics Finland (2020), *Globalisation in Finland: Granular insights into the impact on businesses and employment*. [4]

OECD/European Observatory on Health Systems and Policies (2019), *Finland: Country Health Profile 2019, State of Health in the EU*, OECD, Paris. [39]

The European Comission (2020), *Country Report Finland 2020*, The European Comission, Brussels. [28]

Working group on macroprudential supervision tools limiting household indebtedness (2019), *Report on means to prevent excessive household indebtedness (in Finnish)*, Ministry of Finance, Helsinki. [27]

Yrittäjät (2019), *Finland cannot be renewed without enterprise*. [48]

2. Realising the government's objective to increase employment

In the context of the COVID-19 pandemic and resulting economic contraction and government debt build-up, the government is formulating reforms to raise employment by 80 thousand workers by 2029. Finland's employment rate has been lagging behind the Scandinavian Nordics, with most of the gap attributable to older workers, who have more favourable access to early retirement schemes than their Scandinavian counterparts. To restrict their use, extended unemployment benefit, which is paid to unemployed persons aged 61 or more after normal unemployment benefit expires until they retire or reach 65, should be phased out and non-medical conditions should no longer be taken into account for disability benefit applications of persons aged 60 or more. Activity rates for mothers of young children are also lower in Finland than in the Scandinavian Nordics mainly owing to Finland's generous homecare allowance. It should be reduced and access to convenient early childhood education and care services expanded to improve mothers' work incentives. By increasing mothers' work experience at critical points in their careers, such a reform would also help to narrow Finland's large gender wage gap. As part of its 2021 budget, the government is setting out labour market reforms to increase employment by 31 to 36 thousand workers. Such reforms should focus on promoting employment of older workers.

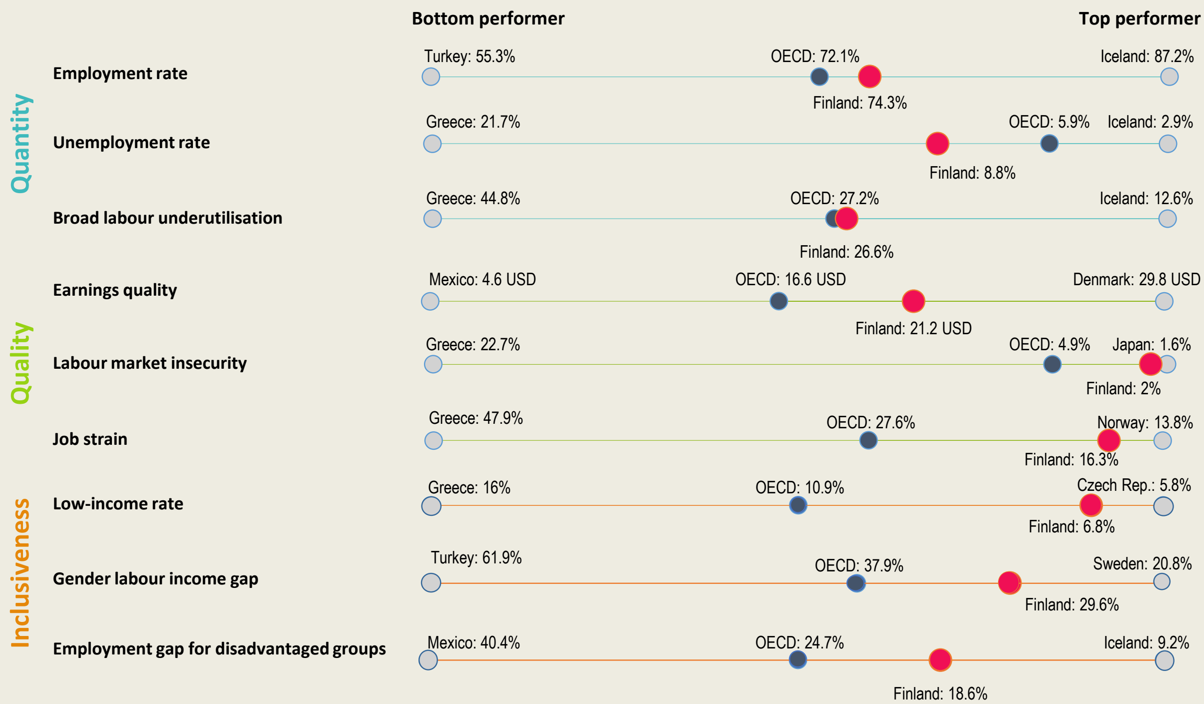
As described in the new OECD Jobs Strategy, Finland performs well in terms of job quality and inclusiveness of the labour market but not so well in some dimensions of job quantity (Box 2.1). In particular, the employment rate is lower than in the Scandinavian Nordics (Denmark, Norway and Sweden), which also have high levels of social cohesion and redistribution and are considered by Finns to be the most comparable countries, and the unemployment rate is higher than the OECD average. Prior to the COVID-19 crisis, the government had committed to implementing reforms to increase the employment rate from 73.4% of the working-age population (15-64 years) in 2023 on unchanged policies to 75%, slightly below the Scandinavian average. This increase, which corresponds to an increase of 60 000 in the number of people employed, was intended to help pay for the increases in social spending in the government's programme. In the aftermath of the COVID-19 crisis, this employment rate target is unattainable. Instead, the government has committed to implementing reforms before the end of its term in office in 2023 to increase the number of people employed by 80 000 by 2029. If realised, this increase in employment would raise the employment rate from an 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. The government is formulating reforms as part of the 2021 budget that it estimates would achieve a little less than a half of this employment objective (Box 2.2).

This chapter reviews essential policy measures for Finland to achieve its employment objective. The next section sets the scene by analysing the origins of the sizable gap in the employment rate between Finland and the Scandinavian Nordics and identifies the key target groups: older workers and mothers with young children. The following section reviews major reforms since the turn of the century to extend the working lives of older workers, including the government's latest policy package to increase the employment rate. Section 3 provides policy recommendations to boost employment of older workers. It describes notable features of the unemployment and disability benefits system in Finland, in particular easier access to these benefits granted to older workers, which creates strong incentives for early retirement. Section 4 discusses measures to strengthen work incentives for mothers with young children.

Box 2.1. Finland's labour market performance in the new OECD Jobs Strategy

Finland performs well in term of job quality and labour market inclusiveness, but lags behind the Scandinavian Nordics and, in some dimensions, the OECD average for job quantity (Figure 2.1). While the employment rate improved markedly over the past few years and is now higher than the OECD average, it remains lower than in the Scandinavian Nordics (see below). Finland's high unemployment rate reflects high long-term unemployment that is rooted in weak work incentives and labour market mismatches (OECD, 2016[1]). Earnings quality is in the top third of OECD countries, while labour market insecurity and job strain are among the lowest in the OECD. Due to a compressed wage distribution and extensive redistribution, the share of working-age persons with less than 50% of the median household income is only 7%, a share that is smaller only in the Czech Republic, Switzerland and Iceland. Furthermore, the employment gap between disadvantaged groups and prime-age men is also significantly lower than the OECD average, albeit higher than in the Scandinavian Nordics. The gender labour income gap is among the lowest in the OECD, but this is driven by the small gender gaps in working hours and employment rates, while the gender pay gap among full-time employees is large (see below).

Figure 2.1. Dashboard of labour market performance for Finland



Note: Employment rate: Share of working age population (20-64 years) in employment (%). Broad labour underutilisation: Share of inactive, unemployed or involuntary part-timers (15-64) in population (%), excluding youth (15-29) in education and not in employment (%). Earnings quality: Gross hourly earnings in PPP-adjusted USD adjusted for inequality. Labour market insecurity: Expected monetary loss associated with the risk of becoming unemployed as a share of previous earnings. Job strain: Percentage of workers in jobs with a combination of high job demands and few job resources to meet those demands. Low income rate: Share of working-age persons living with less than 50% of median equivalised household disposable income. Gender labour income gap: Difference between per capita annual earnings of men and women (% of per capita earnings of men). Employment gap for disadvantaged groups: Average difference in the prime-age men's employment rate and the rates for five disadvantaged groups (mothers with children, youth who are not in full-time education or training, workers aged 55-64, non-natives, and persons with disabilities; % of the prime-age men's rate).
Source: OECD (2018), Good Jobs for All in a Changing World of Work: The OECD Jobs Strategy.

StatLink https://stat.link/q9wr3u

Box 2.2. The employment package for the 2021 budget negotiation

In the context of the 2021 budget negotiations, the government is formulating a comprehensive employment package that it estimates would generate 31,000–36,000 jobs by 2029, somewhat less than half the 80 000 objective. Additional measures will be decided during the government's mid-term policy review session, to be held in Spring 2021. The employment package covers a wide range of measures, some of which were already included in the 2019 employment package (see below). The most important areas for reform include:

- **Increasing the employment rate of older workers**. The social partners were tasked to propose measures to reduce the early retirement of workers aged 55 and over and increase their employment by between 10 000-12 000 by 2029 in a way that strengthens public finances, for instance by maintaining ability to work, skills and well-being throughout workers' careers and avoiding disability. A new centre promoting lifelong learning in working life, which will help to maintain workers' skills as they age, will be established in 2021. These measures would complement the increase in the minimum age when an unemployed person becomes entitled to an extension of the unemployment benefit from 61 currently to 62 from 2023. This reform, which was decided by the previous government and enacted in January 2020, is estimated to increase employment by up to 7 000 (see below).
- **Strengthening job search by unemployment benefit recipients**. The government will introduce an obligation for unemployment benefit recipients to apply for up to four job opportunities every month. Failure to fulfil this obligation would result in the loss of five days' worth of unemployment benefits. If repeated, the loss of unemployment benefits will increase gradually. In order to support more intensive job search, resources for the Public Employment Offices will be increased by EUR 70 million to strengthen job counselling services. These additional resources will allow the PES to contact unemployed job seekers every fortnight at an early stage of the unemployment period. The government expects these measures to increase employment by up to 10 000.
- **Reducing the fee for early childhood education services**. The government will reduce client fees for early childhood education and care (ECEC) by EUR 70 million, which it estimates would increase employment by up to 3 600.

Other measures include facilitating the use of the wage subsidy scheme, adopting a linear model for partial disability pension that preserves work incentives for those on disability pension, overhauling apprenticeship training, establishing a new centre promoting lifelong learning in working life and improving educational attainment of the low-skilled population.

The employment rate gap between Finland and the Scandinavian Nordics

The employment rate of persons aged 15-64 in Finland was 73% in 2019, below the 76% average rate in the Scandinavian Nordics. Considering that they have much higher shares of immigrants, who have lower employment rates than the native-born (Box 2.3), Finland's relative performance is even poorer than suggested by the headline figures and the potential for improvement correspondingly greater. By far the largest contribution to the employment rate gap is made by the 60-64 year-old age group, followed by young women (up to 35 years of age, although this gap mainly reflects differences in statistical classifications – see below) and youth (15-19 years old) (Figure 2.2, Panel A). The employment rate gap for 60-64 year olds is enormous, at 13 percentage points (Panel B) and reflects lower full-time employment rates in Finland when the split between full-time and part-time employment is made on a common definition (excluding Denmark from the Scandinavian Nordic average owing to a lack of data). Closing this gap would entail increasing employment by 48 000, which would go a long way to achieving the target 80 000 headcount employment increase. The employment rate of 65-69 year-olds (15%), who are outside the working-age population definition (15-64) used for the government's employment objective, also lags far behind the Scandinavian Nordic average (25%).

Box 2.3. The native-born employment rate gap

The gap between employment rates in Finland and the Scandinavian Nordics is flattered by the lower share of immigrants in Finland's population (6%) than the average for the other countries (14%). Employment rates for immigrants in all four countries are considerably lower than for the native-born (Table 2.1). For the native-born population, the employment rate gap is considerably larger than for the total population. Closing the native-born employment rate gap with the Scandinavian Nordic average would entail increasing this employment rate by 7.3 percentage points, corresponding to 185 000 jobs.

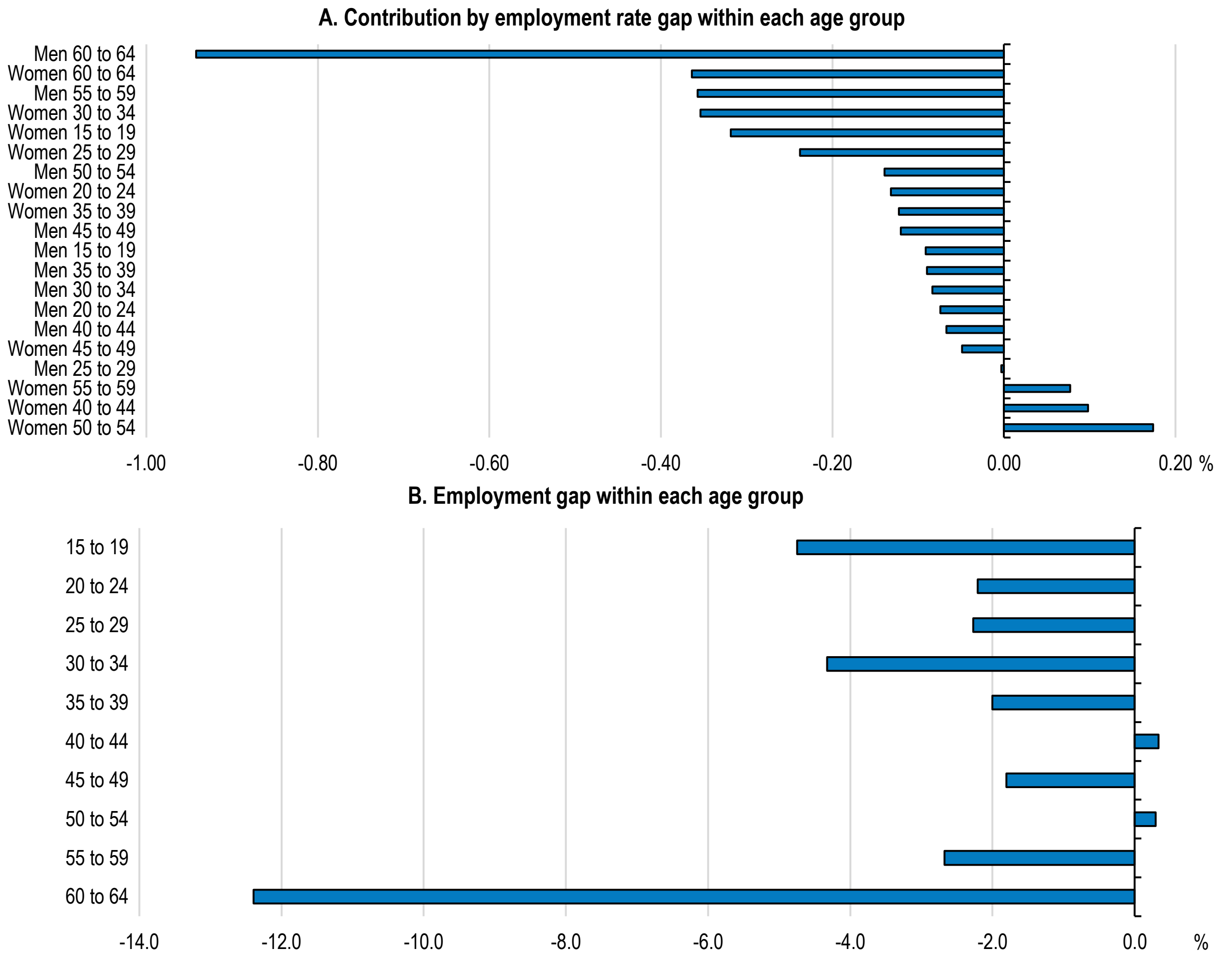
Table 2.1. The employment rate gap is much greater for the native-born- than the total population

	Native-born	Foreign-born	Total
Finland	72.8	62.2	72.2
Denmark	77.0	66.4	74.3
Norway	76.5	69.7	74.8
Sweden	80.8	66.7	77.4
Average for the Scandinavian Nordics other than Finland	78.1	67.6	75.5

Note: Share of persons aged 15-64. The data refer to 2018.
Source: OECD International Migration Statistics; and OECD Labour Force Statistics.

Figure 2.2. The gap in employment rates between Finland and the Scandinavian Nordics is mostly attributable to older workers

Population aged 15-64, 2018

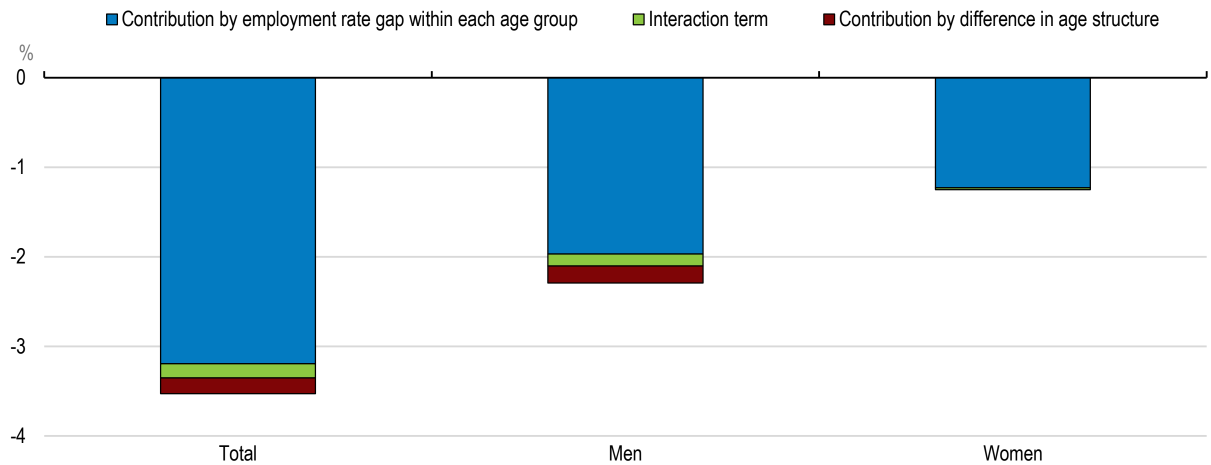


Source: OECD staff calculations based on OECD Labour Force Statistics database.

StatLink https://stat.link/qo8hx6

The shortfall in Finland's employment rate relative to the Scandinavian Nordic average almost entirely reflects differences in age-group employment rates and only marginally differences in population age structure (Figure 2.3). Differences in age structure make almost no contribution to the female employment rate gap and only a small contribution to the male gap, reflecting the slightly larger share of older men in the working-age population in Finland than in the other countries.

Figure 2.3. Differences in age structure contribute little to the employment rate gap



Note: The gap in employment rates between Finland and the average for the Scandinavian Nordics (i.e., Denmark, Norway and Sweden) is decomposed into difference in age structure (i.e. shares of each age group in the working age population) and employment rate gap within each age group.
Source: OECD staff calculations based on OECD Labour Force Statistics database.

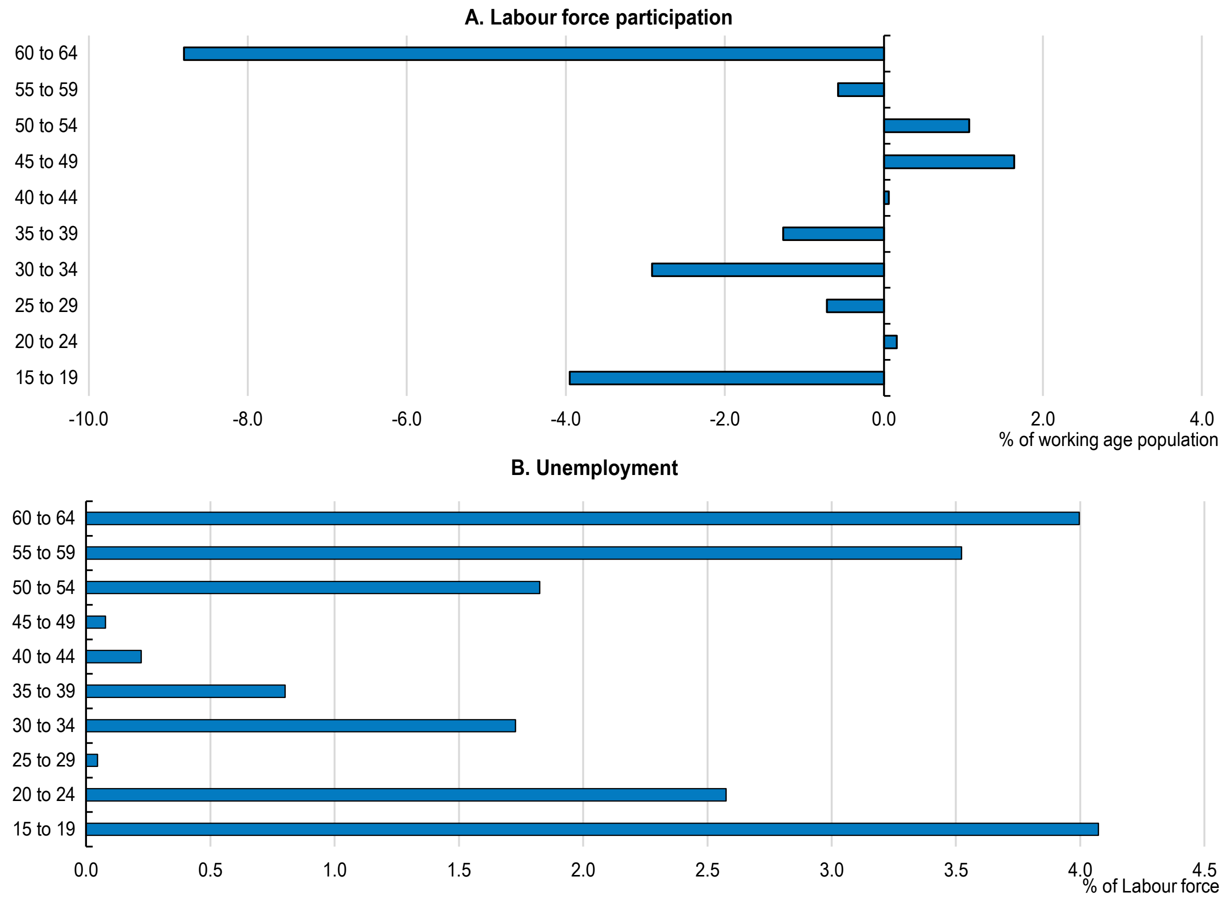
StatLink https://stat.link/jrmvp5

The employment rate gap for older workers

The employment rate gap for 60-64 year olds reflects both a much lower labour force participation rate (Figure 2.4, Panel A), which is weighed down by labour market exit through early retirement pathways (see below), and a higher unemployment rate (Panel B). The participation- and unemployment rate gaps are considerably higher for men than for women. The effective retirement age, based on the average age of exit from the labour force of each five-year cohort aged over 40 during a five-year period, is lower (63.5) than in the Scandinavian Nordic countries (64.7) and the OECD average (64.4; Figure 2.5). The Finnish Centre for Pensions' (FCP) estimate of the effective retirement age, which is based on the expected age at which people currently aged 25 will draw an earnings-related pension (old-age or disability), is somewhat lower, at 61.3 (61.6 for males and 60.9 for females). However, older workers drawing extended unemployment benefit (see below) are not considered to be retired according to this definition even though they effectively are.

Figure 2.4. Labour force participation of seniors is lower and unemployment higher than in the Scandinavian Nordics

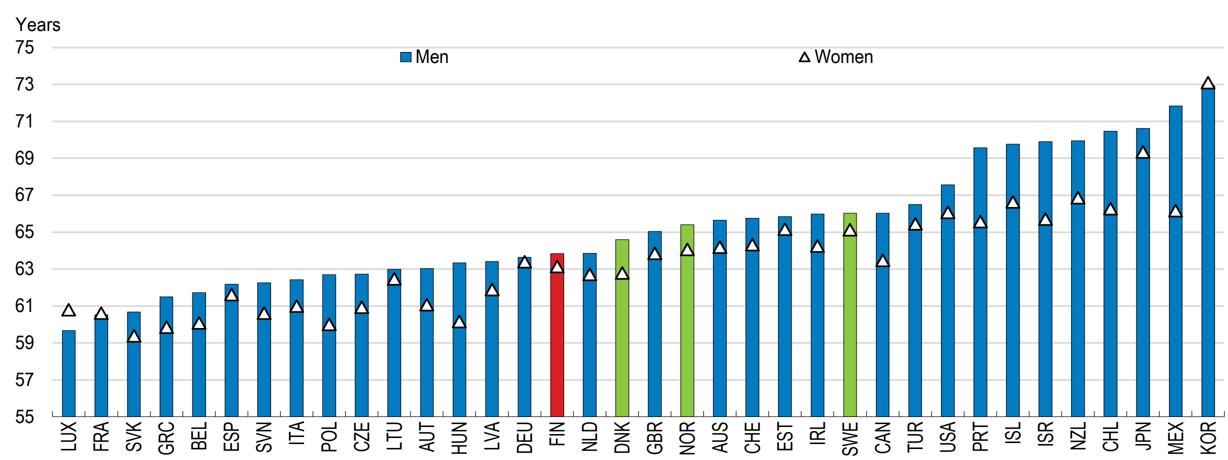
Population aged 15-64, 2019



Note: Difference between Finland and the average for the Scandinavian Nordics (i.e., Denmark, Norway and Sweden).
Source: OECD, Labour Force Statistics database.

