Improved jobs numbers will not be enough to fix the problems in public finances

The 72% employment rate target set by the government will not be reached. The failure to meet the employment target will make it difficult to meet targets for the public sector deficit and debt.

According to forecasts the structural, cyclically adjusted deficit will still be over one percentage point of gross domestic product (GDP) in 2019. Reaching the structural deficit target (0.5% of GDP) would require improving the financial position of public sector entities by around EUR 1.3 billion by 2019. To achieve the government's own target for balancing public finances, public sector costs need to be cut or income increased by an additional EUR 1.1 billion.

The public finance deficit will grow in 2017

According to the government's programme, public finances will be balanced gradually throughout the government's term in office. In 2017, however, the public sector deficit will grow as a result of the tax reductions made as part of the competitiveness pact, despite improving economic conditions.

Loosening fiscal policy does not sit well with the goal of balancing public finances. The Economic Policy Council would like to remind the government that it has not yet presented a detailed plan for the adjustment path for meeting its fiscal policy target.

The government's estimates of the employment effects of the competitiveness pact are unrealistic

The intention is to balance public finances, not only by cutting expenditure, but also through policies to increase employment and promote economic growth. The government's principal measures for achieving its employment target are improving cost competitiveness and overhauling the unemployment benefit system. The Economic Policy Council considers that the government's estimates of the employment effects of the competitiveness pact are unrealistically high.

According to empirical research carried out in the Nordic countries, lowering labour costs does increase employment, but the magnitude of the effect is much smaller than the estimates used by the government. If the employment effects of the competitiveness pact are less than estimated, the competitiveness pact with its attendant tax cuts will weaken public finances.

Cutting the duration of unemployment benefits reduces unemployment – no support for basic income

The maximum duration of unemployment benefits will be reduced in the beginning of 2017. This is the most significant cut in unemployment benefits in the 2000s. According to a study commissioned by the Economic Policy Council, reducing the length of the unemployment benefit period will reduce unemployment more or less by the amount estimated by the government. At the same time, the position of the long-term unemployed will weaken.

The Economic Policy Council believes that it is difficult to evaluate the effects of the reform of unemployment benefits on people's well-being and the optimal level or duration of unemployment benefits. According to economic research, the duration of unemployment benefits should be linked to the unemployment rate such that in periods of high unemployment, the duration of unemployment benefits would be longer. Unemployment benefits could also be converted into obligatory social insurance instead of being based on voluntary UI-fund membership.

On the other hand, the research does not support reforming unemployment benefits to create a basic income-style gratuitous benefit. When unemployed people are encouraged to take up employment through mentoring, obligations and monitoring, the significance of purely financial incentives is reduced. Unemployed people could then be paid better unemployment benefits than in a basic income model based on purely financial incentives.

The wage negotiation system has to be overhauled - consideration for vulnerable groups needed

The Finnish wage negotiation system needs to be reformed. The Economic Policy Council would like to remind all parties that abandoning centralized solutions means committing to a new kind of wage coordination mechanism. The calculation made in the report indicates that the level of pay rises in the present system has not reacted adequately to the weakening of competitiveness and the growth in unemployment. However, at the moment it is unclear what form the negotiating system being developed to ensure the competitiveness of the export sector will take, and how the system will succeed in coordinating pay rises in different sectors.

The aim of local agreements is to better take into account differences in the payroll capacity of individual firms and, where necessary, to introduce flexibility into labour costs not only through employment, but also the level of wages. The Economic Policy Council would like to remind all parties that the wage negotiation system should also prevent minimum wages that are high by international standards excluding from the labour market persons whose employment situation is already difficult. At the moment the promotion of local agreements appears to be limited to the addition of escape clauses to employment contracts, enabling local employment conditions to be weakened temporarily, if the employer is facing serious difficulties in its business.

More information:

Roope Uusitalo, Chairman of the Economic Policy Council
roope.uusitalo@jyu.fi, Tel: +358 40 805 4863

Seppo Orjasniemi, Secretary of the Economic Policy Council
seppo.orjasniemi@vatt.fi, Tel: +358 295 519 412

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The Economic Policy Council was founded in 2014 to provide impartial evaluation of the aims and methods of economic policy. The chairman of the Economic Policy Council is Professor **Roope Uusitalo**. The other members are Professor **Torben M. Andersen**, Professor **Anneli Anttonen**, Professor **Jukka Pirttilä** and Professor **Mikko Puhakka**.