

Press release

**Free for publication on 23 January 2018 at 12 noon**

Economic Policy Council

## **Fiscal policy too loose in the current economic situation**

**Improved economic growth and favorable development of the labor market situation have improved the state of public finances. In the current state of the business cycle, the government should adopt a stricter fiscal policy.**

### **The Finnish Government will not reach its fiscal policy targets**

According to current estimates, the cyclically adjusted budget deficit will be almost 1.5 per cent of the gross domestic product (GDP) in 2019. Reaching the deficit target of 0.5% of GDP would require improving the financial position of the public sector by about EUR 2.1 billion. To achieve the Government's own target of a balanced budget, public expenditure should be cut or revenue increased by a further EUR 0.3 billion.

### **Tax cuts cause the Government to fall behind its announced consolidation path for public finances**

According to the Government programme, there will be gradual consolidation of public finances throughout the Government's term in office.

Due to the tax cuts carried out as part of the competitiveness pact, the structural deficit of the general government increased in 2017, and will continue to increase further in 2018.

As economic growth is rapid and the labor market situation is improving, there is no need to stimulate domestic demand by expansionary fiscal policy. Fiscal policy should focus on the medium-run problem of addressing the concern for fiscal sustainability.

### **Savings target of the social and healthcare reform is in conflict with improved availability of services**

The savings target of the social and healthcare reform is an ambitious one. In preparing the reform, possible savings in Finnish social and health care have been evaluated but it is unclear how such savings can be achieved by the proposed measures. The freedom of choice reform contains elements that are more likely to increase than decrease expenditures. If the planned savings are not reached, moving social and health care expenditure inside the central government spending limits implies that other public spending will be crowded out or the spending limit framework will be breached.

### **Student intake in higher education should be expanded**

The number of young people without education beyond comprehensive school is alarmingly high, and their labour market situation is difficult. Extending compulsory education to the age of 18 could increase the number of people completing upper secondary education and have a positive impact on employment.

Student intake in higher education stopped increasing in 2000. Education is still highly profitable from the point of view of both students and society. In order to reach the goals set for education, there should be an expansion in education particularly at universities.

### **Public research funding has decreased and strategic control has increased**

The strategic funding programme has significantly changed the allocation of funding between research institutions. Competition over funding increases the costs incurred by research institutions, and these costs should be weighed against the benefits of strategic control.

The Council agrees with the aim of increased profiling of research activities in the university sector. The government should not rely on the university funding system to achieve this goal. Structural change in higher education requires further coordination and discretionary measures.

R&D subsidies have a significant impact on the research and development activities of companies. However, these subsidies often benefit other countries, which reduces their attractiveness for a small, open economy.

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**Report** (available from 12 noon, 23 January 2018):

[www.talouspolitiikanarviointineuvosto.fi](http://www.talouspolitiikanarviointineuvosto.fi)

**The Economic Policy Council** was founded in 2014 to impartially evaluate 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 **Kaisa Kotakorpi**, and Professor **Mikko Puhakka**.