StatLink https://stat.link/inqgt9

Figure 2.5. The effective retirement age is lower than in the Scandinavian Nordics

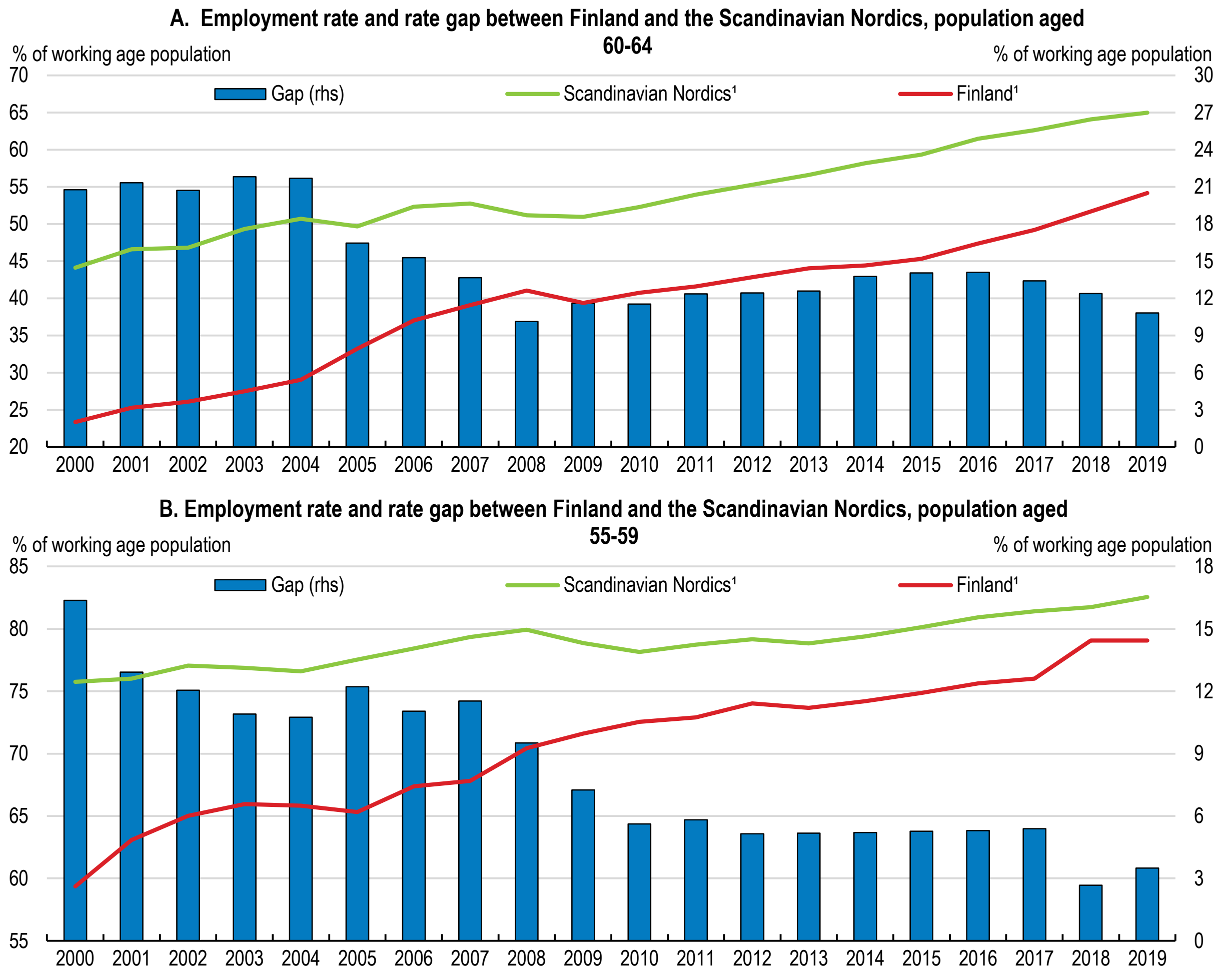


Source: OECD Ageing and Employment Policies (2018).

StatLink https://stat.link/i4v5gl

The employment rate gap for 60-64 year olds declined sharply between 2004 and 2008, reflecting a faster increase in the employment rate in Finland than in the Scandinavian Nordics but has since been stable as the increase in the employment rate in Finland was matched in the other countries (Figure 2.6, Panel A). By contrast, the gap for 55-59 year olds has continued to narrow over the past decade, reflecting a much larger increase in the employment rate than in the Scandinavian Nordics (Panel B).

Figure 2.6. Over the past decade, the employment rate gap has fallen for 55-59 year olds, but not for 60-64 year olds



Note: 1. Employment rate.
Source: OECD Labour Force Survey database.

StatLink https://stat.link/3mpdax

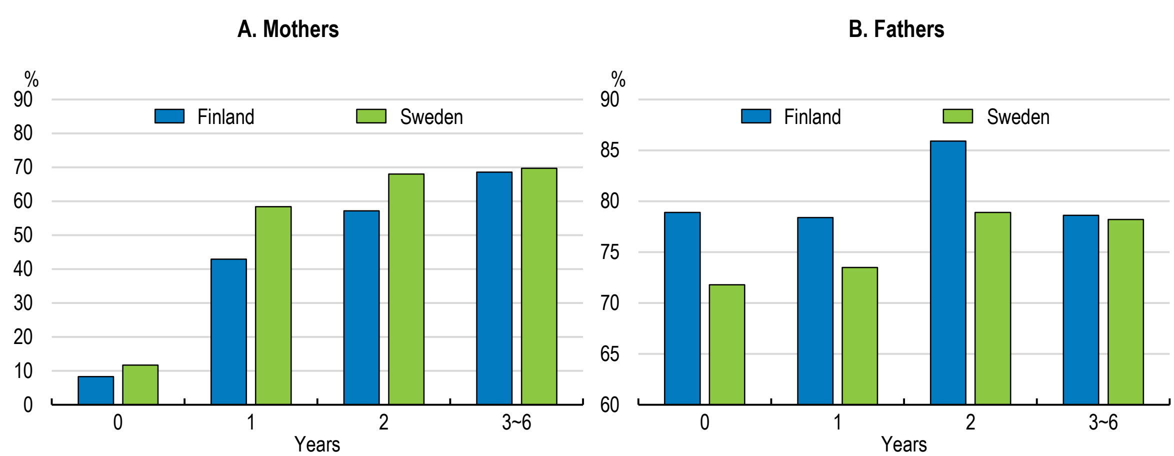
The employment rate gap for young women

The employment rate for young women (30 to 34) in Finland is 74%, 5.9 percentage points lower than the Scandinavian Nordic average, and 7.8 percentage points lower than in Sweden. However, this gap is overstated owing to differences in the statistical treatment of maternity leave beyond three months – women on such maternity leave are deemed to be out of the labour force in Finland but still employed in Sweden. A way to avoid this problem is to compare employment rates excluding women on maternity leave. This can be done by focusing on work attendance rates, which measure the share of persons who were at work during the survey week (Kambur and Pärnänen, 2017[2]). Measured by work attendance rates, the percentage of young women going to work in Finland is about the same as in Sweden, suggesting that the employment rate difference is an artefact.

Nevertheless, work attendance rates for young mothers are considerably lower in Finland than Sweden for mothers of children aged up to three years old (Figure 2.7, Panel A). This pattern is especially noticeable when the youngest child is over one year old - the difference is only 3.5 percentage points when the youngest child is aged less than one but increases to 15 percentage points when the youngest child is between one and three years old. It is thus more common for mothers to return to work when their child is one year old in Sweden than in Finland. The opposite holds for fathers, who are more likely to continue working when their children are younger than three years old in Finland than in Sweden (Panel B) – Finnish fathers take less parental leave than their Swedish counterparts. The share of mothers of young children working part-time is also much lower in Finland than Sweden, narrowing the gap in terms of hours worked. Whereas around half of mothers work part-time in Sweden when the child is aged one or two years old, this share is only one quarter in Finland.

Figure 2.7. Work attendance rates are lower in Finland for mothers of young children

Work attendance rates[1] by age of youngest child, 2015



Note: 1. The work attendance rate refers to the share of persons who were at work during the survey week, thus excluding those who have a job but have been temporarily absent from work.
Source: Kambur, O. and A. Pärnänen (2017), 'Finland/Sweden comparison: No great differences in working among mothers of small children', Tieto&Trendit, Statistics Finland.

StatLink https://stat.link/ez1awq

The employment rate gap for youth

The youth (aged 15-19 years) employment rate in Finland is 28%, 7 percentage points lower than the Scandinavian Nordic average. However this gap is driven by Denmark, where much vocational education at the upper secondary level occurs through apprenticeships, in contrast to arrangements in Finland, Norway and Sweden. As a result, a higher share of people in vocational education are employed in Denmark than in the other countries. Excluding Denmark, the Scandinavian Nordic average youth employment rate is the same as in Finland. As the youth employment rate gap reflects differences in the way that vocational education is delivered in Denmark rather than poor labour market performance and the small numbers of youth in the labour force, this gap is not discussed further in this chapter.

Reforms since the turn of the century to increase employment

Tightening access to disability pension and increasing the share of employers subject to experience-rated contributions

Disability benefit has acted as a pathway to early retirement in Finland (see below). In 2004, the government tightened eligibility conditions by abolishing the Individual Early Retirement (IER) scheme, which applied lenient medical criteria for employees aged 60 and over with a long working career; the IER did not define the minimum degree of working incapacity or consider working possibilities other than the current job or occupation. As a result of this reform, the share of claim rejections rose and the share of new retirees being granted a disability pension declined by nearly 10 percentage points (de la Maisonneuve et al., 2014[3]). The share of disability benefits in total pension expenditure fell from more than 18% in 2003 to about 13% in 2011. The reform is also estimated to have lengthened the working lives of older workers by 3.4 months (Kyyrä, 2015[4]). Furthermore, it may have contributed to the decline after 2004 in the employment gap of 60-64 year olds between Finland and other Scandinavian Nordics (Figure 2.6, Panel A). At the same time, the reform introduced some non-medical eligibility criteria for disability benefit for those aged 60 and over, which still facilitate early retirement.

Until 1995, firms with more than 300 employees were required to pay a lump-sum payment to the insurance provider that amounts to a given share of a new disability benefit claim by their former employees, while those below the size threshold paid a uniform fixed tariff for each employee. A reform in 1995 lowered the size threshold, making mid-sized firms with 50 to 300 employees liable to this lump-sum payment. This reform reduced transitions to sickness benefits and further transitions from sickness benefits to disability benefits (Korkeamäki and Kyyrä, 2012[5]), suggesting that that higher disability benefit costs encouraged employers to invest in sickness prevention measures and to accommodate employees with health problems in the workplace. Since 2006, the lump-sum payments have been replaced by partially experience-rated disability insurance premiums. The effect of this scheme in reducing the inflow into disability benefits is ambiguous (Kyyrä and Paukkeri, 2018[6]). The survey of employers conducted by the Finnish Centre for Pensions indicates that employers find the current experience-rating system complex (Liukko et al., 2017[7]), implying that they may not be well aware of the extent to which they could reduce their contributions by making greater efforts to prevent worker disability.

Increasing the age of entitlement to extended unemployment benefit

Finland offers generous unemployment benefit entitlements to older workers that are longer than those for younger workers and can also be extended up to the statutory retirement age (Box 2.4). This extension, often dubbed as the unemployment tunnel, provides an attractive pathway to early retirement. The unemployment rate rises sharply in Finland for workers near the age at which they are entitled to the unemployment tunnel. The eligibility age has been raised gradually over time, from 55 before 1997 for all workers to the current 61 for those born in or after 1957. The age threshold is to increase to 62 for those born in 1961 or after. These reforms have pushed back the timing of the sharp rise in unemployment, effectively lengthening the working lives of older workers (see below).

Box 2.4. Unemployment benefits in Finland

Unemployment benefits in Finland consist of earnings-related Unemployment Insurance benefits (*ansiosidonnainen päiväraha*), a flat-rate basic unemployment allowance (*peruspäiväraha*) and a flat-rate means-tested labour market subsidy (*työmarkkinatuki*).

Earnings-related benefits, which comprise a flat-rate basic part (EUR 33.66 per day in 2020) and an earnings-related component, are paid to unemployment insurance fund members satisfying the employment condition (those having worked and paid contributions for at least 26 weeks within the last 28 months); the funds pay 6% of the costs of earnings-related benefits with the rest coming from social security contributions and general taxation. Although membership is not compulsory, 84% of employees were enrolled in unemployment funds in 2012 (Shin and Böckerman, 2020[8]). Non-members of unemployment funds can receive the flat-rate basic unemployment allowance (EUR 33.66 per day in 2020) from the Social Security Institution (Kela) if they satisfy the same employment condition. Those eligible to neither earnings-related benefits nor basic unemployment allowance, because they do not satisfy the employment condition or used up the maximum payment period of basic or earnings-related unemployment benefits (see below), can receive a labour market subsidy (EUR 33.66 per day in 2020) from Kela.

The earnings-related component of earnings-related unemployment benefit is 45% of the difference between the past daily wage and the base part of the benefit for the unemployed previously receiving monthly wages of EUR 3 198 or lower. For those receiving higher monthly wages, the replacement rate of 45% is applied up to the income threshold and then a lower replacement ratio of 20% is applied to the exceeding amount. Slightly higher replacement rates are applied to the unemployed with a child and those participating in activation programmes. In practice, overall replacement rates of around 60% have been most common (Kyyrä, Pesola and Rissanen, 2017[9]).

The earnings-related and basic unemployment benefits are paid for a maximum of 400 days (300 days for those who have worked less than three years). However, workers aged 58 years or more who worked at least five years in the past 20 years are entitled to a maximum of 500 weekdays of benefits. Furthermore, those aged 61 years (62 years from 2023) or older when reaching their 500-days benefit limit qualify for an extension until the retirement age of 65.

Unemployment benefits can be combined with work. The unemployed taking up full-time work for less than two weeks or part-time work can qualify for partial benefits. The days on which partial benefits are paid are only counted partially toward the maximum benefit duration, but the working days are counted into the employment condition if the weekly working time is at least 18 hours.

Note: Daily wage is computed by dividing the monthly wage by 21.5.
Source: The Social Security Institution (Kela), (Kyyrä, Pesola and Rissanen, 2017[9]).

Employers share part of the benefit costs (the liability component) when their former employee receives extended unemployment benefit (Box 2.5). Before 2000, firms with more than 300 employees were liable for 50% of the present value of the unemployment pension benefits (the equivalent of extended unemployment benefit at the time) while firms with 50 to 300 workers paid 0% to 50% of the expected benefits depending on their size. A reform implemented in 2000 strengthened this liability component by raising the maximum liability share to 80%, which was applied to firms with more than 800 employees. The linear schedule of liability components for firms with 50 to 800 employees was also adjusted accordingly. As a result, the costs of the unemployment tunnel increased substantially for large firms with more than 500 employees, while smaller firms enjoyed somewhat lower liabilities (Hakola and Uusitalo, 2005[10]). The reform is estimated to have reduced the risk of unemployment among older workers by 16% (Hakola and Uusitalo, 2005[10]), most likely by restraining large employers from targeting older workers in collective dismissals (see below).

Box 2.5. Employers' costs for former employees in the unemployment tunnel or on disability benefit

The liability component in the unemployment tunnel

Employers have to pay at least part of the benefit costs (the liability component) when their former employee receives extended unemployment benefits (unemployment tunnel). This concerns employers with a payroll of over € 2 086 500 in 2019. The share of the liability component in total benefit costs rises progressively with the size of payroll and reaches 90% of costs for payrolls above € 33 384 000 (80% in case the unemployed was born between 1950 and 1956). The employer is not obliged to pay the liability component if employment was terminated before the employee reached the age of 56, or the employee resigned on their own initiative. However the latter does not apply to the cases where employees agreed to leave voluntarily with a compensation package from their employer.

Employers may also be obliged to pay part of unemployment benefits if: (1) their former employees have become entitled to the unemployment benefits due to the termination of their employment after reaching the age of 60; (2) they are still receiving unemployment benefits after the reaching the minimum eligibility age for old-age pension; or (3) they started to receive unemployment benefit after reaching 62 and continued to receive an unemployment allowance until retirement on an old-age pension.

Experience-rating in disability benefits

Finland finances a major part of disability benefit through partially experience-rated premia, which are a weighted sum of the base premium rate and experience-rated premia. Experience-rating applies to firms with payroll exceeding the threshold of about EUR 2 million. Firms are classified into 11 contribution categories according to the number of disability pension incidences in the company over the past two years. Depending on these categories, a firm can earn a 90% discount on the base premium or be obliged to pay a 450% surcharge on top of the base premium (Kyyrä and Paukkeri, 2018[6]).

The age distribution of the employees in a firm does not affect its classification in contribution categories, since its past disability pension incidences are compared separately with the average disability rate for each age cohort, which creates an incentive for cream skimming in recruitment.

Source: Employment Fund homepage, Finnish Centre for Pensions homepage, (Kyyrä and Paukkeri, 2018[6]).

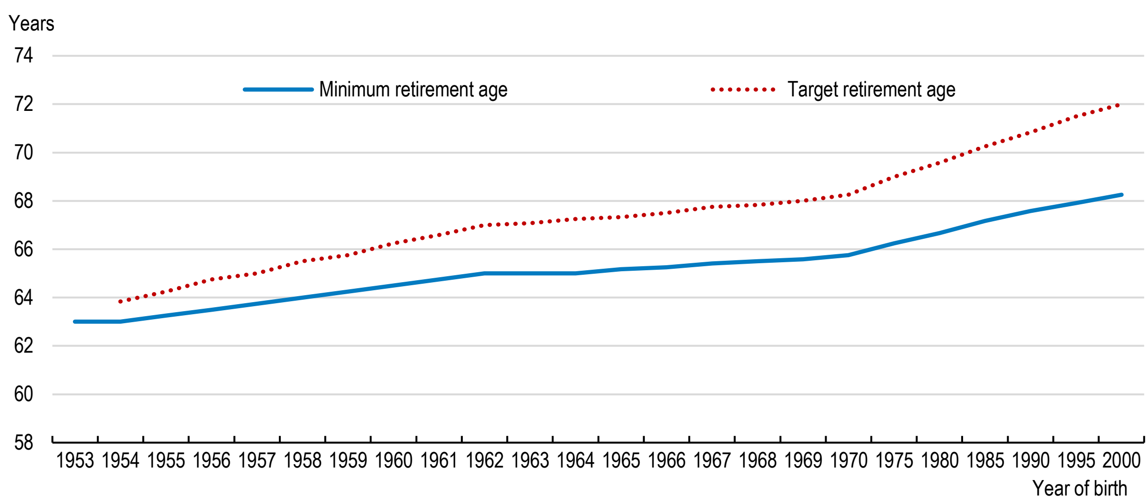
The 2005 and 2017 old-age pension reforms

The 2005 old-age pension reform introduced the life expectancy coefficient, which was applied for the first time in 2010. It reduces pensions for each cohort born after 1947 such that growing life expectancy does not increase the present value of pensions at age 62 from the level in 2009. The reform also changed the income base for calculating pensions from the last 10 years of each employment contract prior to retirement to incomes over the entire work history. This reform also introduced a flexible retirement age from 63 to 68 years, which turned out to have the opposite effect on extending working lives to the other measures. Before the implementation of a flexible retirement age in 2005, the full retirement age was 65 years. There was also an early retirement regime for retirees aged 60 to 64 years. Gruber et al. (2019[11]) find that the introduction of a flexible retirement age was effectively treated as lowering the full retirement age to 63 years. They find that retirement probabilities in the age range that was suddenly eligible for flexible retirement increased by 40% or more in 2005 from levels in 2004 despite only a modest increase in incentives to retire before age 65.

The 2017 pension reform raises the minimum retirement age gradually from 63 to 65 by 2025 and will link the minimum retirement age to life expectancy from 2030 onwards in such a way that the share of adult life spent in retirement remains constant. The reform also increases incentives to defer taking the pension (or part thereof) beyond the minimum age (by up to five years) by increasing pensions by 0.4% per month of deferral, which together with the 1.5% pension accrual rate results in a greater increase in pensions from working beyond the minimum eligibility age than before (when there was simply a 4.5% accrual rate). The 0.4% per month increment is actuarially neutral – on average, the present value of acquired pension rights is not affected by the timing of retirement.

To help people make more informed decisions about the timing of their retirement, a target retirement age for each cohort is calculated that corresponds to the age at which the pension increment from delaying retirement offsets the reduction from the life expectancy coefficient (Figure 2.8). For example, the minimum retirement age for those born in 1957 is 63 years and 9 months. For the increment for retirement beyond the minimum age to equal or surpass the reducing effect of the life expectancy coefficient for this cohort, they need to postpone their retirement by 12 months. It follows that the target retirement age for those born in 1957 is 64 years and 9 months.

Figure 2.8. Target retirement ages are rising faster than minimum retirement ages

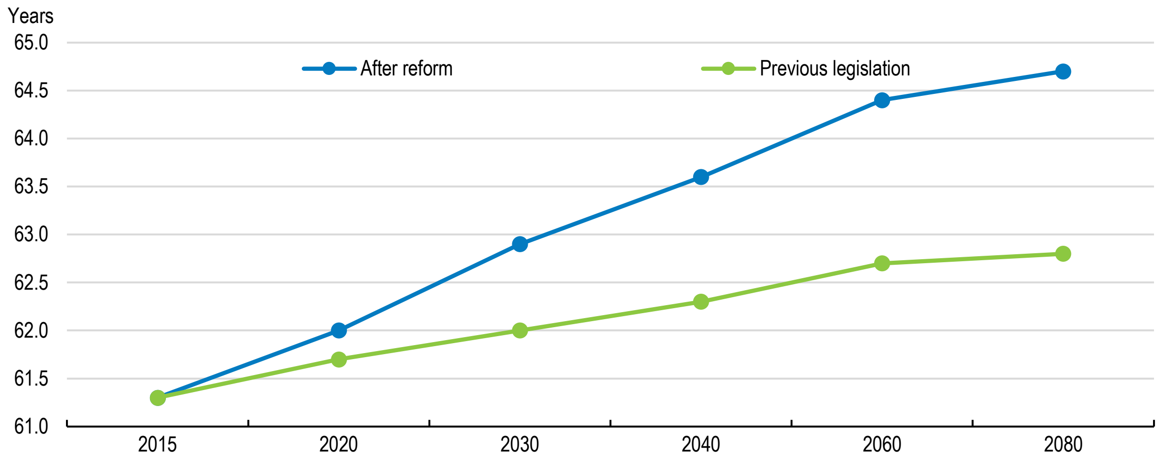


Source: Finnish Centre for Pensions.

StatLink https://stat.link/zkn8s0

The 2017 reform is estimated to increase the expected effective retirement age (Finnish Centre for Pensions measure, described above) in 2030 from 62.0 years under the previous legislation to 62.9 (Figure 2.9) (Reipas and Sankala, 2015[12]). By 2080, the expected effective retirement age is 64.7 years in the reform projection, compared with 62.8 years in the projection based on the previous legislation. Reipas and Sankala estimate that the reform (including the effect of raising the minimum age for extended unemployment benefit) will increase employment by around 53 000 by 2040, rising to 91 000 by 2080. The reduction in the number of retirees will also partly be channelled into unemployment, which is expected to rise by 14 000 by 2040 and 49 000 by 2080. The authors estimate that in the long run, the reform will raise the employment rate of 15-74 year olds by around two percentage points.

Figure 2.9. The 2017 old-age pension reform is projected to increase the expected effective retirement age



Source: Reipas, K. and M. Sankala (2015), Effects of the 2017 earnings-related pension reform, Finnish Centre for Pensions.

StatLink https://stat.link/3wn9zp

Pension expenditure relative to wages insured (i.e., the pension expenditure ratio) is estimated to be lower for decades to come under the current legislation than under the previous legislation (Reipas and Sankala, 2015[12]). Over 2030-50, this difference is estimated to be about 2% of GDP per year. Both the reduction in pension expenditure and growth in the wage sum are mainly attributable to later retirement. The reduction in the pension expenditure ratio means that the contribution rates needed to finance pensions are lower over coming decades than under the previous legislation. The reform sets the contribution rate at 24.4%, a relatively high level compared with many OECD countries, including Scandinavian Nordics, until the end of the 2060s. Assets under the Employee Pensions Act (to help pay for future pensions) are set to rise markedly, from 240% of the wage bill currently to 290% in 2080 whereas under the previous legislation they were projected to decline to 220% in 2080 (Reipas and Sankala, 2015[12]). The outlook will be less favourable, however, when Statistics Finland's updated long-term demographic projections that take into account the large recent decline in the fertility rate are integrated (Box 2.6).

Box 2.6. Financing old-age pensions

Finland's pension system is financed from both assets accumulated in pension funds (i.e., pre-funding) and pay-as-you-go (PAYG) pension contributions, with the latter source being the largest – only about one-fifth of private sector pension expenditure is financed by pension funds. The national pension and the guarantee pension, which are not earnings related, are solely funded by PAYG.

The Finnish Centre for Pensions projects an increase in total statutory pension expenditure from 13.4% of GDP in 2017 to 15% by 2085, with all of the increase occurring in the second half of the century owing to a shrinking working-age population (Tikanmäki et al., 2019[13]). The contribution rate under the Employees Pensions Act (TyEL contribution) is projected to rise from 24.3% in 2017 to 25% by the end of the 2020s and begin to increase rapidly in the 2050s owing to the decline in working-age population, reaching 30% in 2085. At this time, the contribution rate will be at a sustainable level. A constant TyEL contribution rate of 26.7% would be sufficient to finance expenditures in the long term. Contribution rates for municipal pensions in 2017 (28.5%) were slightly greater than the constant contribution rate sufficient to finance these pensions in the long term. Taking all earnings-related pension schemes together, the contribution rate in 2017 (29.2%) was sufficient to finance pension expenditure in the long term.

The projections are highly sensitive to assumptions about the birth rate and investment returns. A fertility rate of 1.20 instead of the 1.45 assumed in the projection would require the contribution rate in 2085 to be 4 percentage points higher than the baseline (the fertility rate was 1.41 in 2018). Should the annual real investment return be one percentage point lower than assumed (2.5% during 2019-28 and 3.5% thereafter), pension contributions would need to be raised to 33.3% by 2085 (3.2 percentage points higher than in the baseline scenario).

Source: (Tikanmäki et al., 2019[13])

Boosting activation

The requirement to look for jobs or to participate in training programmes attached to unemployment benefits is lenient, especially for old recipients (see below), resulting in long unemployment spells. The previous government tightened such conditions for benefit eligibility by requiring the newly unemployed to spend 18 hours in paid employment, earn at least EUR 241 in self-employment, or participate in five days of employment programmes at the employment office in their first three months of unemployment. Failure to meet any of these conditions resulted in a 4.65% reduction in the benefit level for 65 days. This activation model was repealed in January 2020, despite preliminary evidence that it could increase employment by 8 000, because some people were unable to fulfil the activation requirements owing to a shortage of training places. The government has proposed alternative measures to strengthen activation in the Employment Package for the 2021 Budget negotiation, including a new obligation for unemployed jobseekers to apply for up to four job opportunities every month and increased resources for the PES (Box 2.2). On the other hand, the Package reduces the strictness of unemployment benefit sanctions, including by giving a warning before imposing sanctions.

Reducing effective tax rates on labour income

As discussed in the 2018 *OECD Economic Survey of Finland*, work incentives in Finland are hampered by high average- and marginal effective tax rates on labour income. Part of the problem is tapering rules for unemployment benefits that include losing the benefit when working more than 80% of full-time. Furthermore, complex administrative procedures associated with various benefits discourage second earners from working more out of fear that they may end up losing some of them (Bureaucracy trap). While work incentives improved somewhat during the previous government's term owing to a freeze on the indexation of social security benefits, this improvement has been reversed to some degree by the current government. The previous government commissioned a pilot study replacing means-tested benefits with a universal basic income that guarantees a given level of income regardless of employment status as an option to simplify the benefits system and to boost work incentives (Box 2.7). The study found that the basic income scheme did not lead to a significant increase in the employment rate but improved subjective well-being (Kangas et al., 2020[14]). There were, however, serious limitations to the experiment because some participants still had to claim means-tested benefits, there was a lack of diversity in types of labour market status, no account was taken of the increase in taxes that would be needed to finance such a scheme and forward-looking participants' behaviour was affected by the knowledge that the scheme was only for a fixed term. Moreover, the findings may have been impacted by the introduction of the activation model in early-2018.

Box 2.7. The basic income experiment

The basic income experiment was designed and administered by the Ministry of Social Affairs and Health and the Social Insurance Institution (Kela). It provided an opportunity for long-term unemployed persons receiving the basic unemployment benefit to opt out of the existing benefit system and instead receive a basic non-means-tested income not subject to activation conditions, significantly lowering the tax wedge on labour income and administrative burdens. The experiment targeted individuals aged 25-58 who were receiving basic unemployment benefit from Kela in November 2016. Among them, 2 000 randomly selected individuals were paid € 560 per month regardless of whether they found a job or participated in activation measures.

These 2 000 individuals were compared with other individuals in the target group on their employment status, namely their working hours and earnings, as well as well-being, for the period from November 2017 to October 2018. It was found that the employment rate for basic income recipients improved slightly more during this period than for the control group. The basic income recipients were employed for 78 days on average, as opposed to 73 days for the control group. Overall, the recipients of basic income only marginally outperformed the control group in terms of the average number of working days, but did enjoy higher levels of subjective well-being. The experiment was, however, subject to serious shortcomings. For instance, individuals with an entitlement to unemployment benefit greater than the universal income, mainly because they had children, did not benefit from less bureaucracy and non-compulsory participation in active labour market programmes. Moreover, the long-term unemployed are unlikely to be skilled in job search and therefore may respond less to a lower labour tax wedge; the experiment should have been run with different types of labour market status. In addition, the impact of the basic income could have been larger had the activation model not been introduced in early-2018 (see above) as it may have boosted job search efforts of unemployment benefit recipients (the control group) more than of recipients of the basic income. On the other hand, the scheme was not revenue neutral. Allowing for the effect of higher taxes to pay for it would reduce any favourable effect that the scheme may have had on labour supply.

Source: (Kangas et al., 2020[14]).

The employment package announced in 2019 and revised in the proposed 2021 budget

To help attain the employment goal, the government announced an employment package in 2019, which featured an increase in resources for the public employment service (PES), more intense job counselling, reform and increased use of wage subsidies, and a plan to increase the activity rate and ultimately employment among the disabled and an increase in work-related immigration. These measures were subsequently incorporated in the employment package prepared for the 2021 Budget (Box 2.2).

The planned increase in resources for the PES is a positive step, given that Finland has relatively low PES staffing per unemployed person compared with other Nordic countries. Indeed, the number of unemployed per caseworker has more than doubled since 2008, putting the employment service under strain (OECD, 2018[15]). Against this background, the government plans to make job counselling more intense by recruiting more PES staff. Empirical studies point to the positive employment effect of more intense job counselling. For example, a pilot project in Germany found that a lower caseload per caseworker led to more re-employment and shorter unemployment durations (Hainmueller et al., 2016[16]). Similarly, a working-class area in the Helsinki region that implemented more intense counselling experienced a greater reduction in unemployment than other parts of Helsinki. However, only € 70 million over a four-year period has been budgeted for this reform, which is unlikely to be enough to implement it fully given that follow-up will require additional resources.

The government also intends to increase the use of wage subsidies for companies and public employers and a recruitment subsidy for micro-enterprises. An employer hiring an unemployed jobseeker can receive financial assistance in the form of a pay subsidy that covers up to 30, 40, 50 or 100% of wage costs. Total wage subsidies will cost EUR 10-15k on average per year per person-employee. The government estimates that this wage subsidy reform will give work to 500-1 000 jobless people in the long run by increasing incentives for firms to hire them. To encourage take-up of wage subsidies by employers, the government also plans to reduce bureaucracy, given that it has been administratively complex to hire someone with the current scheme. The effects of the wage subsidy scheme on employment may be severely reduced by deadweight losses – many beneficiaries might have found jobs without subsidisation. Empirical results suggest that the effectiveness of wage subsidies in Finland has been rather weak – wage subsidies applied in the private sector generate small positive effects, whereas those applied in the public sector do not (Asplund et al., 2018[17]). The absence of positive effects of wage subsidies in the public sector, which comprise around 30% of total wage subsidies, is not surprising as their aim is to reduce the burden of labour market subsidy (i.e., social assistance for the unemployed who do not qualify for unemployment allowance) on municipal finances and to push the older unemployed to the unemployment tunnel. Finding ways to reduce deadweight effects and to increase permanent employability is important if these programmes are to be retained.

The government has also planned further reforms to promote employment among those in need of special support, including the disabled. A programme for work and welfare and a working capacity programme for people with partial work capacity is in the pipeline. As part of the programme, a condition will be added to public procurement contracts that will incentivise the employment of persons with partial working capacity and others with a vulnerable labour market status. The careers of 18 800 persons were cut short by entry into disability pension in 2016, and 600 000 Finns estimate that disability or disease affects their work and opportunities for finding employment. To lengthen careers and to prevent further losses in labour input, the employer, staff and occupational health care will collaborate in taking measures that promote workability and return to work.

Overall, the net effect of the original 2019 employment package would have fallen short of the government's employment objective as it did not focus on increasing employment of older workers, even though this group has the greatest untapped potential. It is therefore welcome that the employment package for the 2021 budget negotiation emphasises boosting employment of older workers (Box 2.2). To increase their employment rate, it is essential that the package include measures to tighten further pathways to early retirement.

Increasing the employment of older workers

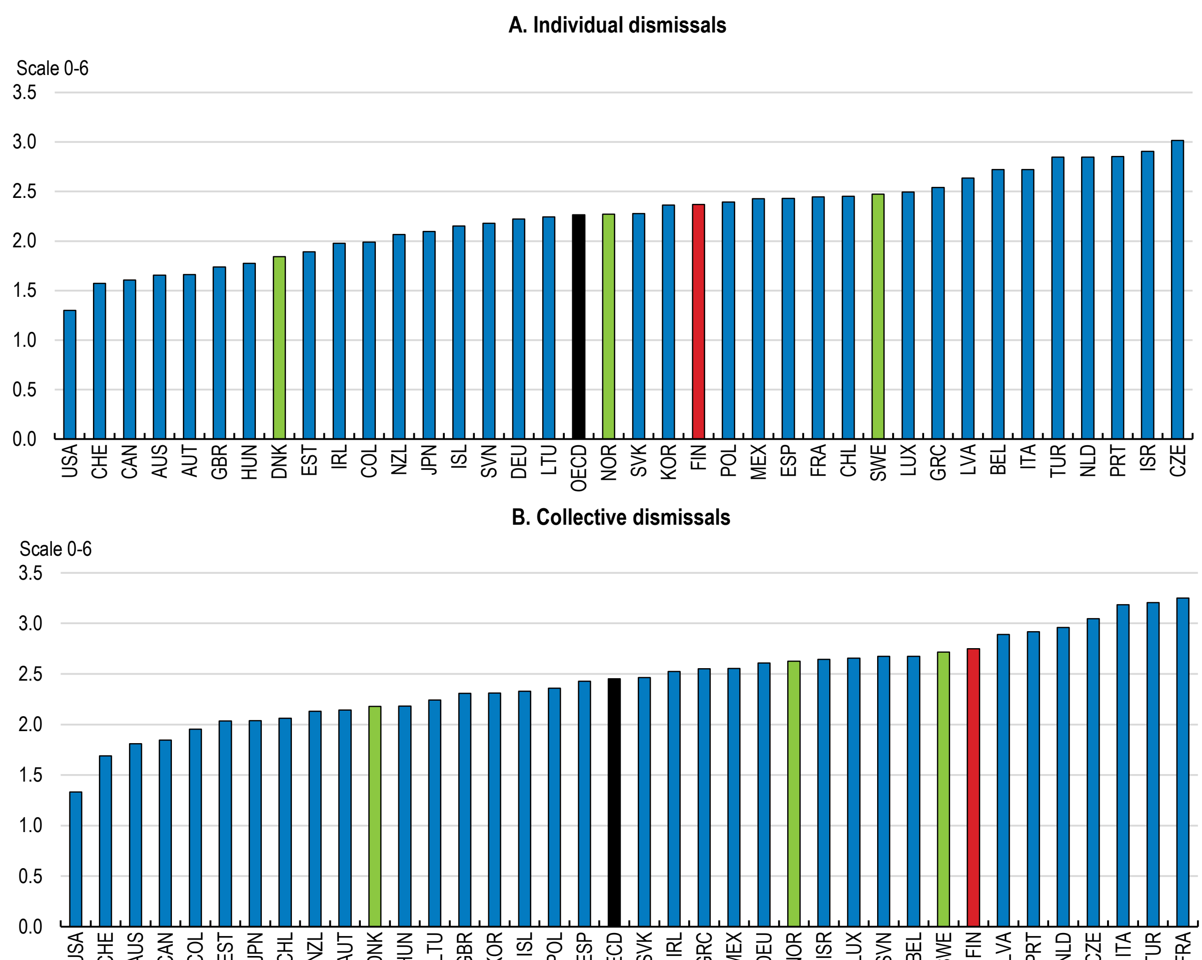
Early retirement pathways reduce employment of seniors

The main reason that the employment rate of older workers is lower in Finland than in the Scandinavian Nordics is that Finns have better access to early retirement pathways, notably through unemployment or disability benefits. In 2017, about 12% and 14% of new pensioners aged 63 were previously receiving unemployment or disability benefits, respectively, for several years, according to the Finance Ministry.

These institutional arrangements are motivated by a concern that older workers who lose their job may have greater difficulty than others in finding another suitable job, exposing them to the risk of a sharp drop in income before retirement. However, such arrangements may also increase the risk of older workers being targeted in lay-offs because they have replacement incomes for the rest of their lives and are less harmed by worse income prospects (‘scarring’) following a period of unemployment than other workers. Laying-off workers is relatively easy in Finland despite relatively strict employment protection legislation (EPL) for individual and collective dismissals(Figure 2.10), because it tends not to be binding in practice as employers and employees often negotiate voluntary departures with compensation packages (OECD, 2016[18]). The conditions for making temporary lay-offs under the short-term work scheme are particularly lenient relative to those in other OECD countries (OECD, 2016[18]): worker consent is not required, laid-off workers receive regular unemployment benefits and employers do not bear any financial costs except when the laid-off workers enter the unemployment tunnel. Older workers laid-off under this scheme are less likely to be hired back than other workers. The conditions for using this scheme should be reviewed to ensure that it is not providing a low-cost route for employers to make permanent lay-offs of older workers.

Figure 2.10. Employment protection is stronger in Finland than in the Scandinavian Nordics

OECD’s indicator of employment protection legislation by type of dismissal, 2019



Note: The figure presents the contribution of different sub-components to the indicators for employment protection. The height of the bar represents the value of the indicator. OECD stands for the unweighted average of 37 countries.
Source: OECD Employment Protection Database, 2019 update version four.

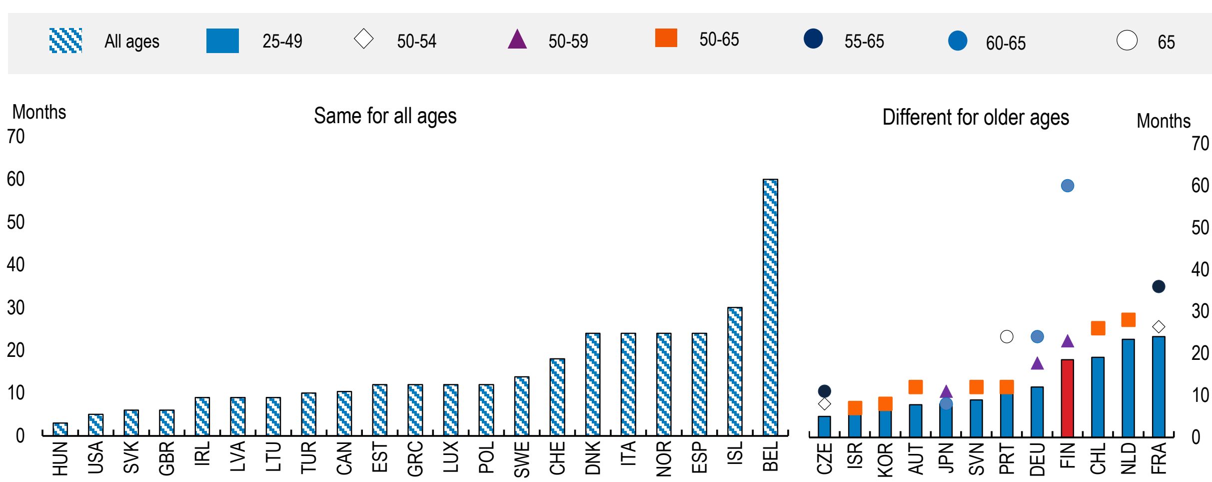
StatLink https://stat.link/6gxzrk

Phase out the unemployment benefit route to early retirement

The unemployment early retirement pathway starts with a spell on unemployment benefit, which may be up to 500 weekdays for a person aged 58 or more when they became unemployed (see Box 2.4). If they are still receiving unemployment benefit when they turn 61 (62 for people born in 1961 or later) and have worked for at least five of the past 20 years, they are entitled to extended unemployment benefit (unemployment tunnel) until they reach 65. Thus, it is possible to draw unemployment benefits continuously from age 59 (60 from 2023) until 65 without re-charging benefit rights. The unemployment pathway to retirement can be entered even younger by re-charging unemployment benefit rights close to expiry before reaching the qualifying age for extended unemployment benefit. For the unemployed whose benefits are due to expire after 57 years of age, this can be done by taking up their entitlement to participate in activation measures or to a job with the local municipality. For persons already aged 60, the maximum duration of earnings-related unemployment benefits (until 65) is only matched in Belgium among OECD countries (Figure 2.11). This duration is much longer than in the Scandinavian Nordics, where the extension of unemployment benefits for older workers was abolished years ago (OECD, 2018[19]), thereby curbing the use of unemployment benefits as a pathway to early retirement (OECD, 2013[20]).

Figure 2.11. The maximum duration of unemployed benefit for older workers is long in Finland

Maximum duration[1] of unemployment insurance[2] payment for a single unemployed aged 25-64 without children and with a full contribution record for all ages, 2018

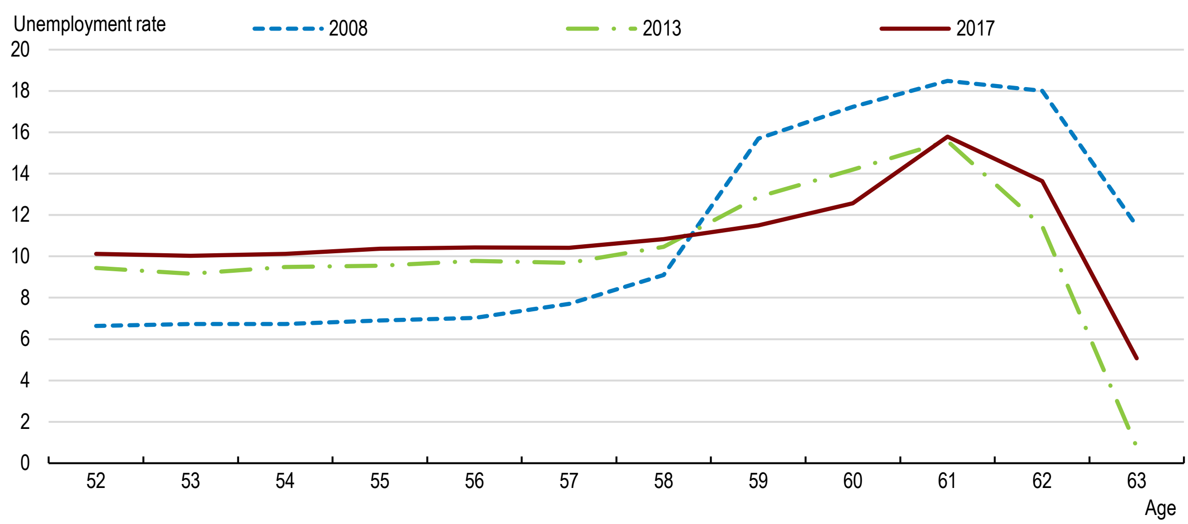


Note: 1. The maximum duration is capped at 60 months for Belgium and Finland. The actual maximum duration might be longer or even unlimited (e.g. in Belgium). In the Netherlands, persons over 41 are capped at 28 months with the maximum duration gradually reducing by 1 month per quarter to 24 months in April 2019.
2. The chart only shows insurance benefits. Assistance benefits can be available as follow-up support in some countries. Australia and New Zealand operate only unemployment assistance benefits which are means-tested but not limited in duration. In some cases, particular rules exist for older unemployed (65 or under) that are not fully taken into account in the database. This is the case for Finland, France, Lithuania, Luxembourg, Portugal and Spain where it is possible under some conditions to extend benefits to the full-rate pension age. See the source for more details.
Source: OECD Tax and Benefits Systems: OECD Indicators, www.oecd.org/social/benefits-and-wages.

StatLink https://stat.link/pdeoyf

The effect of these arrangements on unemployment rates for older workers can be seen in the sharp increase in rates in the run-up to the age threshold for extended unemployment benefit (Figure 2.12). Prior to the age at which the unemployment pathway to retirement begins (currently, 59), unemployment rates for the over 50s are similar across ages, albeit at higher levels after the Global Financial Crisis than immediately before. In 2017, for example, the unemployment rate was around 10% from age 52 to 57. At age 58, when people becoming unemployed are entitled to an extra 100 days of benefit, the unemployment rate starts to rise and increases sharply to a peak of 16% at age 61, when unemployed people become entitled to extended unemployment benefit. The unemployment rate stays high at age 62 but falls sharply at age 63, which was the minimum eligibility age for old-age pension in 2017. Increases in the eligibility age for extended unemployment benefit in successive reforms (from 57 to 59 years in 2005 (taking effect in 2009), to 60 years in 2012 (taking effect in 2015) and to 61 years in 2015 (taking effect in 2018)) have shifted the increase in unemployment to older ages. The eligibility age for extended unemployment is to rise further to 62 years, with effect from 2023.

Figure 2.12. Increasing the minimum age for extended unemployment benefit pushes back the sharp rise in unemployment rates for older workers in the run-up to benefit eligibility



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.

StatLink https://stat.link/01un6a

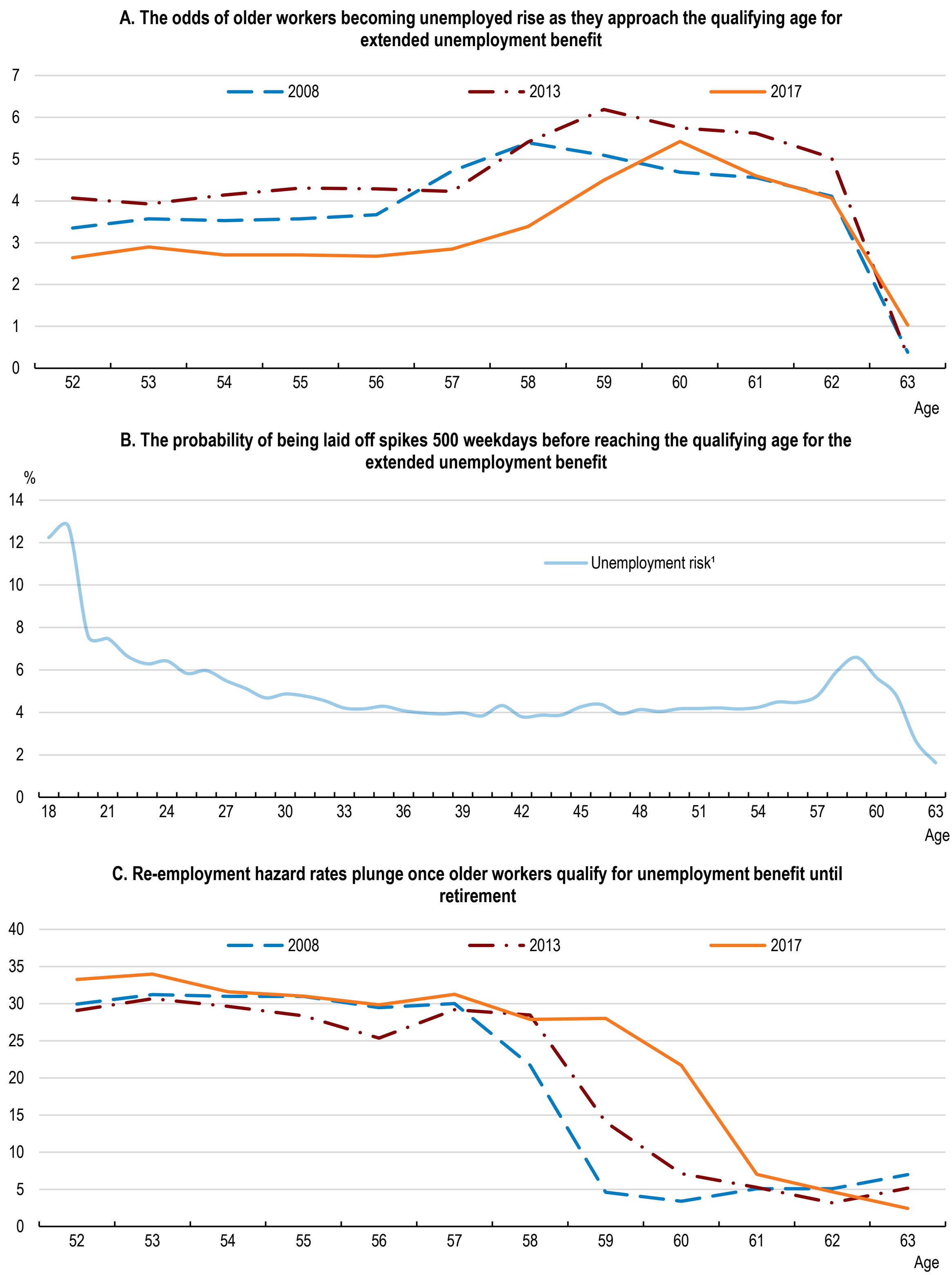
Extended unemployment benefit substantially increases the odds of older workers becoming unemployed and reduces the odds of them becoming employed again. Exit from paid employment to unemployment begins prior to the qualifying age for extended unemployment benefit and increases sharply at ages within 500 weekdays of the qualifying age (Figure 2.13, Panel A). The spike in layoffs at the age when unemployment benefits can last until retirement (i.e., 500 working days before the qualifying age for extended unemployment benefit) (Panel B) points to the mutual interest of employers and employees in using the unemployment route to retirement – employers are able to reduce staffing in a socially acceptable way and, at the same time, reduce employment of workers who are often less profitable than others and employees get to retire early. Re-employment hazard rates plunge once the older unemployed reach the age at which they qualify for unemployment benefits until retirement, highlighting the lack of incentives for the older unemployed to find work again (Panel C).

In order to get the unemployed back into employment, unemployment benefits need to be combined with effective active labour market policies. However, in Finland activation measures push the older unemployed towards the unemployment tunnel rather than towards re-employment, as noted above. Indeed, the participation in activation measures by individuals not eligible for extended unemployment benefit surges a year before the eligibility age, while it drops considerably for those eligible for the tunnel (Figure 2.14).

The activation of individuals who entered the unemployment tunnel is very lenient. The PES offices usually do not devote as much attention to these individuals as to other groups (Ministry of Finance, Ministry of Economic Affairs and Employment, and Ministry of Social Affairs and Health, 2019[21]), as they are regarded as retired rather than unemployed. Should the PES enforce job search and work requirements more strictly, these older unemployed could switch from unemployment- to disability benefits rather easily (see below).

A major step to restrict access to early retirement routes would be to phase out the extension of unemployment benefits by gradually raising the eligibility age to the maximum age of entitlement (65) by 2029 and then abolish it at this point . Such a reform would remove the strong disincentive to work longer, as seen in the past each time the eligibility age for extended unemployment benefit was increased; for instance, the 2005 reform that raised the eligibility age from 57 to 59 years increased the average age of the employed aged between 54 and 63 years by 7 months (Kyyrä and Pesola, 2020[22]). Older workers would be less willing to accept redundancy arrangements with their employers and, should they become unemployed, would have stronger incentives to search for a job and accept one; for instance, the 1997 reform that increased the eligibility age by two years doubled the probability of re-employment for the affected unemployed (Kyyrä and Wilke, 2007[23]). The PES would no longer be justified in not offering active labour market programmes to the older unemployed on the grounds that their financial security is assured without working. Moreover, increased employment hazard rates for older unemployed persons would boost the return on PES activation investments for unemployed seniors.

Figure 2.13. The extended unemployment benefit reduces labour supply

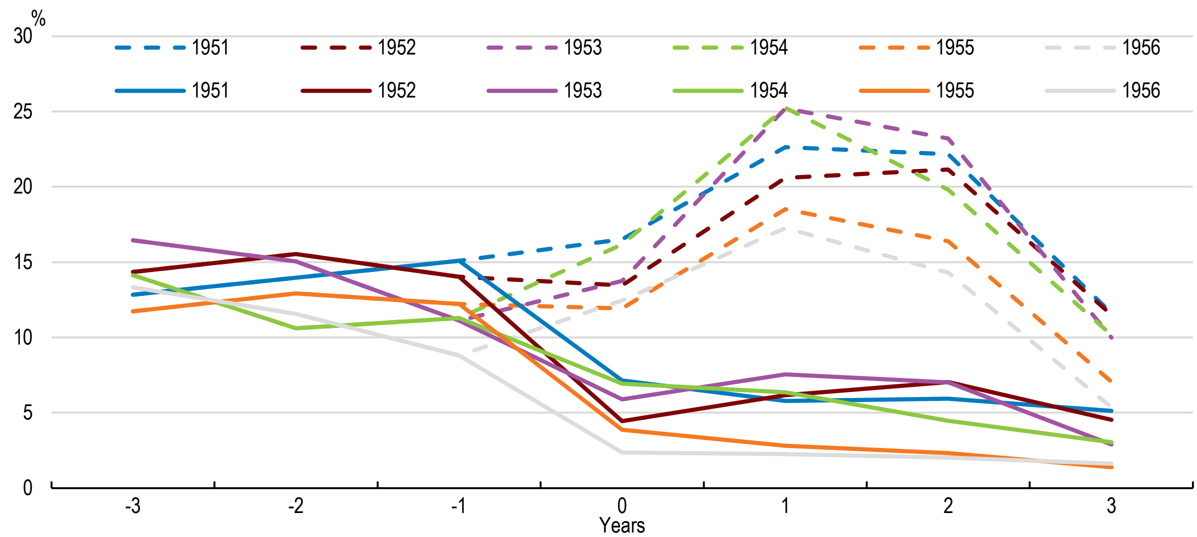


Note: 1. The probability of unemployment conditional on employment in the previous year, 2015.
Source: Ministry of Finance, Ministry of Economic Affairs and Employment and Ministry of Social Affairs and Health (2019), Selvitys eläkeuudistuksessa sovittujen lisäpäiväoikeuteen ja ikääntyneiden aktivointiin tehtyjen muutosten vaikutuksista.

StatLink https://stat.link/bspcfk

Figure 2.14. Activation policies push older workers towards the unemployment tunnel rather than re-employment

Participation of the unemployed in activation measures around the qualification age for extended unemployment benefit



Note: The broken lines show participation rates for the unemployed who do not qualify for extended unemployment benefit and solid lines rates for those who do qualify. The years are birth cohorts. Zero on the horizontal axis is the minimum age for qualifying for extended unemployment benefits.
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.

StatLink https://stat.link/a7qgop

Eliminating the unemployment tunnel would encourage employers to hire and train older workers, as longer working lives would increase the period over which the fixed costs associated with hiring and training could be amortised (Saint-Paul, 2009[24]). Indeed, the past reforms that raised the eligibility age for extended unemployment benefit boosted hiring of workers who were slightly younger than the cohort directly affected by the reforms, reflecting employers' expectation that these workers would remain in work longer (Ilmakunnas and Ilmakunnas, 2015[25]).

Such a move would also reduce the costs of hiring older workers. Employers above a certain payroll size are responsible for a share of extended unemployment benefit costs of former employees who enter the unemployment tunnel after being laid off (see Box 2.5). While the liability component is intended to curb abuse of the unemployment tunnel by employers, it also creates strong disincentives for employers subject to this liability to hire workers in their late fifties. Abolishing the extended unemployment benefit would remove such disincentives.

If the unemployment tunnel is not eventually eliminated, reforms to restrict its use are needed. The recently legislated increase in the eligibility age for extended unemployment benefit from 61 to 62 years from 2023 is a step in the right direction. Nevertheless, this age would also need to be linked to life expectancy beyond 2030 to prevent the maximum duration of extended unemployment benefit from rising.

Another reform to increase the employment rate of seniors would be to subject the older unemployed to the same activation and job search requirements in practice as other unemployed. Similarly, the unemployed should no longer be allowed to recharge their unemployment entitlements by participating in activation measures. Since participation in activation measures is a requirement for receiving unemployment benefits, rewarding such entitlement sends an undesirable signal that it is optional (OECD, 2016[18]). This entitlement also allows the unemployed, particularly the old unemployed, to chain unemployment benefits by participating in activation measures whenever current entitlement runs out.

In Finland, earnings-related pension entitlements accrue for individuals receiving earnings-related unemployment benefits, except when individuals are receiving extended unemployment benefit beyond the minimum retirement age. To increase incentives to work, the government should extend the non-accrual of pension rights to the whole period of extended unemployment benefit receipt. This would act as a tax on pensions from remaining unemployed, which is effective in motivating workers close to retirement to return to employment while maintaining an adequate level of unemployment benefits (Hairault et al., 2012[26]).

In order to discourage the dismissal of older workers through the unemployment tunnel, the government could consider extending the coverage of the liability component to a wider range of employers. The current payroll threshold for the liability component is about EUR 2.1 million (Box 2.5). As median annual earnings in the private sector were about EUR 38 000 in 2018, this level implies that most firms with less than 50 employees are exempt from the liability component. These firms have been exempted from the liability component and experience-rating out of concern that such costs could imperil their survival. However, such firms comprise 98% of firms in Finland and employ 46% of employees (European Commission, 2019[27]). As discussed above, past reforms that enlarged the coverage of experience-rating reduced risks of unemployment and inflows into disability benefit. The government should thus consider extending the liability component to small firms, if not micro firms. Lowering the threshold would also remove the disincentive for firms just below the threshold (i.e. firms with 49 employees) to grow into medium- to large-sized firms.

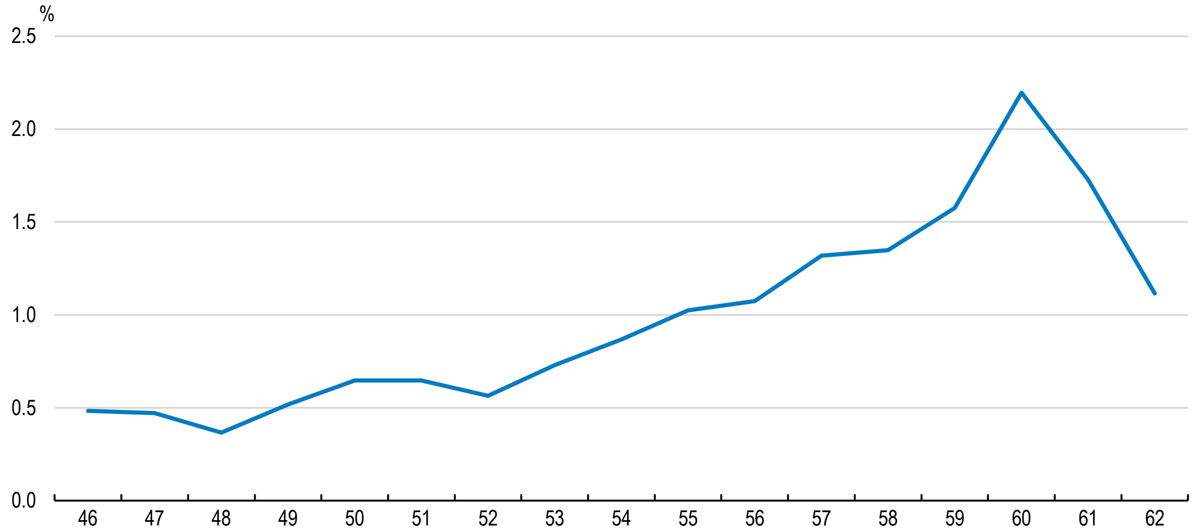
Align conditions for obtaining disability benefit for older workers with those for other workers

Disability benefits have been widely used as a pathway to early retirement in Finland. In 2017, about 20% of new pensioners aged 63 were previously receiving disability benefits, while 14% were receiving them since the age of 56. The probability of inflow into disability benefits soars when individuals turn 60 (Figure 2.15), the age when more lenient eligibility criteria for disability benefits, including non-medical factors, start to apply (Box 2.8). Disability benefit applicants aged 60 and over are rarely rejected (Figure 2.16). Furthermore, disability benefit recipients aged 60 and over are also much less likely to be rehabilitated, and therefore receive disability pension until retirement (Ministry of Finance, 2019[28]). This is both because older workers can refuse rehabilitation measures and because existing rehabilitation measures are not effective in restoring older workers' work capacity (Aho et al., 2018[29]).

Inflow into disability benefits often surges when access to other early retirement pathways is tightened by policy changes. For instance, applications for a disability pension soared in 2018, when the activation model came into force, because unemployed jobseekers were not subject to benefit sanctions for not fulfilling activation requirements if they had a pending disability benefit application (Laaksonen, Rantala and Salonen, 2019[30]). Disability benefits may also be used by employers as an alternative measure to let go of older workers when collective dismissal is harder to justify. Indeed, employees working for firms with high worker turnover are more likely to flow into sickness and disability benefits (Korkeamäki and Kyyrä, 2012[5]).

Disability benefits are claimed after workers have been on sickness leave for a year, during which they claim sickness benefits from the Social Security Institution, Kela (Box 2.8). Overall, the health status of older workers has improved markedly in recent years owing to more healthy lifestyles (less smoking and alcohol consumption), reducing the number sickness benefit claimants (Figures 2.17 and 2.18).

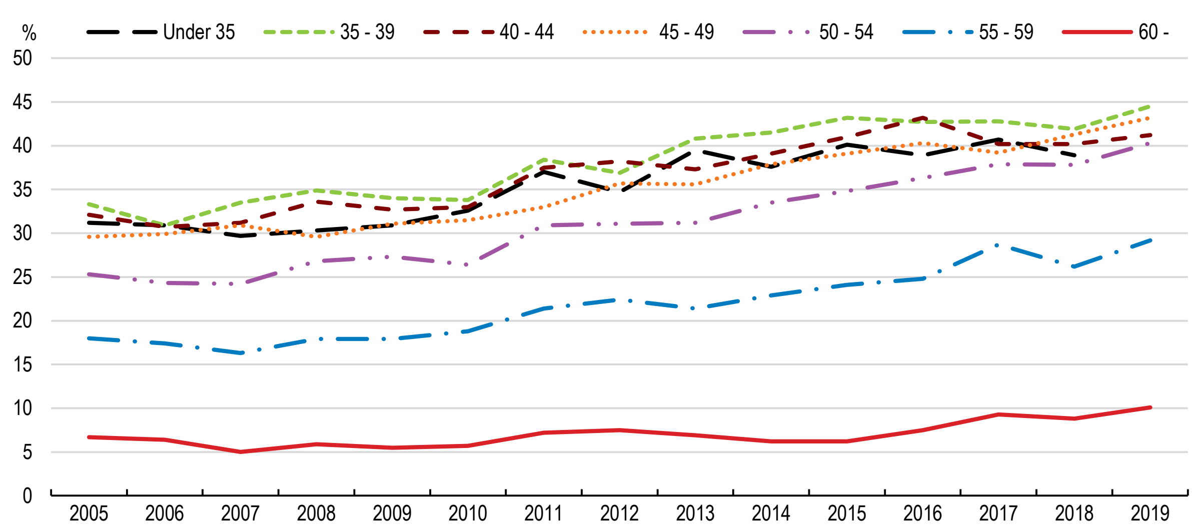
Figure 2.15. The probability of inflow into disability benefits soars at age 60



Source: Ministry of Social Affairs and Health and Ministry of Finance (2019), Ikääntyneiden työllisyyden edistämiskeinoja valmistelevan työryhmän loppuraportti.

StatLink https://stat.link/pt47ai

Figure 2.16. The rejection rate for disability benefits applicants aged 60 or over is very low

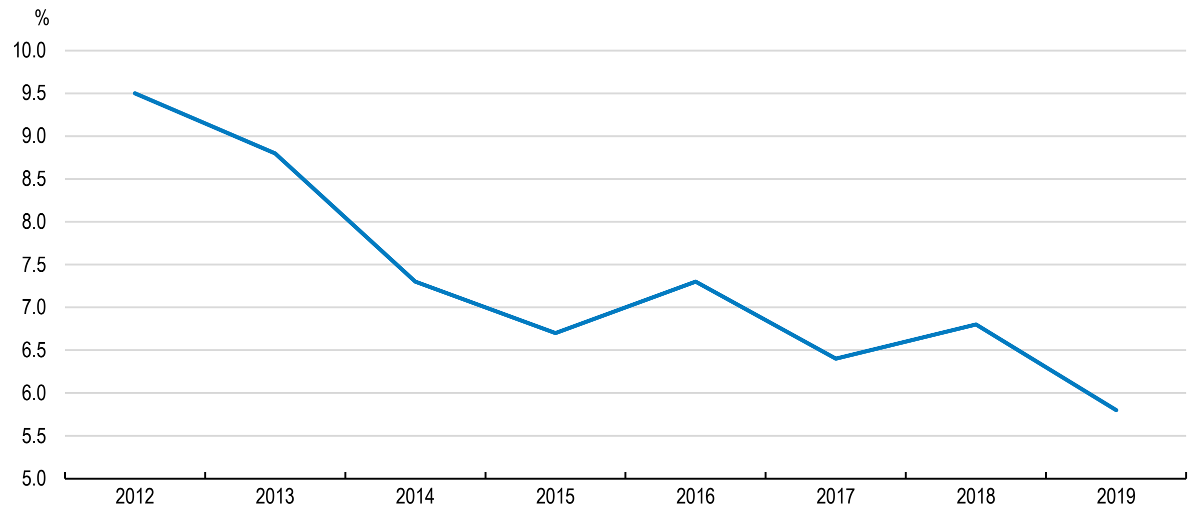


Source: Ministry of Social Affairs and Health and Ministry of Finance (2019), Ikääntyneiden työllisyyden edistämiskeinoja valmistelevan työryhmän loppuraportti.

StatLink https://stat.link/m3kear

Figure 2.17. The share of 55-64 years olds in poor health declined sharply

The share of people who perceive their health to be bad or very bad

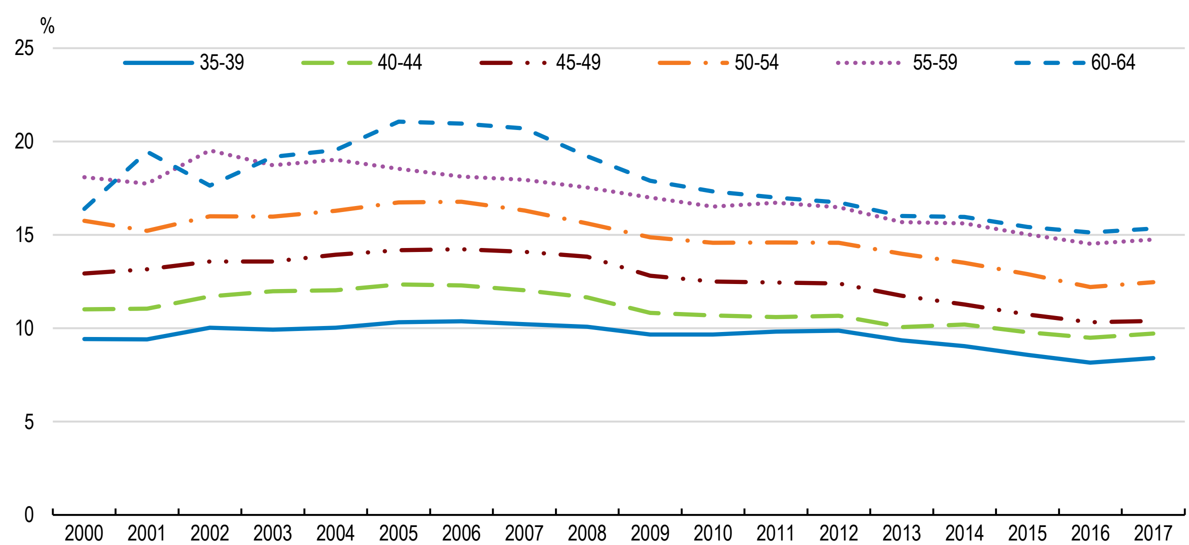


Note: The question about self-perceived health has five possible answers categories very good, good, fair, bad, and very bad. The chart refers to the share of people that perceive to be in bad or very bad health.
Source: Eurostat.

StatLink https://stat.link/9af5oe

Figure 2.18. The number of sickness allowance recipients has declined

Recipients of sickness allowance relative to the previous year's non-retired population



Source: Ministry of Social Affairs and Health and Ministry of Finance (2019), Ikääntyneiden työllisyyden edistämiskeinoja valmistelevan työryhmän loppuraportti.

StatLink https://stat.link/p5gh7e

By reducing the incidence of disability benefit awards to older workers and hence employers' experience-rated disability benefit contributions, excluding non-medical criteria from disability benefit assessments would also reduce the cost of hiring older workers. Finland is one of few countries that use experience-rating in disability insurance contributions to incentivise employers to take preventive workplace measures against disability. Employers with payroll exceeding EUR 2 million must pay higher contributions when their employees claim disability benefits (see Box 2.5). Such employers consider the risk of having to pay higher contributions as a barrier to hiring older workers (Liukko et al., 2017[7]).

Box 2.8. Sickness and disability benefits in Finland

Sickness benefit

Workers aged between 17 and 67 years can claim sickness allowance when they become ill and are unable to work. The sickness allowance is disbursed by the Social Security Institution (Kela) for a maximum of 300 working days and is earnings-related – the amount of benefit is calculated based on confirmed taxable earnings. Also, employers typically pay the full salary during the first one to three months of illness, depending on the collective agreement.

Disability benefits

After having received the sickness benefit for a period of about one year, workers assessed to be in further need of rehabilitation can apply for earnings-related disability benefits. Those assessed to have lost over 60% of working capacity are eligible to the full rehabilitation- or disability benefit, while those having lost 40% to 60% of working capacity are entitled to partial rehabilitation- or disability benefit. The amount of the rehabilitation benefit is the same as that of the disability benefit, and the partial benefit amounts to half of the full benefit.

Rehabilitation benefits are intended for recipients who are likely have their work capacity restored through rehabilitation and can be drawn during the fixed period specified in their rehabilitation plans. Those unlikely to return to work or whose capacity to work is not restored after rehabilitation receive disability benefit, which can be drawn until they reach the minimum retirement age for an earnings-related pension.

Disability benefit eligibility is assessed primarily on the basis of medical examinations that consider the claimant's capacity to perform his/her original job or a different job. However, claimants over 60 are subject to more lenient eligibility criteria that include various non-medical factors like the length of employment history or working conditions. This special provision is a legacy of the Individual Early Retirement scheme that was abolished in 2002, which applied lenient medical criteria to disability benefit applicants aged 60 and over.

Earnings-related disability benefits are part of the earnings-related pension system. Those not eligible to an earnings-related benefit can claim a disability benefit in the national pension system until the age of 65 (the retirement age for the national pension).

Source: Finnish Centre for Pensions website, (European Commission, 2019[31]), (Kyyrä and Paukkeri, 2018[6]).

More needs to be done to curb the inflow from long-term unemployment into disability pension. In 2018, almost half of all new disability pension recipients were previously unemployed. While (long-term) unemployment is often due to reduced work capacity, unemployed people with a disability do not receive a rehabilitation assessment, in contrast to sickness benefit recipients, and therefore have little chance of restoring their work capacity. Furthermore, since healthcare services in Finland are often occupation linked, the unemployed receive less attention from the health care system, which results in health deterioration that reduces employability (von Werder and Thum, 2013[32]). Some municipalities provide free medical screening for anyone over 45 as well as rehabilitation plans for long-term unemployed but such services are not universal.

The rehabilitation system also need to be overhauled so that it works better to return people to employment. Some 80% of people who receive a positive rehabilitation assessment never begin a rehabilitation programme. There are several reasons for this outcome, including the lack of suitable rehabilitation programmes and/or support to find them and a strengthened ‘pension orientation’, whereby a person not yet receiving disability benefit refuses rehabilitation because she considers herself already to be a pensioner and, as such, sees no point in participating in rehabilitation programmes.

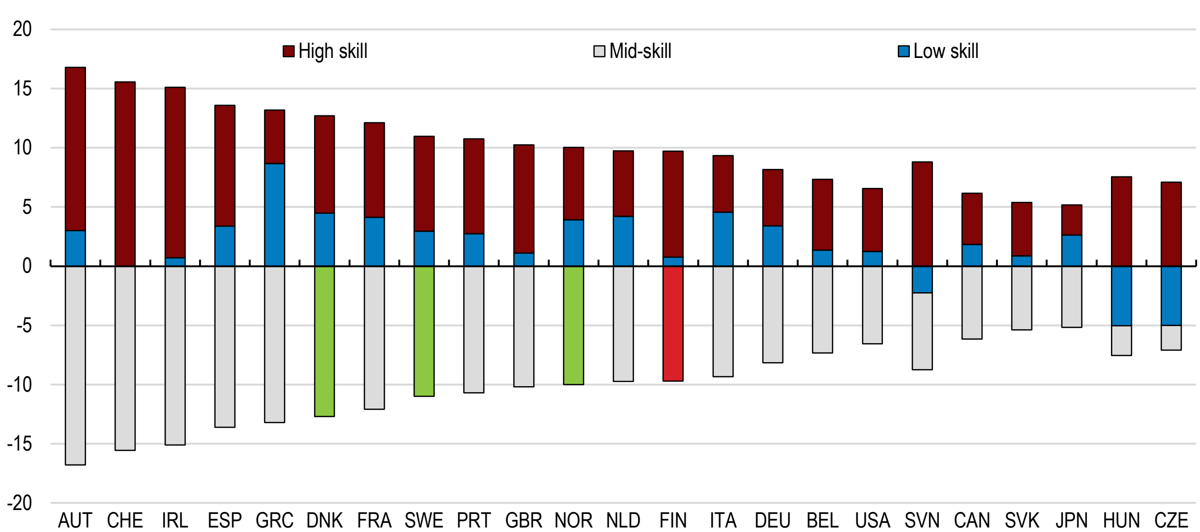
Non-medical criteria for assessing the work capacity of disability benefit applicants aged 60 or more should no longer be taken into account to limit the use of disability benefit as an alternative pathway to early retirement. Past experience in Finland and other Nordic countries suggests that such reform lengthens working lives significantly. For instance, Finland’s 2002 reforms that abolished the Individual Early Retirement scheme that allowed workers aged 60 years or more to access disability benefit under lenient medical criteria (see Box 2.8) reduced the probability of a worker retiring through disability benefit by age 63 by 25% and extended working lives by as much as 3.4 months (Kyyrä, 2015[4]). Likewise, Sweden experienced a significant drop in the disability hazard rate and an increase in the employment rate of individuals aged 60 to 64 following the 1997 reform that excluded non-medical criteria from assessments of disability benefit eligibility (Jönsson, Palme and Svensson, 2012[33]). As noted above, longer working lives would also encourage employers to hire and train older workers.

Enhancing current and future older workers’ skills

Reforms to close early retirement pathways need to be coupled with policies that enhance the employability of older workers and make the work environment more conducive to longer working lives. Steps need to be taken to increase the capability of workers to keep up with technological change, such as digitalisation, and to facilitate the smooth transition to new jobs by displaced older workers. Potential discrimination against older workers at work or with respect to job applications must also be tackled and more flexible working time arrangements should be promoted.

Figure 2.19. The labour market has become more polarised, with high-skill replacing mid-skill jobs

Percentage point change in share of total employment, 1995 to 2015

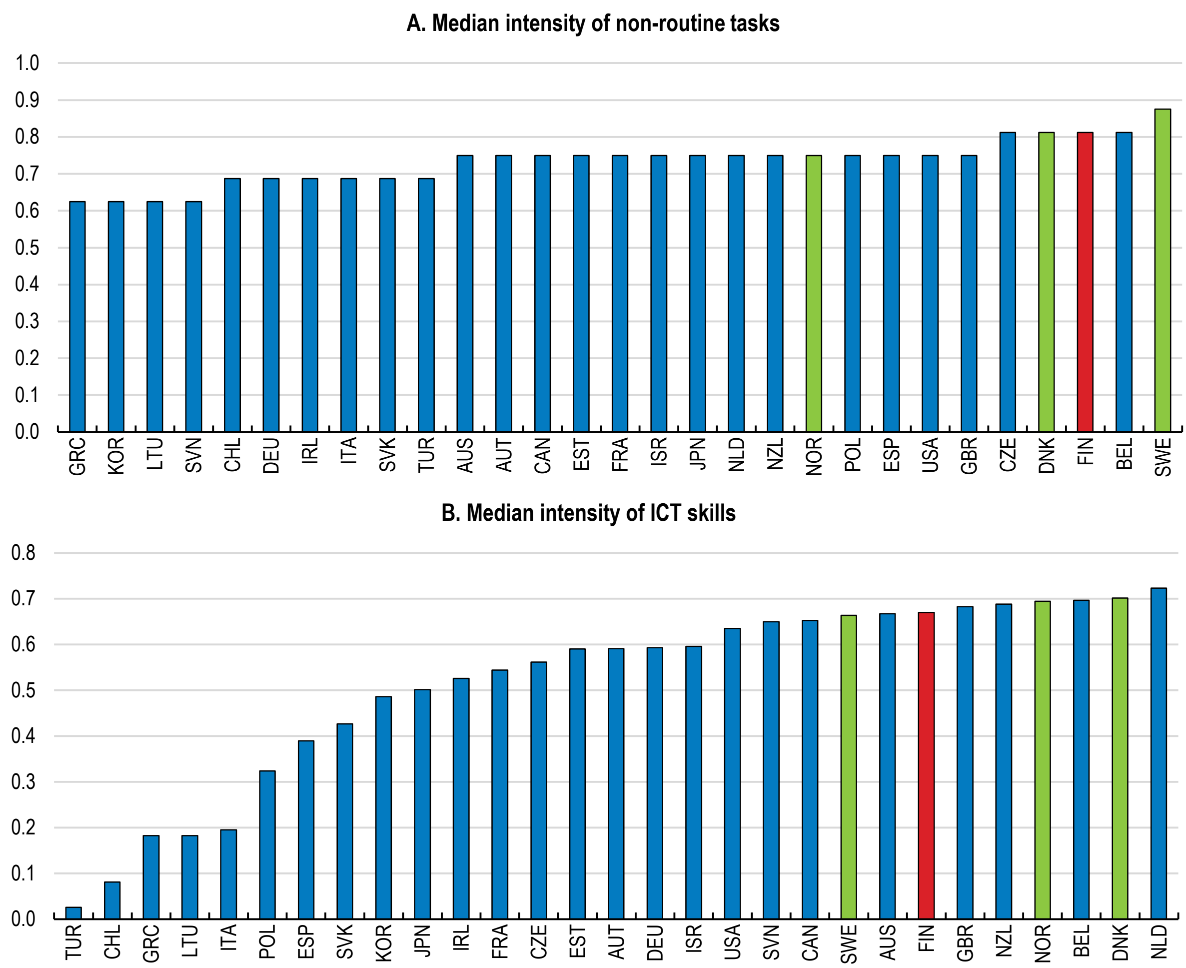


Source: OECD (2017) OECD Employment Outlook 2017.

StatLink https://stat.link/mvjhea

Labour market demand in Finland has been driven in recent decades by the fastest adoption of digital technologies among EU economies (European Commission, 2019[34]). Jobs have become more polarised, as the share of medium-skill production and clerical jobs has decreased while low-skill service occupations and high-skill specialist occupations have gained share (Pekkala Kerr, Maczuskij and Maliranta, 2016[35]). While the polarisation of labour markets is commonly observed across OECD countries, the decrease in the share of mid-skill jobs in employment in Finland has been mostly offset by the increase in the share of high-skill jobs (Figure 2.19). The strong demand for high-skilled workers reflects the fact that jobs in Finland are more intensive in non-routine tasks and ICT skills than those in other OECD countries (Figure 2.20). This job structure underlies the smaller share of jobs at high risk of automation than in most other OECD countries. Nevertheless, about one quarter of jobs are likely to undergo significant change, a share that is closer to the OECD average (Figure 2.21).

Figure 2.20. The intensity of non-routine tasks and ICT skills at work is high

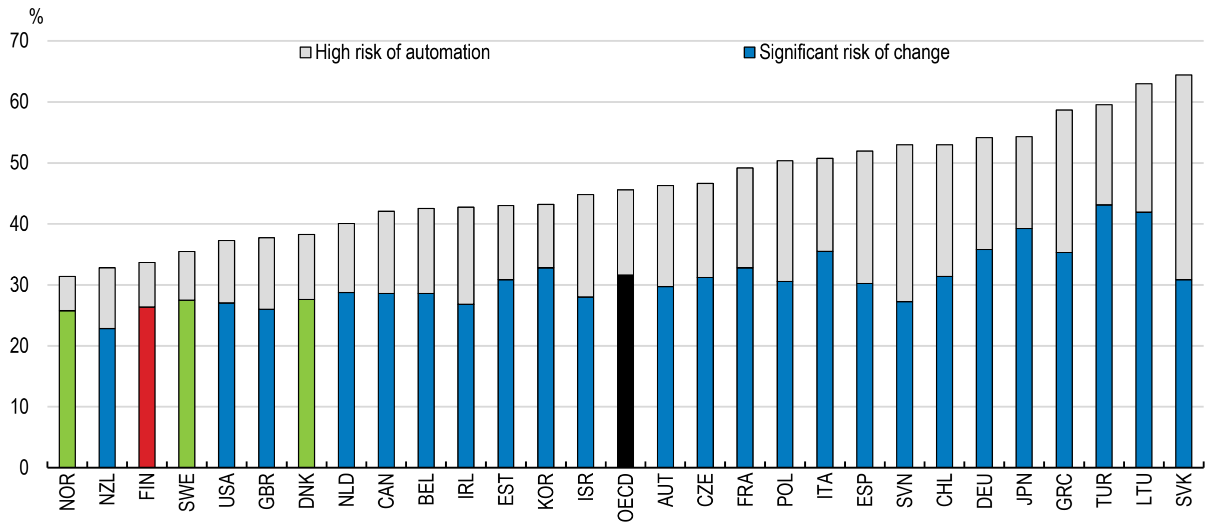


Note: The intensity of non-routine tasks and the intensity of ICT skills are captured by the indicators constructed from The Survey of Adult Skills (PIAAC), which includes information on tasks workers perform at the workplace, including reading, writing, numeracy, ICT and problem solving and on the frequency with which workers perform these tasks. Indicators are normalised between 1 and 0, with a higher value corresponding to a higher frequency of performing tasks that are of a non-routine nature or require ICT skills. See the source for more details.
Source: OECD (2019), OECD Skills Outlook 2019.

StatLink https://stat.link/e8ij4b

Figure 2.21. Automation risk is low but one quarter of jobs would undergo changes

Share of jobs which are at a high risk of automation or a risk of significant change



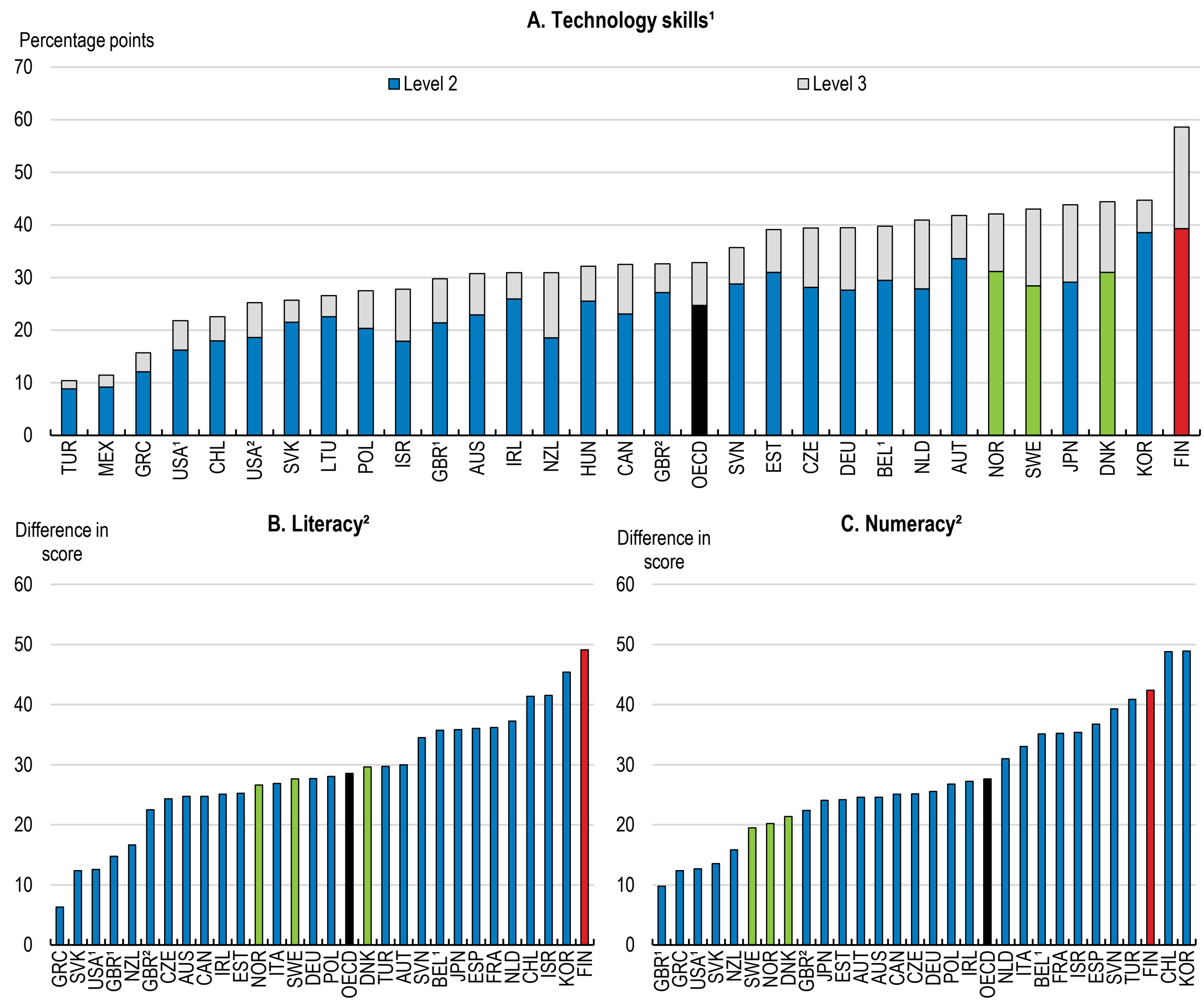
Note: Jobs are at high risk of automation if the likelihood of them being automated is at least 70%. Jobs at risk of significant change are those with the likelihood of being automated estimated at between 50 and 70%. Data for Belgium correspond to Flanders and data for the United Kingdom to England and Northern Ireland.
Source: OECD (2019), OECD Employment Outlook 2019.

StatLink https://stat.link/ig3kv5

Given the particularly high demand for skills in Finland, older workers face severe challenges in the labour market as they have lower information processing skills, including literacy and numeracy skills, than the rest of the working-age population, particularly than the younger generation (Figure 2.22). This reflects both their lower education levels than younger cohorts and a deterioration of skills with age. The older age group surveyed in the 2012 PISA study did not benefit from the comprehensive school system implemented from 1972, which provided a nine-year basic education to everyone. Furthermore, Finland belongs to a group of countries where literacy skills erode somewhat with age (Barrett and Riddell, 2016[36]). The large inter-generational skill gaps combined with fast diffusion of digital technologies reduces the chance of older workers remaining employed, especially those facing higher risks of being replaced by computers or robots. Fortunately, the seniority wage premium is low in Finland, limiting the loss of cost competitiveness of older workers, making it easier for them to remain in continuous work (OECD, 2019[37]) (Figure 2.23).

Figure 2.22. Information processing skills are lower for older than for younger workers

Difference between the youngest (25-34 year-olds) and oldest (55-65 year-olds) adults



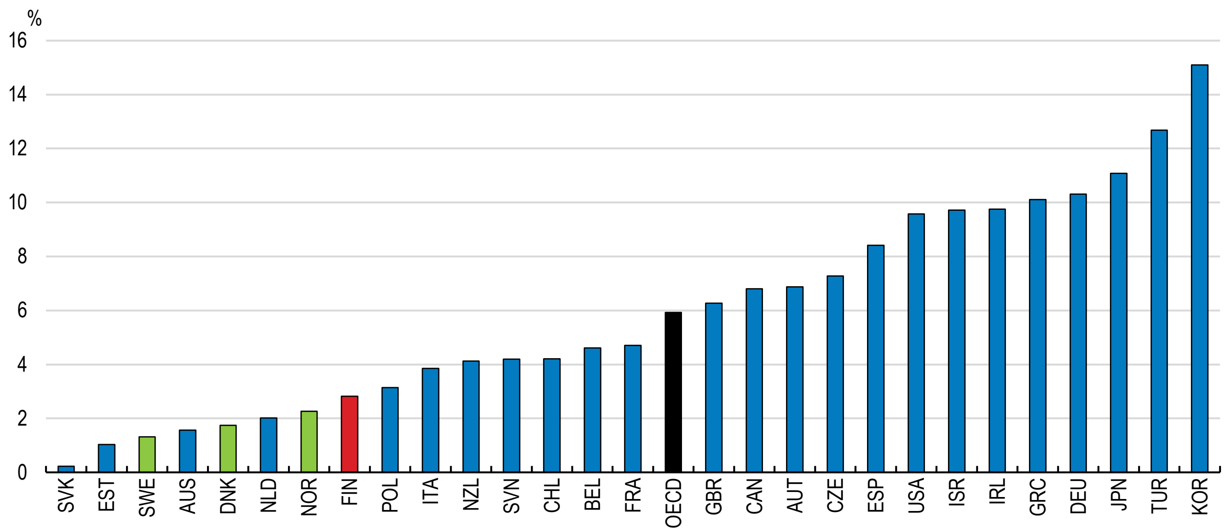
Note: 1. Difference in shares of the youngest (25-34 year-olds) and oldest (55-65 year-olds) adults scoring at Level 2 or 3 in problem solving in technology-rich environment. 2. Difference between the youngest (25-34 year-olds) and oldest (55-65 year-olds) adults. In all panels, data for Belgium[1] correspond to Flanders, data for United Kingdom[1] correspond to England, data for United Kingdom[2] correspond to Northern Ireland, data for United States[1] correspond to data from 2012/2014 survey and data for United States[2] correspond to 2017.
Source: OECD Survey of Adult Skills (PIAAC) (2012, 2015, 2018).

StatLink https://stat.link/lxr7od

The unemployment tunnel increases the probability of early retirement of older workers more in occupations that are highly exposed to digital technologies and automation risks than in other occupations (Box 2.9). Indeed, the surge in unemployment risks starting 500 days before the eligibility age for extended unemployment benefit (documented in Figure 2.13, Panel A) is significantly larger for office clerks or production workers (Figure 2.24), occupations often characterised by high shares of codifiable routine tasks that are more likely to be automated (Nedelkoska and Quintini, 2018[38]). The interaction between the unemployment tunnel and digital technologies in driving older workers out of employment documented in Box 2.9 underscores the importance of closing pathways to early retirement, in addition to boosting skills, for ensuring the inclusion of older workers in the future of work.

Figure 2.23. The seniority premium in wages is relatively small

Predicted wage growth moving from 10 to 20 years of job tenure for individuals aged 50-60, 2011/12 or 2014/15

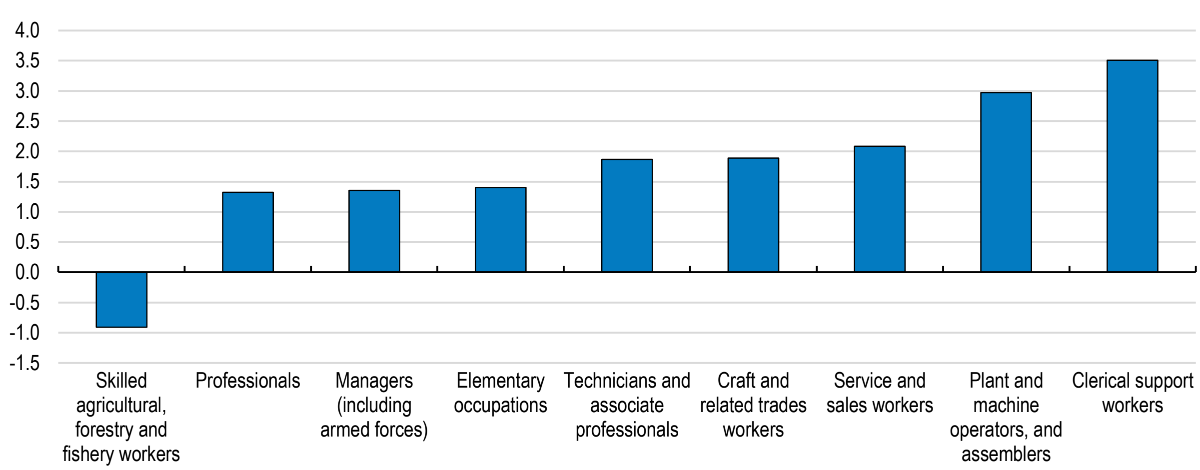


Note: Estimates were obtained from a cross-sectional regression of wages on tenure, squared tenure and controls for: gender, experience, years of education, literacy and numeracy skills, occupation, skill use at work, and educational status of the parents. The OECD is a weighted average and excludes Hungary, Iceland, Latvia, Lithuania, Luxembourg, Mexico, Portugal and Switzerland. Data for the United Kingdom refer to England and Northern Ireland and Belgium to Flanders.
Source: OECD (2018), Working Better with Age: Japan.

StatLink https://stat.link/ef9gy4

Figure 2.24. The effect of the unemployment tunnel is larger in automatable occupations

Change in unemployment risks from age 58 to 60, percentage points, 2015-17



Source: Yashiro, N. et al. (2020), "Technological changes, labour market institutions and early retirement-Evidence from Finland", OECD Economics Department Working Paper, Forthcoming.

StatLink https://stat.link/dr27g1

Box 2.9. The unemployment tunnel promotes the early retirement of workers more exposed to digital technologies

Joint research with the VATT Institute for Economic Research explores the effect of the unemployment tunnel on the early retirement of older workers exposed to technological change (Yashiro et al., 2020[39]). In general, older workers facing radical technological change are induced to retire early, because it does not pay for them to invest in new skills that complement new technologies given their short remaining working lives (Ahituv and Zeira, 2011[40]). For the same reason, employers also have little incentive to train older workers instead of letting them go (Saint-Paul, 2009[24]). Availability of early retirement pathways should facilitate this technology-induced retirement. It is therefore expected that the unemployment tunnel increases the outflow from employment more for individuals with higher exposure to technological change.

Empirical strategy

The research exploits the rich FOLK employer-employee database, which makes it possible to track individuals' transitions from employment to unemployment or inactivity and includes rich information on individuals' socio-economic background and benefit entitlements. The dataset is matched with novel occupation-level indicators constructed from the OECD Survey of Adult Skills (PIAAC) that capture the exposure of workers to digital technologies, namely the risk of automation, the intensity of routine tasks and the intensity of ICT skills. Higher intensity of routine tasks suggests a higher risk of substitution of machines or computers for workers (Autor, Levy and Murnane, 2003[41]). Higher intensity of ICT skills is likely to lower risk of such substitution, as ICT skills complement machines and computers.

The probability of early retirement is defined as the probability of an individual *i* aged between 50 to 65 not being employed at the end of the period *t* conditional on being employed in the past two years. It is estimated as the following linear probability function:

$$P(E_{it} = 0 | E_{it-1}, E_{it-2} = 1) = \alpha + \beta_1 Tech_i + \beta_2 UT_{it} + \beta_3 (Tech_i \times UT_{it}) + \delta X_{it},$$

The second term on the right-hand side $Tech_i$ is the occupation-level measure of exposure to digital technologies described above. Its coefficient captures the impact of a one standard deviation higher exposure to digital technologies than the average across occupations, for individuals who are not eligible for the unemployment tunnel. The third term UT_{it} is a dummy variable indicating the eligibility for the unemployment tunnel for individuals with an average level of exposure to digital technologies. It takes the value one two years before the eligibility age for extended unemployment benefit, to take into account the entitlement to 500 working days of unemployment benefit enjoyed by older individuals (see above). The interaction term (the fourth term) indicates the case of an individual with higher than the average exposure to digital technologies and access to the unemployment tunnel. Its coefficient is expected to be positive and significant, except when $Tech_i$ is the intensity of ICT skills, in which case it is expected to be negative. X_{it} is a vector of control variables that includes age, gender, educational attainment, marital status, the area of residence, sector, and also year dummies intended to capture fluctuations in labour demand.

Empirical findings

The main findings (Table 2.2) confirm the above hypotheses:

- Higher exposure to digital technologies is associated with a higher risk of unemployment, but its impact is small when the individual is not eligible to the unemployment tunnel. For instance, an individual exposed to higher risks of automation would face a 0.9 percentage point higher probability of exiting employment each year. Higher intensity of routine tasks also seems to increase this probability but the impact is not statistically significant. On the other hand higher intensity of ICT skills decreases early retirement risks.
- The impact of digital technologies is considerably larger when an individual is eligible to the unemployment tunnel. A one standard deviation higher risk of automation increases the unemployment risk by 1.3 percentage points every year. Intensity of routine tasks or ICT skills also significantly affect the unemployment risk.
- Eligibility to the unemployment tunnel by itself increases the unemployment risk substantially, as documented in previous studies. An individual exposed to an average level of automation risk would face a 1.8 percentage point higher risk of unemployment by gaining eligibility for the unemployment tunnel.
- The combined impact of digital technologies and the unemployment tunnel amounts to a 4 percentage-point higher risk of unemployment compared with an individual exposed to an average level of automation risk who is not eligible for the unemployment tunnel. This is equivalent to an 80% increase in the risk of unemployment for an individual aged 57-58.

Table 2.2. Estimated coefficients on digital technologies and the unemployment tunnel

Dependent variable: Probability of early retirement			
Variable of exposure to digital technologies	Risk of automation	Intensity in routine task	Intensity in ICT skills
Exposure to digital technologies ($Tech_i$)	0.887***	0.134	-0.789***
Eligibility to the unemployment tunnel (UT_{it})	1.757***	1.974***	1.952***
The interaction ($Tech_i \times UT_{it}$)	1.336***	1.670***	-1.126***

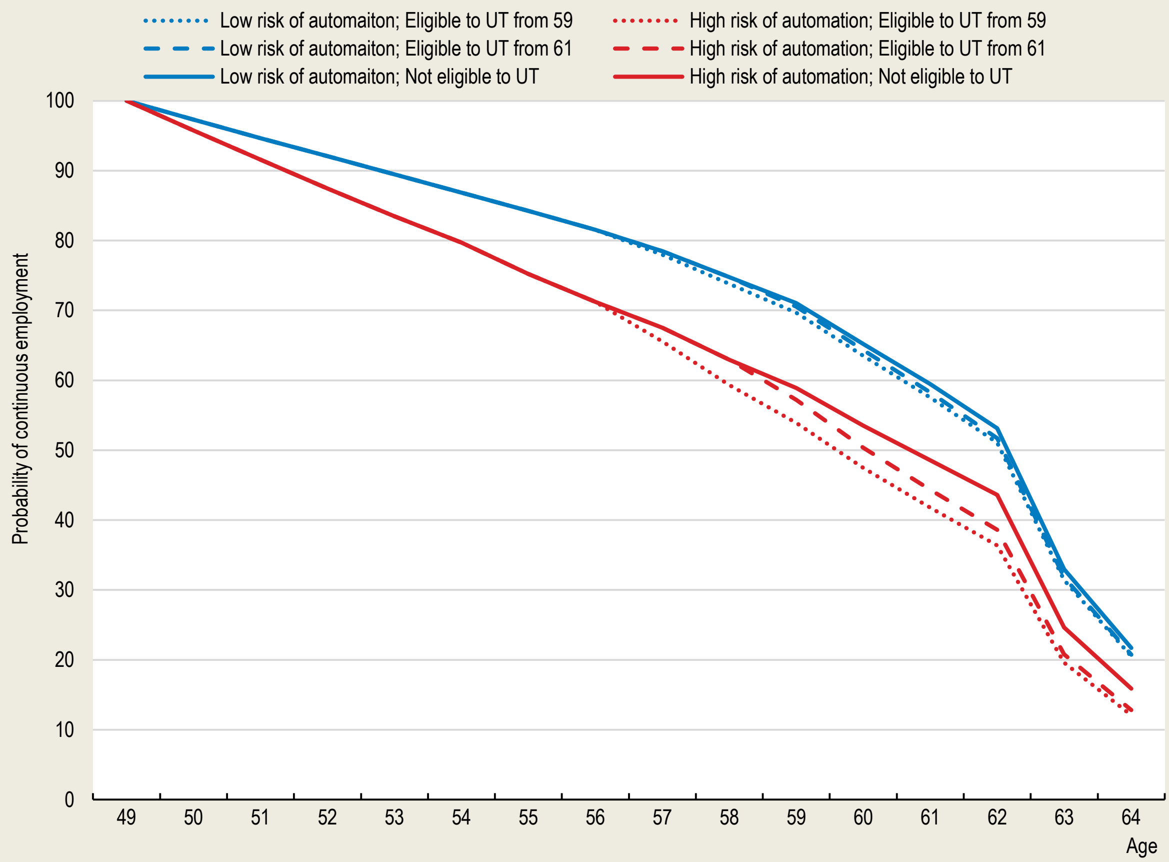
Note: The sample covers workers aged 50 to 65 in the private sector. All coefficients are multiplied by 100 so that they can be interpreted as percentage points. The number of worker-year observations for each model is 3,119,580. Standard errors are clustered at the individual level. *** indicates statistical significance at 1% level.
Source: (Yashiro et al., 2020[39])

Simulating the impact of unemployment tunnel reforms on the employment of older workers

A model similar to the one above can be used to simulate the impact of reforms that tighten access to the unemployment tunnel on employment of older workers. Figure 2.25 shows that the probability that an individual employed at age 49 remains employed declines more steeply with age, if he is exposed to a higher than average risk of automation (corresponding to the red lines). Reforms to tighten access to the unemployment tunnel, which correspond to a shift from dotted lines to the solid line, increase the probability of continuous employment significantly for individuals exposed to higher automation risks but have little impact on those exposed to lower risks of automation.

Figure 2.25. The probability of staying employed declines faster with higher exposure to digital technologies and better access to the unemployment tunnel

The probability of an individual employed at age 49 to be continuously employed



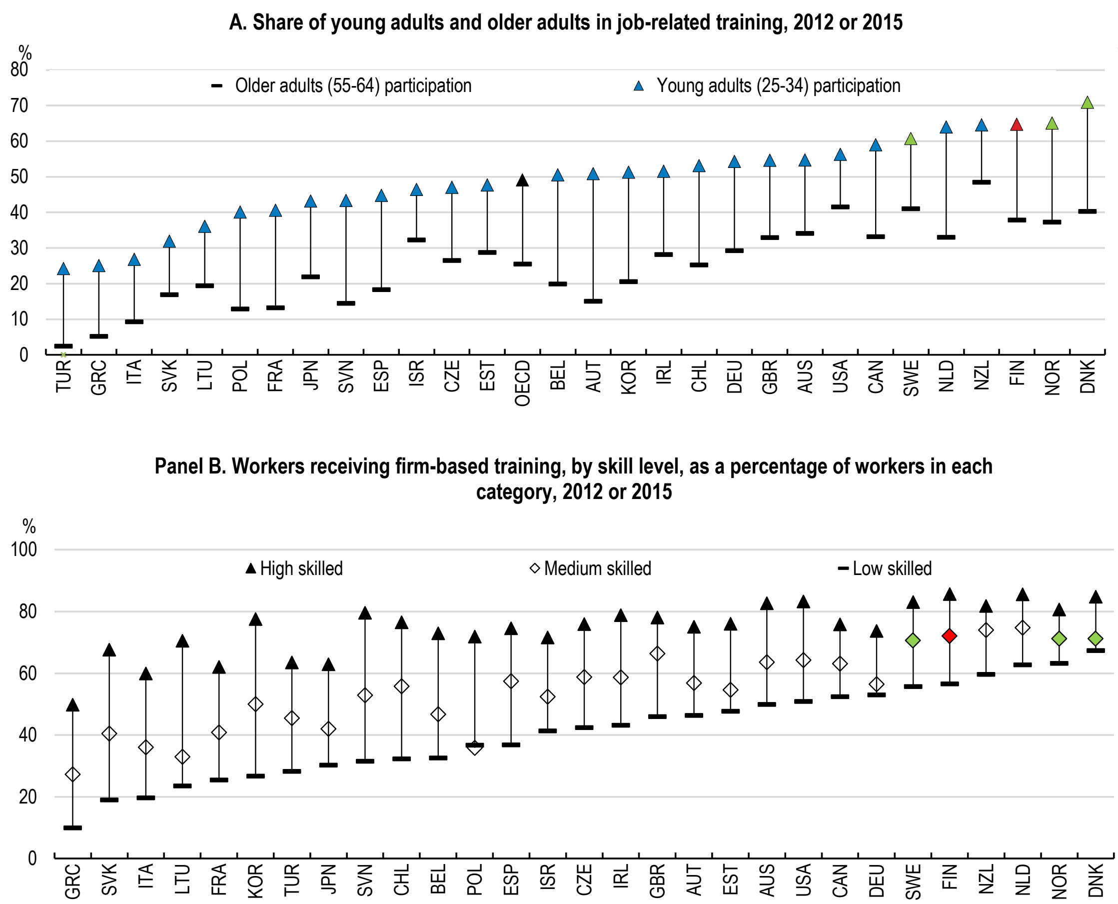
Note: High (low) risk of automation indicates occupations with higher (lower) than the average automation risk across occupations. UT stands for the unemployment tunnel.
Source: Yashiro, N. et al. (2020), "Technological changes, labour market institutions and early retirement-Evidence from Finland", OECD Economics Department Working Paper, Forthcoming.

StatLink https://stat.link/we23mx

Maintaining employability at older ages through more targeted lifelong learning

The fast pace of digitalisation in Finland means that on-the-job training and lifelong learning opportunities are particularly important for workers to maintain their employability at older ages by updating their skills throughout their working lives. The participation rate in adult education in Finland is among the highest in the OECD, thanks partly to the Adult Education Allowance that provides income replacement for up to 15 months to engage in lifelong learning. However, there are large gaps in participation rates between older- and young workers or low-skilled and other workers (Figure 2.26), even though older workers and unskilled workers participate more in adult education in Finland than in many other OECD countries. Furthermore, employees in occupations characterised by declining employment, who are likely to have been replaced by computers or robots, participate only modestly in adult education, especially if they are older or less-skilled (Asplund, Kauhanen and Vanhala, 2019[42]). Lower participation by the unskilled in adult education is a challenge, given that they are the ones particularly prone to automation risks (Nedelkoska and Quintini, 2018[38]).

Figure 2.26. Participation in lifelong learning is high but some groups lag behind



Source: OECD (2019), Working Better with Age; and OECD (2019), Getting Skills Right.

StatLink https://stat.link/gnyx13

While Finland's adult education is well developed and accessible in terms of low financial costs and high flexibility, programmes are not targeted to specific population groups, except some aimed at integrating immigrants (OECD, 2020[43]). Adult education courses targeted at unskilled workers should be put in place to increase their employability at latter stages of their working lives. In particular, adult education courses that rebuild digital and other basic skills that form the foundation for further continued learning are important for helping lower-skilled workers adapt to digitalisation. Some projects funded by the European Social Fund aim to improve foundation skills and basic education for adults. For example, the Skills in the Digital Age project launched in 2018 provides training in basic digital skills. The government plans to implement further measures to train adults with low basic skills. Engaging unskilled workers in training and learning requires rigorous outreach efforts, strong counselling services, as well as innovative approaches (Box 2.10). Indeed, the government envisages introducing lifelong guidance in continuous learning, especially for older and unskilled workers. These efforts are to be complemented by ongoing initiatives to boost the overall educational attainment of Finnish workers, as 16% of Finnish workers lack upper-secondary educational attainment. The government plans to increase the minimum school leaving age from 16 to 18 and a pilot study is underway extending free pre-primary education from one year to two.

Finland needs to increase training programmes that are more work relevant and result in skills recognition. In contrast to other European countries, adult education in Finland is biased toward formal education such as Bachelor's degree programmes at universities (OECD, 2020[43]). As formal education is free of charge and involves financial support, workers with tertiary educational attainment seeking to acquire additional qualifications often pursue university degrees. For example, 45% of new starters in Bachelor's degree programmes already hold bachelor's degrees (OECD, 2020[43]). However, individuals with low educational attainment have little interest in pursuing university degree programmes, which require substantial time commitment (three to four years of full-time study) and are less aligned to labour market needs than vocational training organised by employers. Another undesirable effect of many adults pursuing continuous education at universities is that they crowd out study places for younger generations seeking to enter tertiary education. This contributes to Finland's exceptionally late completion of tertiary education. A 2018 reform obliged universities to offer continuing education by modules, which are shorter than degree programmes and may alleviate competition over study places. Yet, more can be done to increase shorter and more practical training that is more accessible for unskilled workers.

The role of employers in shaping the content of adult education needs to be strengthened, in order to increase the labour market relevance of adult education. Adult education in Finland is mostly designed and provided by public institutions, with employers only playing a consulting role (OECD, 2020[43]). The government has encouraged vocational education institutions and universities to strengthen labour market relevance by incorporating labour market performance of graduates in their funding system. For instance, 15% of the funding of vocational education and training schools reflects the labour market performance of their graduates. The government also subsidises employer-provided vocational training for employee upskilling (the *Precise* training scheme). Yet, there is still room for further collaboration between the government and employers, namely in designing curricula and recognising skills acquired in non-formal education and training.

Low-skilled adults often face more complex obstacles to participation in adult learning than their higher skilled counterparts, including having greater household obligations and tighter financial constraints (OECD, 2019[44]). They therefore need more comprehensive advice and guidance services, not least because they have less access to relevant information on education and training opportunities as well as available financial assistance. Yet, career guidance opportunities for low skilled adults are somewhat limited in Finland until they become unemployed, at which point they have priority access to job counselling services at the PES (OECD, 2020[43]). The career guidance services can be strengthened through more intensive use of digital platforms such as online courses for career management or digitalised counselling services, as well as larger role by private providers. One particularly promising area of collaboration between the public sector and employers is assessment and validation of worker competencies in mid-career, which identifies skills that workers should acquire and provides necessary training. Such mid-career reviews are effective in ensuring the employability of unskilled workers at older ages (OECD, 2019[37]). However, employers often do not want to bear the full costs of mid-career reviews and associated training, as the skills acquired would mostly be transferable. Social partners should seek to reach consensus on their roles in financing this work-based adult education. Besides mid-career reviews, other means to support career planning of low-skilled adults could be: a) through enhancing their career management skills e.g., through digital courses; b) developing a variety of guidance and counselling services e.g., supporting private service providers or developing low-threshold one-stop guidance services for adults; and c) developing integrated digital services to support career planning.

Box 2.10. Training programmes targeted at low skilled workers in OECD countries

Reaching out to low-skilled workers

Active and direct outreach to low-skilled workers is essential for engaging them in learning. Outreach through the workplace can be particularly effective, as the workplace is one of the key places where individuals identify their training needs and take part in training opportunities. However, those who lack basic skills may not be able to communicate their training needs to employers, or employers may not be forthcoming in learning about such needs. In the United Kingdom, trade unions play a role in bridging employers and employees with low skills. For instance, the *Unionlearn* scheme supports workers in acquiring skills and qualifications to improve their employability. One of its key activities is the training of Union Learning Representatives (ULRs), who help workers identify their training needs and arrange learning opportunities within their companies. Since its inception in 2006, *Unionlearn* has trained more than 40 000 ULRs. It provides learning opportunities to about 250 000 workers per year, including disproportionally high numbers of workers with low qualification levels according to independent evaluations.

Holistic advice and guidance

Adults with low skills need support in identifying their training needs and in understanding which type of training is most appropriate for them. However, such comprehensive advice and guidance services require skilled caseworkers, who have sufficient time and resources to provide tailored assistance to each individual. In Iceland, *Lifelong Learning Centres* provide education and career counselling with a specific focus on low-skilled adults. Their guidance counsellors typically have a diploma or master's degree in education and vocational counselling. There are dozens of *Lifelong Learning Centres* around the country including in sparsely populated areas, which conduct around 10 000 guidance counselling sessions with people with low qualification levels every year. In Austria, *Bildungsberatung Österreich* offers independent and free counselling for adults on education and training opportunities. The service specifically targets adults with disadvantages in the labour market, including the low-skilled, older adults, inactive adults and adults with a migrant background. Depending on the federal state, adults can choose from a range of modes to receive guidance, including face-to-face, on the phone or online via Skype or chat. The service is provided in 16 languages, although not all languages are spoken in every location.

Hands-on and innovative training approaches

Adult learning does not always equip low-skilled workers with the practical skills they need to succeed in the labour market. Furthermore, classroom-style adult learning may appeal little to low-skilled workers, as many of them have not experienced more than compulsory schooling. In Norway, the *Skills Plus Work* programme embeds basic skill training in the workplace. Since 2006, the programme supported more than 30 000 adults in acquiring reading, writing, numeracy and digital skills. Private and public enterprises can apply for grants for the training of their employees. Training must combine work and basic skill training and aim to strengthen workers' motivation to learn. In Germany, a story-based learning project *eVideoTransfer* offers digital learning opportunities for workers with low basic skills and limited time. It develops industry-specific training, which combines learning content on basic skills and professional knowledge. All training is web-based and takes the learner through an engaging storyline, which is conveyed through videos. Users must have a basic level of digital literacy, although a learning module about how to use mouse and keyboard was developed to reach a wider target group.

Source: (OECD, 2019[44]).

Strengthening employment services to boost the re-employment of older workers

Phasing out the extended unemployment benefit would increase the demand for activation measures to promote the re-employment of displaced older workers. In 2017, Finland's public expenditure on active labour market policies (ALMP) was about 1% of GDP, a share second only to Denmark and Sweden and twice the OECD average. About 45% of spending was on training, mostly provided by education institutions (OECD Employment Database) and delivered to younger people. The older unemployed participate much less in activation measures as they are either in the unemployment tunnel or expect to enter it. The activation rate of the unemployed aged 50 and over was only about 15% in 2015, less than half the rate for the younger unemployed (OECD, 2016[18]). Furthermore, the older unemployed who participated in activation measures were less likely to take part in training than the younger unemployed and more than half of the older unemployed benefited from rehabilitation measures or an employment subsidy, both of which have proven to be less effective in getting the unemployed back to work than training (OECD, 2016[18]); as noted above, private-sector employment subsidies have more favourable employment effects than public-sector subsidies, which serve to push the older unemployed into the unemployment tunnel. It is important to enrol older unemployed into more effective activation measures, namely training programmes targeted at older workers, in tandem with tightening activation requirements for receiving unemployment benefits.

The capacity of the PES needs to be strengthened to provide suitable activation measures to displaced older workers. In order to cope with the increased caseload with relatively low staffing (see above), the PES is increasingly relying on digital services to interact with jobseekers in counselling and monitoring job search. For instance, the initial registration as an unemployed jobseeker, which sorts jobseekers to the most appropriate service line, is almost always done online. The process of drawing up an employment plan together with the PES is also commonly done online. However, experience in Denmark shows that early and intensive face-to-face contact with the unemployed is very important for activating them (Maibom, Rosholm and Svarer, 2017[45]). Moreover, experience in Colombia shows that the PES is less effective in placing jobseekers in well-paying jobs when providing services online instead of face-to-face (Pignatti Morano, 2016[46]). Online services can work well for job-ready clients but not for older unemployed who need more comprehensive support and, in some cases, have difficulty using online services. Face-to-face counselling can be particularly important to assess the work capacity of older unemployed, which varies substantially. It is therefore welcome that in its Employment Package for the 2021 Budget negotiation the government has allocated additional resources for the PES to increase face-to-face counselling. Shifting some funding from relatively expensive activation programmes towards more and earlier face-to-face contact with a jobseeker, as well as automating back-office jobs rather than the counselling and monitoring processes, would further increase the effectiveness of the employment services. The government could also give private employment service providers a greater role as a way to increase the efficiency of employment services. Finland already outsources most of job search training to private providers, but could use them more extensively in job counselling and placement services. Evidence from some OECD countries suggests that extensive use of private providers helped the PES improve efficiency in job placement services, although an adequate incentive structure and rigorous performance assessment are key (Box 2.11).

There is a strong need for re-employment support adapted for older jobseekers at an early stage of their unemployment spell. Given the considerable difficulty they face in finding jobs once they are dismissed, early-stage intervention is key for avoiding long-term unemployment. In Finland, employment support is rarely provided before jobseekers register with the PES and there are no measures targeted towards older jobseekers. The Change training programme subsidised by the government provides vocational training for a minimum of 10 days for up to two years to dismissed workers. However, only a small portion of displaced workers who previously subscribed voluntarily to the Change security scheme are covered by this training (OECD, 2016[18]). Furthermore, while about a half of displaced workers enrolled in this training programme were re-employed after one year, the odds of re-employment were significantly lower for older workers with long tenure (Ålander et al., 2013[47]). The Competitiveness Pact agreed in 2016 introduced an obligation for employers with more than 30 employees to provide training to dismissed employees to help with their re-employment. This obligation ought to be extended in the renegotiation of the Pact in 2019-2020. More can be done by putting in place counselling services that prepare workers for new jobs as soon as they are notified of redundancy, as in Sweden, or by providing intensive re-training and guidance for older workers, like the Targeted Initiative for Older Workers programme in Canada.

Box 2.11. Bolstering employment services through extensive partnership with private providers: Australia and the United Kingdom

Australia and the United Kingdom are the two OECD countries where employment services were outsourced extensively to private providers, in order to maximise employment outcomes in a cost-effective way. Australia's mainstream employment service has been entirely contracted out since the late-1990s to over a hundred for-profit and non-profit provider organisations competing in a "quasi-market", with their operations financed mainly by service fees and placement and employment outcome payments. The United Kingdom introduced extensive quasi-market arrangements in employment services including those for long-term unemployed in 2011. The arrangements involved large contracts held by a few prime providers working with a network of sub-contractors and a black box approach where providers were free to offer any sort of service or set of interventions without mandatory requirements, to deliver predefined (longer-term) outcomes (OECD, 2014[48]).

In both cases, outcomes were somewhat disappointing initially and outcome-based payments were revised several times over the years to improve outcomes. In particular, both countries gradually strengthened payments for longer term employment outcomes and reduced payments for the initial intake of jobseekers. For example, in Australia, outcome payments are made when the placed jobseekers reach 13 weeks in employment and again when they reach 26 weeks. This motivated private providers to invest in capacity to achieve sustainable employment outcomes instead of placing jobseekers into any job. Both countries also extended the duration of service contracts to encourage long-term investment.

The Australian government regularly publishes Star Ratings of each private provider's performance based on how many job placements and longer-term outcomes are achieved, while controlling for differences in jobseeker characteristics and local labour market conditions. In subsequent tender rounds, providers with low Star Ratings lose business, which is reallocated to higher performing providers and to some new market entrants (OECD, 2015[49]). In the United Kingdom, such rigorous measurement is not possible due to the lack of a comprehensive national database of jobseeker characteristics.

Overall, employment services in Australia and the United Kingdom are likely to have been delivered at a lower cost after extensive subcontracting to private providers. Employment outcomes also improved over time in both countries. In the United Kingdom, employment outcomes were satisfactory for average jobseekers but initially fell short of the authorities' expectations for those who are harder to place in a job, especially those with reduced work capacity (National Audit Office, 2014[50]). There was evidence of providers providing little or no services to jobseekers who were perceived to be harder to place despite having received larger outcome payments for placing them. In response, the authorities strengthened oversight of contractors through a robust performance management regime that includes regular performance reviews based on monthly and yearly achievements. Programmes targeting harder to place groups were also introduced, such as the Specialist Employability Support introduced in 2015, focusing on helping those furthest away from the job market though an individually tailored combination of guidance, work placements, and work experience. With the exception of a subgroup of Employment and Support Allowance recipients, employment outcomes significantly outperformed the minimum levels expected by the authorities between 2013 and 2017 (Department of Work and Pension, 2020[51]).

Adapting the workplace to older workers

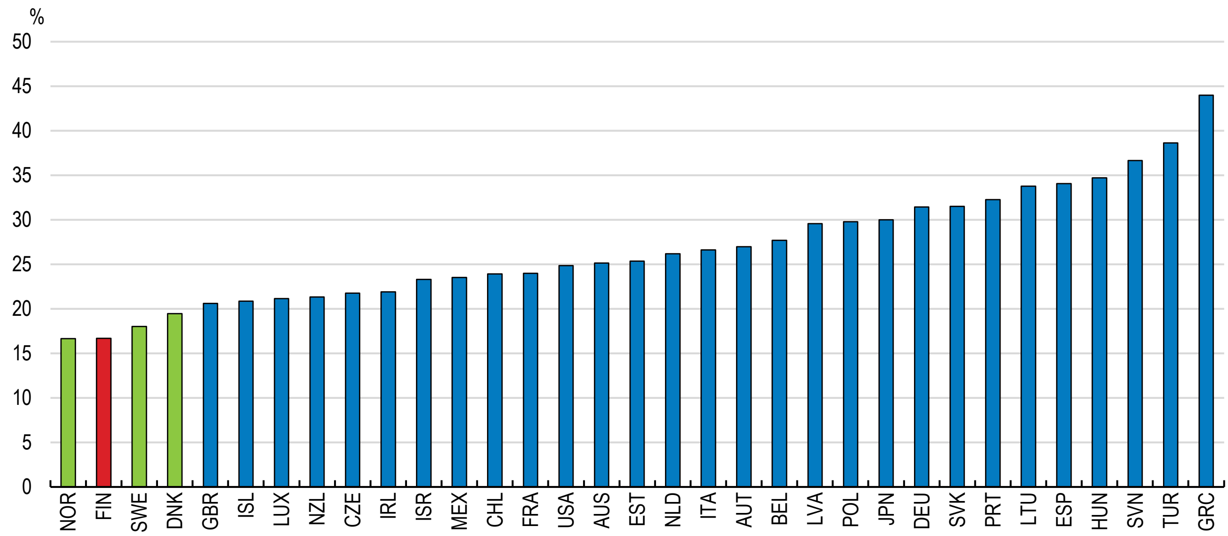
Work arrangements and the working environment should be reformed to promote longer working lives. In Finland, many workers retire early even though they could work longer not only owing to the availability of early retirement pathways but also because of an unattractive work environment for older workers. For instance, a survey reports that some 71% of surveyed workers who retired at the minimum retirement age of 63 or earlier could have worked longer had they wished to do so (Tuominen, 2013[52]). Their decision to retire instead was driven primarily by dissatisfaction with working conditions and a preference for leisure and hobbies, not by health conditions or family obligations. Examples of dissatisfaction with working conditions included time pressure at work, changes in work tasks, inflexible working hours, as well as poor administration and atmosphere at work. Such findings suggest that there is room to boost continued employment at older ages by improving the work environment for older workers, particularly through more flexible work arrangements, better training opportunities and a more accommodative mind-set towards older workers. Indeed, it has been found that high job satisfaction motivates older workers to work longer and is also associated with higher productivity (Böckerman and Ilmakunnas, 2017[53]).

More flexible work arrangements like part-time employment, flex-time or teleworking would allow not only older workers but also mothers with young children (see below) to work more. Potential demand for flexible work arrangements is high, as Finnish workers increasingly favour continuing to work while receiving old age pension (Tuominen, 2013[52]). Nevertheless, the share of part-time employment in employees aged 55-64 is about 16%, below Sweden (21%), Norway (23%) or the OECD average (20%), while the share of involuntary part-time employment is high (OECD Scoreboard on Older Workers). This suggests that there are insufficient part-time employment opportunities providing high work-life quality and income that compensates sufficiently for the loss of generous unemployment benefits. The government intends to develop adjusted unemployment benefits that would make part-time work pay. However, it is also necessary to improve the part-time working conditions. Part-time employment in Finland involves fewer opportunities for skills development, less work autonomy, and fewer possibilities for employees to set flexible working time compared to full-time employment (Ojala, Nätti and Kauhanen, 2015[54]).

Good working conditions not only help prevent work-related health problems and thus inflow into disability benefits, but also encourage older workers to work longer or return to work from disability. Overall, workers in Finland are less exposed to job strain, a situation where job demand exceeds available resources, than in most of OECD countries (Figure 2.27). However, the health outcomes of male workers with lower educational attainment in physically demanding occupations are considerably worse than for other workers, thereby shortening their working lives (von Werder and Thum, 2013[32]). Furthermore, the 2018 Quality of Work Life Survey finds a clear increase in the share of Finnish workers reporting symptoms of workplace hazards such as lack of sleep or feeling clear risks of severe burnout. Also, symptoms previously reported by old workers like neck, shoulder and back pain or feelings of fatigue are now common among young and middle age cohorts. These latest trends are alarming, as they may prevent current and future old cohorts from working longer.

Figure 2.27. The quality of the working environment is high overall

Incidence of job strain, %, 2015



Note: Job strain is defined as jobs where workers face more job demands than the number of resources they have at their disposal.
Source: OECD (2020), OECD Job Quality database.

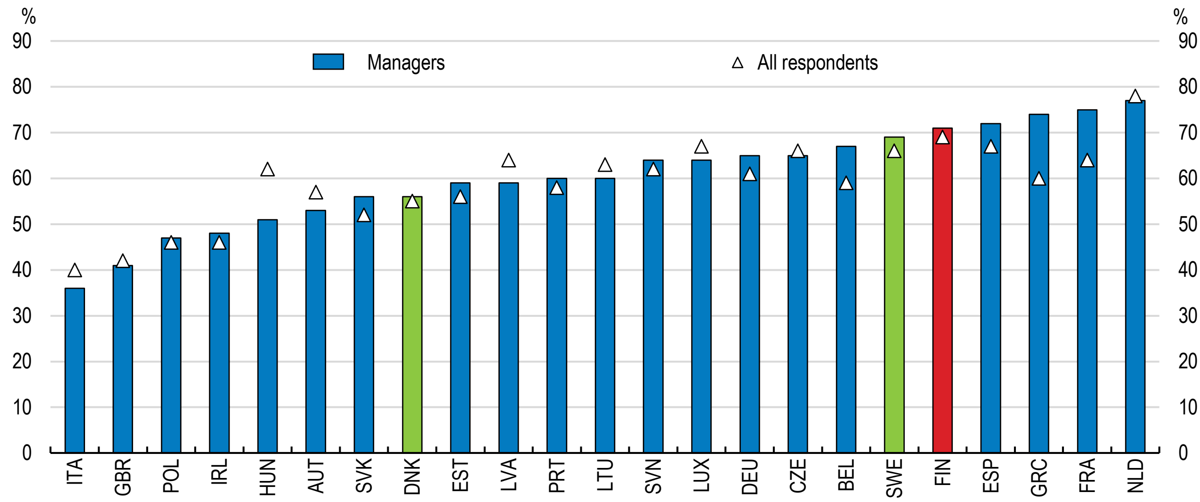
StatLink https://stat.link/vyhisw

Fighting age discrimination

Age discrimination is a major impediment for older workers to be hired or assigned to good jobs that motivate them to work longer. In Finland, the possibility of a vicious cycle between employers' reluctance to hire and train older workers and older workers discouraged by such unfavourable treatment and not striving to remain employable was pointed out in Sterdyniak (2007[55]). A majority of corporate managers in Finland consider job applicants aged above 55 would be at a disadvantage against younger applicants with the same qualifications (Figure 2.28). In the 2013 Quality of Working Life Survey, about 9% of respondents report having observed discrimination towards aged people at their workplace, but nearly as many have also detected discrimination directed at young people (8%).

It is difficult to identify to what extent such unfavourable treatment of older workers is based on pure prejudice as opposed to economically rational reasons such as the generally-observed skills gaps between older- and younger workers (Figure 2.22) or specific costs associated with hiring older workers (see Box 2.5). The government will consider introducing the principle of anonymous job applications, in order to prevent age discrimination at the early stages of hiring. While this would prevent the discrimination against older applicants in the selection for interview, older workers are still likely to be discriminated against once their age is revealed at the interview (Neumark, 2020[56]). Fighting age discrimination requires broad efforts in changing employers' behaviour. The government has launched several programmes involving social partners to improve the perception of continuous work at old age since the 1990s (OECD, 2018[57]). However, these efforts may have been undermined by early retirement pathways. The penalties against age discrimination should also be strengthened. In Finland, age discrimination is prohibited by the Constitution, the Non-Discrimination Act and the Employment Contract Act. Employers found guilty of discrimination without an important and justifiable reason may be subjected to a fine or imprisonment for a maximum of six months. However, claims based on age discrimination are rare, and are mostly presented alongside other claims, especially a groundless termination of an employment contract (Agediscrimination.info, 2018[58]).The government should strengthen its efforts to detect and prosecute age discrimination, especially in hiring and access to training.

Figure 2.28. Older job applicants are more disadvantaged in Finland



Source: OECD (2019), Working Better with Age.

StatLink https://stat.link/cioen9

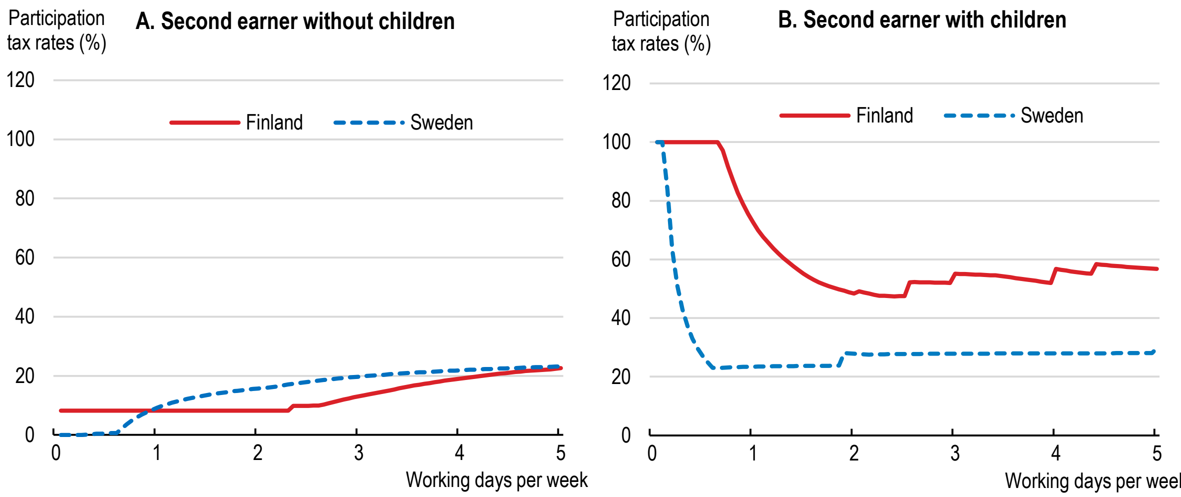
Increasing the employment of mothers with young children

Financial working incentives are weak

The financial incentives to work are very weak for second earners with young children in Finland. For instance, a second earner earning 30% of the female earnings distribution with two children aged two and three faces a much higher participation tax rate than a person in the same situation but without children(Figure 2.29, Panels A and B). He or she loses 60% of the increase in gross income due to taxes and reduced benefits when moving from inactivity to full-time work (Panel B). Financial incentives to take up part-time work are also very weak compared with Sweden (Panel B). Given that second earners of young children are usually women, the financial incentives for Finnish mothers to work either full or part-time are weak compared with most OECD countries. Sweden, in contrast, provides strong financial incentives to both full-time and part-time work for second earners with children. When moving to full-time work, participation tax rates remain relatively low at below 30%, with or without children (Panels A and B). This results in smaller differences in labour participation between mothers and non-mothers and higher participation in both full- and part-time work.

Figure 2.29. Mothers' financial work incentives are very low in Finland

2019



Note: Participation tax rates refer to the fraction of income which is taxed away by the combined effect of taxes and benefit withdrawals when entering or returning to work. For a person not entitled to unemployment insurance. First earner is assumed to work with hourly earnings of 50% of the male earnings distribution, and second earner is assumed to work with 30% of the female earnings distribution. Children are assumed to be aged two and three. Extreme positive and negative rates have been capped at 100% and 0%. Flexible homecare allowance is modelled.
Source: Calculations based on the OECD TaxBen model.

StatLink https://stat.link/e07pz4

Reducing the homecare allowance would improve work incentives

The strong disincentives to work for second earners with children is due to the generous social benefit granted for taking care of children at home instead of using ECEC services provided by municipalities. In Finland, the homecare allowance is paid for children up to three years old, immediately following the end of the 9-10 month parental allowance. The users are mostly women, although the scheme is in principle gender neutral (Figure 2.30). Although the generosity of the basic homecare allowance is comparable to similar schemes in other OECD countries (equivalent to roughly 10% of median earnings), there are various supplements (Sipilä, Repo and Rissanen, 2010[59]). For instance, there is a means-tested supplement, and a supplement for older siblings, when a mother has another child within a three-year period. Finland is the only country where the support is offered until age six via the sibling supplement (Hiilamo, Merikukka and Haataja, 2018[60]). Moreover, most of the large municipalities (including Helsinki, albeit only up until the youngest child is two years old) provide municipal supplements, partly to reward families for not using ECEC services that are more costly for municipalities to provide than homecare allowances (OECD, 2016[61]).The ECEC fee is relatively low, but the loss of generous homecare allowances results in the highest net cost of childcare in the Nordics (Figure 2.31).

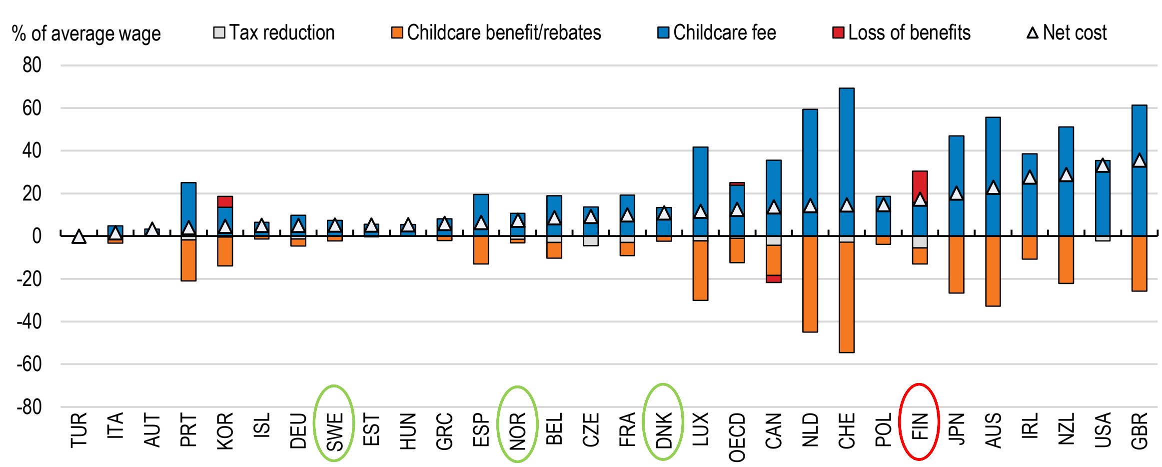
Figure 2.30. Homecare allowance recipients are mostly women

Source: Kela (The Social Insurance Institution of Finland).

StatLink https://stat.link/0phobu

Figure 2.31. The homecare allowance makes it financially burdensome for mothers to use ECEC

Net ECEC costs for full-time ECEC at a typical ECEC centre, 2018

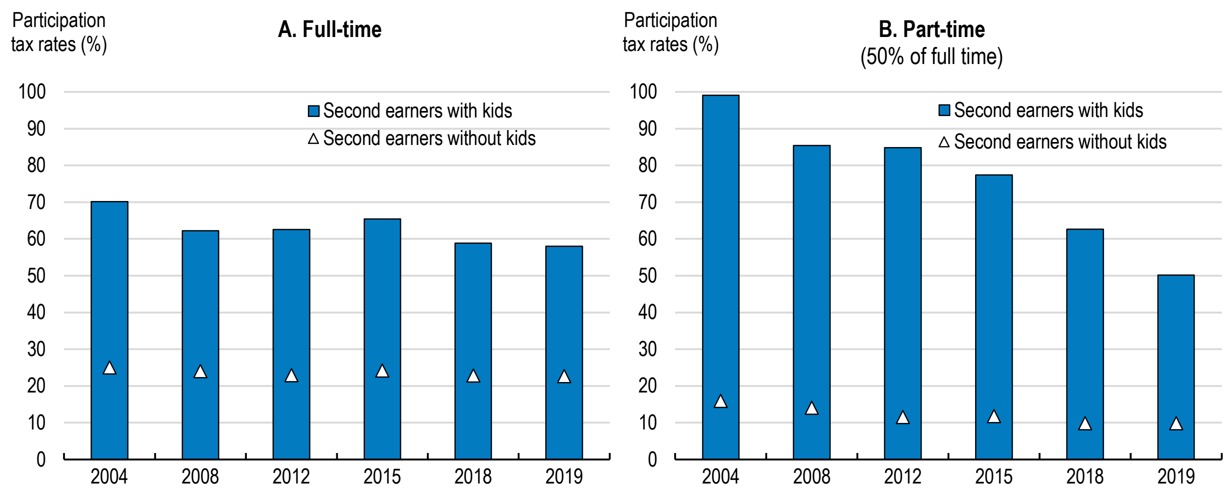


Note: For two earners, earning 67% of the national average wage respectively, with two children aged two and three.
Source: Calculations based on TaxBen model (last accessed 19 December 2019).

StatLink https://stat.link/qp7igc

Abolishing homecare allowances would considerably increase work incentives for mothers. The government has taken steps to improve work incentives for mothers: a flexible-care allowance was introduced in 2014 to improve incentives for part-time work for young or low-educated mothers with children under three years of age; and the ECEC fee was reduced by approximately 20% from 2017. Indeed, when working part-time, the participation tax rate dropped considerably (by around 30 percentage points) between 2015 and 2019 (Figure 2.32, Panel B). However, resolving the large incentive issues, especially for full-time work, will require removing or cutting back the homecare allowance (Panel A). According to simulations, the abolition of homecare allowances would profoundly transform work incentives for second-earner parents (Pareliussen, 2018[62]). However, it would likely have an adverse effect on public finances because the associated increases in expenditure on ECEC services and unemployment benefits for low-skilled mothers returning to the labour force would more than offset the savings on homecare allowances.

Figure 2.32. Financial incentives for part-time jobs have improved, but there is still room for improvement



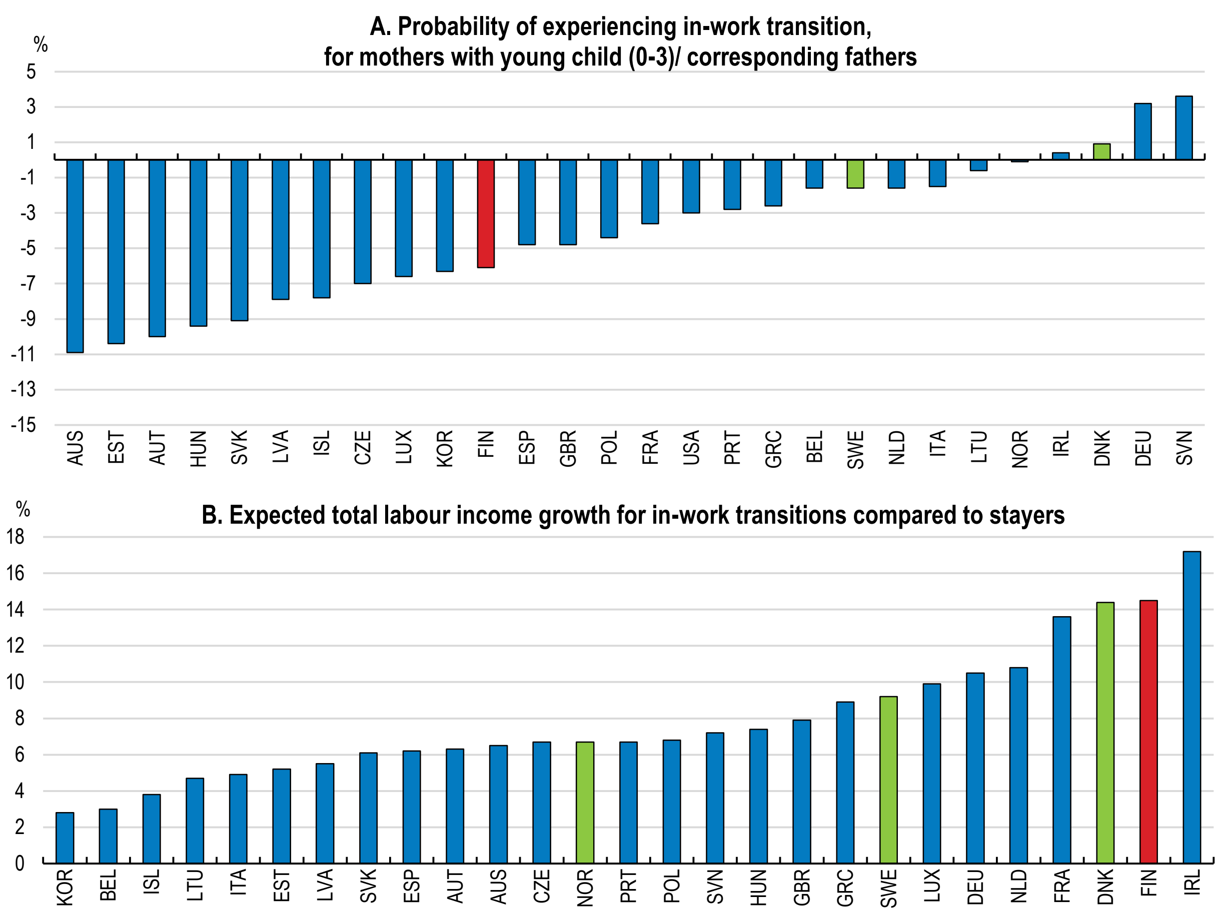
Note: Participation tax rates refer to the fraction of income which is taxed away by the combined effect of taxes and benefit withdrawals when entering or returning to work. For a person not entitled to unemployment insurance. First earner is assumed to work with hourly earnings of 50% of the male earnings distribution, and second earner is assumed to work with 30% of the female earnings distribution. Children are assumed to be aged two and three. Extreme positive and negative rates have been capped at 100% and 0%. Flexible homecare allowance is modelled.
Source: Calculations based on the OECD TaxBen model.

StatLink https://stat.link/df2c4s

Reducing the homecare allowance would generate significant gains in terms of a more gender-equal working life. The homecare allowance contributes to reduced labour market attachment among mothers, as the majority of mothers choose to take care of their child at home on homecare allowance - 70% of all children under three were cared for at home with homecare allowance (Hiilamo, Merikukka and Haataja, 2018[60]). Long absences from the workforce among mothers undermine their career prospects and earnings mobility. This is because mothers miss crucial in-work transitions occurring in the early stages of careers, which promote stronger career advancement and income growth (OECD, 2018[63]). This is particularly true in Finland, one of the countries where in-work transitions have the greatest impact on income (Figure 2.33, Panel B). Finnish mothers with young children are 6.5 percentage points less likely to experience an in-work transition than their partner (Panel A). Indeed, gross earnings of women and men sharply diverge immediately after the birth of their first child, and do not converge fully later (Figure 2.34). Sieppi and Pehkonen (2019[64]) found that in the long run, having children reduces women's earnings by about 25% compared with men, contributing to Finland's large gender wage gap (see Chapter 1). Thus, reducing the homecare allowance will not only boost labour participation among mothers of young children but also reduce the gender wage gap.

The issue of homecare allowance is also the nexus of concerns about other important social issues. One issue is childbirth - if the homecare allowance has a positive impact on the fertility rate, reforming the homecare allowance may be seen as detrimental to childbirth. Indeed, Erlandsson (2017[65]) found that women using the homecare allowance tend to have a subsequent child sooner and more often than women not using the allowance. However, several evaluations suggest that policies aimed at helping women combine career and family have a greater positive effect on childbirth than financial subsidies. For instance, OECD (2011[66]) found that of all the policies introduced over the years, provision of good quality ECEC services appears to be the most effective in encouraging families to have children and women to remain in the workforce, rather than financial support trying directly to boost birth rates. Another issue is poverty - some households close to the poverty threshold might fall below the poverty line as a result of the abolition or significant reduction of the homecare allowance, which includes a means-tested element. This issue can be addressed by increasing existing alternative transfers which are not conditional on homecare, such as the basic parental leave amount. The introduction of new transfers also could be considered such as providing a means-tested supplement to the child benefit, or leaving child benefit unchanged, and instead providing a means-tested refundable tax credit to families with young children.

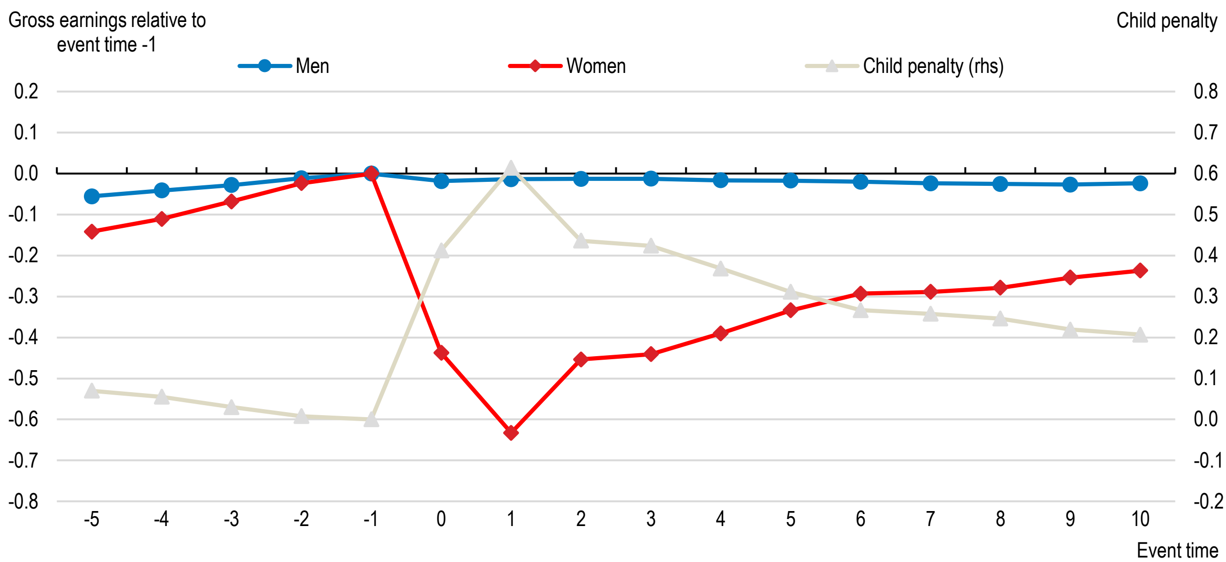
Figure 2.33. In-work transitions have a large positive impact on earnings in Finland, but mothers are missing many opportunities



Note: 1. The probability of experiencing at least one in-work transition (change of employer job or contract type) during the current year, conditional on having worked the year before, for mothers with young child (0-3), compared to corresponding fathers.
2. Marginal effects for in-work transitions (change of employer, job or contract type compared to stayers from regressions, where the dependent variable is total labour income growth from one year to the next, conditional on having worked the year before.
Source: OECD Employment Outlook (2018).

StatLink https://stat.link/v63w54

Figure 2.34. Gross earnings of women and men sharply diverge immediately after the birth of their first child, and do not converge fully



Note: Child penalty refers to the percentage by which women are falling behind men due to children.
Source: Sieppi and Pehkonen (2019).

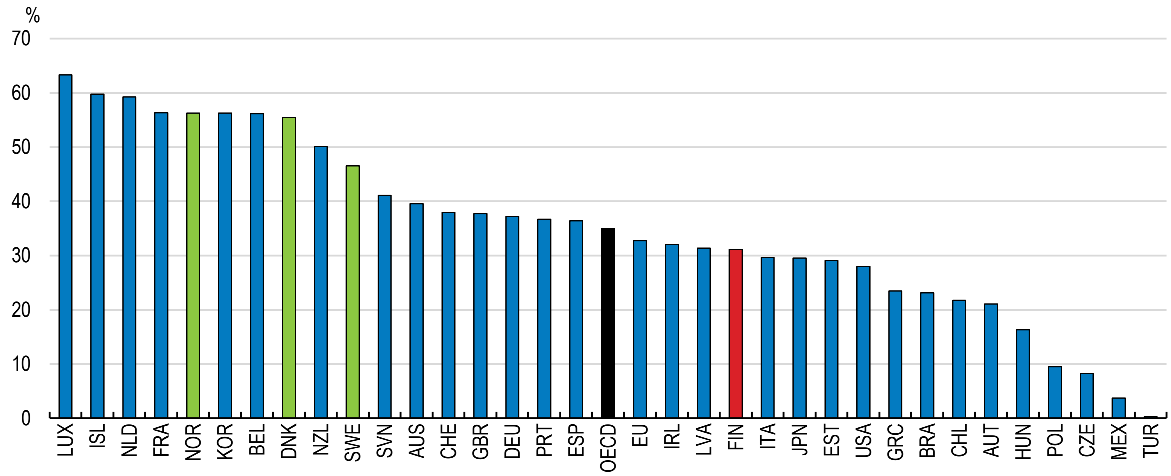
StatLink https://stat.link/mu20cn

Enhancing access to childcare

Reduced homecare allowance, in turn, is likely to increase demand for early childhood education and care (ECEC). The participation rate of children in ECEC is currently lower than in other OECD countries on average (Figure 2.35). Only 30% of all children under three are in public ECEC due to the homecare allowance, which encourages mothers not to send their children to ECEC. This sets back children's development, given that research provides growing and compelling evidence that ECEC makes a crucial difference to children's future development and learning. During the first five years of their life, children learn at a faster rate than at any other time, developing their cognitive, social and emotional skills which make a crucial difference to their achievements throughout school and as adults (OECD, 2019[67]). Karhula et al. (2017[68]) also demonstrated positive educational effects for ECEC participation between ages one and three in Finland.

Figure 2.35. Participation in early childhood education and care is low in Finland

Share of children enrolled in early childhood education and care, under three years old, 2017 or latest available



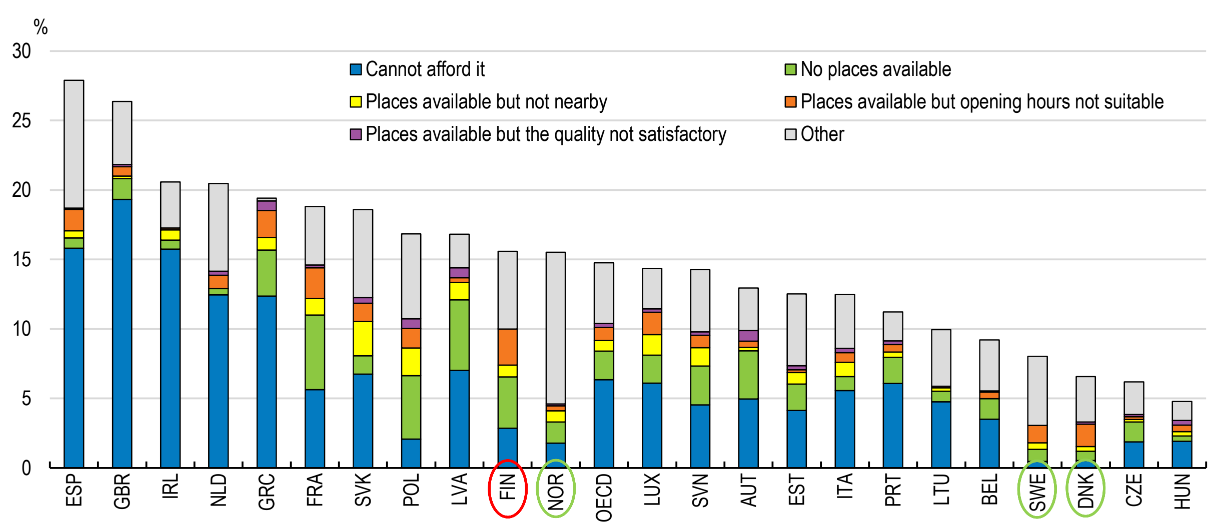
Source: OECD Family Database (2019).

StatLink https://stat.link/15hvzm

Consideration should be given to ensuring access to quality ECEC to cope with the likely increase in demand. If adequate childcare is unavailable, many mothers may abandon searching for a job. Indeed, some empirical studies find that lower accessibility of ECEC centres is significantly associated with a lower probability of employment among women with young children (Kawabata, 2014[69]). In Finland, some parents have reported that ECEC services were not sufficient to meet their needs (Figure 2.36). The main reasons are related to accessibility: places are not available, places are available but not nearby, or opening hours are not suitable. It will be important to ensure that those municipalities that do not provide sufficient places in convenient locations with suitable opening hours do so to help mothers get back into the labour force sooner.

Figure 2.36. ECEC services are not sufficient to meet parents' needs

Reasons for unmet ECEC needs across European OECD countries, 2016



Note: Share of households with at least one child aged 0-5 reporting an unmet need for ECEC services, by reason.
Source: OECD Policy Brief on Childcare Costs, 2020.

StatLink https://stat.link/ygdj6k

Policy recommendations for realising the government's objective of increasing employment

Main findings	Recommendations (key recommendations in bold)
Increasing the employment of older workers	
Individuals receiving unemployment benefit at age 61 can have the benefit extended up to the statutory retirement age of 65. This encourages older workers to retire early, by first receiving the unemployment benefit for up to 500 workdays and then the extension (unemployment tunnel).	**Phase out extended unemployment benefit by progressively increasing the eligibility age to 65 by 2029, the maximum age for receiving the benefit, and then abolish it.**
The eligibility age for the unemployment tunnel is set independently of the minimum retirement age, which will lengthen the unemployment tunnel beyond 2030, when the minimum retirement age is linked to life expectancy, in the likely event that maximum age for extended unemployment benefit also increases.	In the event that extended unemployment benefit is not phased out, link the eligibility age to the minimum eligibility age for old age pension from 2030 onwards
Application of the activation requirement for the older unemployed, particularly those in the unemployment tunnel, is lenient.	Apply activation requirements for the older unemployed with the same vigour as for other unemployed persons.
The older unemployed approaching the end of their unemployment benefit entitlements have the right to a municipal job for long enough (usually six months) to recharge their unemployment benefit entitlements, enabling them to rotate between unemployment benefit and a municipal job until they reach retirement, either on extended unemployment benefit or, if it is abolished, on an old-age pension. These 'jobs' are financed by wage subsidies, which have been found to be ineffective in improving long-term employment outcomes	Abolish public-sector wage subsidies.
Earnings-related pension entitlements accrue for individuals receiving earnings-related unemployment benefits, except when individuals are receiving extended unemployment benefit beyond the minimum retirement age.	Extend the non-accrual of pension rights to the whole period of extended unemployment benefit receipt, to enhance work incentives.
The unemployment tunnel facilitates early retirement in particular of older workers who are more exposed to technological change than others. In general, older workers have lower information processing skills than the rest of the working-age population, reflecting not only their lower education levels but also deterioration of skills with age.	Strengthen lifelong training targeted at unskilled workers.
The probability of inflow into disability benefits increases when individuals turn 60, the age at which more lenient eligibility criteria for disability benefits, including non-medical factors, apply.	**Align the conditions for awarding disability benefit to persons aged 60 or over with those for other applicants, notably by no longer taking into consideration non-medical factors.**
Increasing employment for mothers of young children	
The generous homecare allowance discourages work by mothers with young children. Long absences from the labour force negatively affect their career prospects and earnings mobility, contributing to a large gender wage gap.	**Reduce the homecare allowance to increase incentives for mothers of young children to work.** Compensate the income loss with alternative transfers that are not conditional on homecare.
Early childhood education and care (ECEC) services are not sufficient to meet some parents' needs in some municipalities, mainly due to a lack of convenient places available.	**Improve access to ECEC services by ensuring that those municipalities that do not provide sufficient places in convenient locations with suitable opening hours do so.**

References

Agediscrimination.info (2018), *Finland — age discrimination*, http://www.agediscrimination.info/international-age-discrimination/finland. [58]

Ahituv, A. and J. Zeira (2011), “Technical Progress and Early Retirement”, *Economic Journal*, Vol. 121/551, pp. 171-193. [40]

Aho, S. et al. (2018), “Targeting of job-seeker services and the later employment of participants (in Finnish)”, *Publication of the government’s analysis, assessment and research activities*, No. 19/2018, Prime Minister’s Office, Helsinki. [29]

Ålander, T. et al. (2013), *Security for change through cooperation - A study on the effectiveness and functionality of the operations model of Change security (in Finnish)*, Ministry of Economic Affairs and Employment, Helsinki. [47]

Asplund, R. et al. (2018), *The Impact of Wage Subsidies – An Evaluation of the Wage Subsidy System and Its Reforms*, ETLA, Helsinki. [17]

Asplund, R., A. Kauhanen and P. Vanhala (2019), *Workers in Declining Occupations: Modest Participation in Adult Education (in Finnish)*, Research Institute of the Finnish Economy (ETLA), Helsinki. [42]

Autor, D., F. Levy and R. Murnane (2003), “The Skill Content of Recent Technological Change: an Empricial Exploration”, *The Quarterly Journal of Economics*, Vol. 118/4, pp. 1279–1333. [41]

Barrett, G. and W. Riddell (2016), “Ageing and Literacy Skills: Evidence from IALS, ALL And PIAAC”, *OECD Education Working Papers*, No. 145, OECD Publishing, Paris. [36]

Böckerman, P. and P. Ilmakunnas (2017), “Do Good Working Conditions Make You Work Longer? Evidence on Retirement Decisions Using Linked Survey and Register Data”, *Discussion Papers*, No. 10964, IZA Institute of Labor Economics, Bonn. [53]

de la Maisonneuve, C. et al. (2014), “The Economic Consequences of Ageing: The Case of Finland”, *Economics Department Working Papers*, No. 1120, OECD, Paris. [3]

Department of Work and Pension (2020), *Work Programme statistical summary: data to June 2020*, https://www.gov.uk/government/publications/work-programme-statistical-summary-data-to-june-2020/work-programme-statistical-summary-data-to-june-2020. [51]

Erlandsson, A. (2017), “Child Home Care Allowance and the Transition to Second- and Third-Order Births in Finland”, *Population Research and Policy Review*, Vol. 36/4, pp. 607-630. [65]

European Commission (2019), *2019 SBA Fact Sheet Finland*, European Commission, Brussels. [27]

European Commission (2019), *Digital Economy and Society Index 2019 Country Report Finland*, European Commission, Brussels. [34]

European Commission (2019), *Your social security rights in Finland*, European Commission, Brussels. [31]

Finland, S. (ed.) (2017), *Finland/Sweden comparison: No great differences in working among mothers of small children*, Tieto&Trendit, https://www.stat.fi/tietotrendit/artikkelit/2017/finlandsweden-comparison-no-great-differences-in-working-among-mothers-of-small-children/. [2]

Gruber, J. et al. (2019), "The Effect of Relabeling and Incentives on Retirement: Evidence from the Finnish Pension Reform in 2005 ", No. 328. [11]

Hainmueller, J. et al. (2016), "Do Lower Caseloads Improve the Performance of Public Employment Services? New Evidence from German Employment Offices", *Scandinavian Journal of Economics*, Vol. 118/4, pp. 941-974. [16]

Hairault, J. et al. (2012), "Optimal unemployment insurance for older workers", *Journal of Public Economics*, Vol. 96/5-6, pp. 509-519. [26]

Hakola, T. and R. Uusitalo (2005), "Not so voluntary retirement decisions? Evidence from a pension reform", *Journal of Public Economics*, Vol. 89/11-12, pp. 2121-2136. [10]

Hiilamo, H., M. Merikukka and A. Haataja (2018), "Long-Term Educational Outcomes of Child Care Arrangements in Finland", *SAGE Open*, Vol. 8/2. [60]

Ilmakunnas, P. and S. Ilmakunnas (2015), "Hiring Older Employees: Do the Age Limits of Early Retirement and the Contribution Rates of Firms Matter?", *Scandinavian Journal of Economics*, Vol. 117/1, pp. 164-194. [25]

Jönsson, L., M. Palme and I. Svensson (2012), "Disability Insurance, Population Health, and Employment in Sweden", in Wise, D. (ed.), *Disability Insurance, Population Health, and Employment in Sweden in Sweden*, University of Chicago Press. [33]

Kangas, O. et al. (2020), "Evaluation of the Finnish Basic Income Experiment", *Reports and Memorandums of the Ministry of Social Affairs and Health*, No. 2020:15, The Ministry of Social Affairs and Health, Helsinki. [14]

Karhula, A., J. Erola and E. Kilpi-Jakonen (2017), "Home sweet home? Long-term educational outcomes of childcare arrangements in Finland", in *Childcare, Early Education and Social Inequality: An International Perspective*. [68]

Kawabata, M. (2014), "Childcare access and employment: The case of women with preschool-aged children in Tokyo", *Review of Urban and Regional Development Studies*, Vol. 26/1, pp. 40-56. [69]

Korkeamäki, O. and T. Kyyrä (2012), "Institutional rules, labour demand and retirement through disability programme participation", *Journal of Population Economics*, Vol. 25/2, pp. 439-468. [5]

Kyyrä, T. (2015), "Early Retirement Policy in the Presence of Competing Exit Pathways: Evidence from Pension Reforms in Finland", *Economica*, Vol. 82/325, pp. 46-78. [4]

Kyyrä, T. and T. Paukkeri (2018), "Does experience rating reduce sickness and disability claims? Evidence from policy kinks", *Journal of Health Economics*, Vol. 61, pp. 178-192. [6]

Kyyrä, T. and H. Pesola (2020), "Long-term effects of extended unemployment benefits for older workers", *Labour Economics*, Vol. 62, p. 101777. [22]

Kyyrä, T., H. Pesola and A. Rissanen (2017), “Unemployment Insurance in Finland: A Review of Recent Changes and Empirical Evidence on Behavioral Responses”, *SSRN Electronic Journal*. [9]

Kyyrä, T. and R. Wilke (2007), “Reduction in the Long-Term Unemployment of the Elderly: A Success Story from Finland”, *Source: Journal of the European Economic Association*, Vol. 5/1, pp. 154-182. [23]

Laaksonen, M., J. Rantala and J. Salonen (2019), “Did the Activation Model for Unemployment Security affect applying for and receiving a disability pension?”, *Finnish Labour Review*, Vol. 62/4, pp. 17-27. [30]

Liukko, J. et al. (2017), “Effectiveness and incentive effects of experience rating in disability insurance: A questionnaire study on employers’ views”, *Studies*, No. 03/2017, Finnish Centre for Pension, Helsinki. [7]

Maibom, J., M. Rosholm and M. Svarer (2017), “Experimental Evidence on the Effects of Early Meetings and Activation”, *Scandinavian Journal of Economics*, Vol. 119/3, pp. 541-570. [45]

Ministry of Finance (2019), *Ikääntyneiden työllisyyden edistämiskeinoja valmistelevan työryhmän loppuraportti*, Ministry of Finance, Helsinki. [28]

Ministry of Finance, Ministry of Economic Affairs and Employment, and Ministry of Social Affairs and Health (2019), *Explanation of supplementary day - care rights agreed in the pension reform and the effects of changes in the activation of the elderly*, Ministry of Finance, Helsinki. [21]

National Audit Office (2014), *The Work Programme*, National Audit Office, London. [50]

Nedelkoska, L. and G. Quintini (2018), “Automation, skills use and training”, *OECD Social, Employment and Migration Working Papers*, No. 202, OECD Publishing, Paris. [38]

Neumark, D. (2020), “Age Discrimination in Hiring: Evidence from Age-Blind vs Non-Age-Blind Hiring Procedure”, *NBER Working Paper*, No. 26623, National Bureau of Economic Research, Cambridge. [56]

OECD (2020), *Continuous Learning in Working Life in Finland, Getting Skills Right*, OECD Publishing, Paris. [43]

OECD (2019), *Getting Skills Right: Engaging low-skilled adults in learning*, http://www.oecd.org/employment/emp/%0Aengaging-low-skilled-adults-2019.pdf. [44]

OECD (2019), *Providing Quality Early Childhood Education and Care: Results from the Starting Strong Survey 2018*, TALIS, OECD Publishing, Paris. [67]

OECD (2019), *Working Better With Age, Ageing and Employment Policies*, OECD Publishing, Paris. [37]

OECD (2018), *Good Jobs for All in a Changing World of Work: The OECD Jobs Strategy*, OECD Publishing, https://doi.org/10.1787/9789264308817-en. [70]

OECD (2018), *Key policies to promote longer working lives in Finland*. [57]

OECD (2018), *Key Policies to Promote Longer Working Lives: Sweden Country note 2007 to 2017*, OECD, https://www.oecd.org/els/emp/Sweden_Key%20policies_Final.pdf. [19]

OECD (2018), *OECD Economic Surveys: FInland 2018*, OECD Publishing. [15]

OECD (2018), *OECD Employment Outlook 2018*, OECD Publishing, Paris. [63]

OECD (2016), *Back to Work: Finland: Improving the Re-employment Prospects of Displaced Workers*, OECD Publishing, Paris. [18]

OECD (2016), *OECD Economic Surveys: Finland 2016*. [61]

OECD (2016), *OECD Economic Surveys: Finland 2016*, OECD Publishing, Paris. [1]

OECD (2015), "Activation policies for more inclusive labour markets", in *OECD Employment Outlook 2015*, OECD Publishing, Paris. [49]

OECD (2014), *Connecting People with Jobs: Activation Policies in the United Kingdom*, OECD Publishing, Paris. [48]

OECD (2013), *Ageing and Employment Policies: Norway 2013: Working Better with Age*, OECD Publishing, Paris. [20]

OECD (2011), *Doing Better for Families*, OECD Publishing, Paris. [66]

Ojala, S., J. Nätti and M. Kauhanen (2015), "Työn Laatu Ja Myöhempi Työura Osa- Ja Määräaikaisessa Työssä Työsuojelurahaston tutkimushanke 2013–2014", *Working papers*, No. 90/2015, The Finnish Work Environment Fund, Helsinki. [54]

Pareliussen, J. (2018), "Basic income or a single tapering rule? Incentives, inclusiveness and affordability compared for the case of Finland", *OECD Economics Department Working Papers* No. 1464. [62]

Pekkala Kerr, S., T. Maczuskij and M. Maliranta (2016), "Within and Between Firm Trends in Job Polarization: Role of Globalization and Technology", *Working Paper*, No. 308, Labour Institute for Economic Research, Helsinki. [35]

Pignatti Morano, C. (2016), "Do Public Employment Services improve employment outcomes? Evidence from Colombia", *Research Department working paper*, No. 10, International Labour Office. [46]

Reipas, K. and M. Sankala (2015), *Effects of the 2017 earnings-related pension reform*, Finnish Centre for Pensions. [12]

Saint-Paul, G. (2009), "Does the Welfare State Make Older Workers Unemployable?", *IZA Discussion Paper*, No. 4440, IZA. [24]

Shin, Y. and P. Böckerman (2020), *Trade union-administered unemployment benefit and precarious workers in Finland*, https://nordics.info/show/artikel/trade-union-administered-unemployment-benefit-and-precarious-workers-in-finland/ (accessed on 29 September 2020). [8]

Sieppi, A. and J. Pehkonen (2019), "Parenthood and gender inequality: Population-based evidence on the child penalty in Finland", *Economics Letters*. [64]

Sipilä, J., K. Repo and T. Rissanen (2010), *Cash-for-Childcare: The Consequences for Caring Mothers*, Edward Elgar Publishing Ltd. [59]

Sterdyniak, H. (2007), "Active Ageing Strategies to Strengthen Social Inclusion", *Working Paper*, Science Po, Paris. [55]

Tikanmäki, H. et al. (2019), "Statutory pensions in Finland – long-term projections 2019", *Reports*, No. 07/2019, Finnish Centre for Pensions, Helsinki. [13]

Tuominen, E. (2013), "Flexible retirement age in Finland The evaluation of the Finnish flexible retirement scheme in light of employer and employee surveys", *Working Paper*, No. 03/2013, Finnish Centre for Pensions. [52]

von Werder, M. and A. Thum (2013), "Extending working life in Finland", *Working Document*, No. 387, Centre for European Policy Studies, Brussels. [32]

Yashiro, N. et al. (2020), "Technological changes, labour market institutions and early retirement-Evidence from Finland", *OECD Economics Department Working Paper*, Forthcoming. [39]

OECD Economic Surveys

FINLAND

The COVID-19 pandemic has plunged Finland into a deep recession, albeit less severe than in most other OECD countries. Finland managed to bring the first wave of the coronavirus under control quickly through a combination of voluntary mobility reductions and timely containment measures and is on track to do the same for the second wave. Nevertheless, many people have been laid off and the budgetary costs of supporting household- and business incomes have been considerable. Once the recovery is underway, substantial consolidation measures will be needed to achieve the government's objective of eliminating the structural budget deficit by the end of the decade. Closing routes to early retirement would make a large contribution to achieving this objective.

SPECIAL FEATURE: RAISING EMPLOYMENT

PRINT ISBN 978-92-64-36222-2
PDF ISBN 978-92-64-45135-3

ISSN 0376-6438
2020 SUBSCRIPTION
(18 ISSUES)

9 789264 362222

Volume 2020/17
December 2020