

Opportunities for Finland

Messages from the Permanent Secretaries to support
the change of government

Juhani Damski, Jaana Husu-Kallio, Minna Kivimäki, Timo Lankinen,
Anita Lehikoinen, Raimo Luoma, Juha Majanen, Veli-Mikko Niemi,
Kirsi Pimiä, Esa Pulkkinen, Jukka Salovaara, Pekka Timonen,
Henrik Haapajärvi

PUBLICATIONS OF THE FINNISH GOVERNMENT 2023:12

vn.fi/en



FINNISH
GOVERNMENT

Opportunities for Finland

Messages from the Permanent Secretaries to support the change of government

Juhani Damski, Jaana Husu-Kallio, Minna Kivimäki, Timo Lankinen, Anita Lehikoinen, Raimo Luoma, Juha Majanen, Veli-Mikko Niemi, Kirsi Pimiä, Esa Pulkkinen, Jukka Salovaara, Pekka Timonen, Henrik Haapajärvi

Publication distribution

**Institutional Repository
for the Government
of Finland Valto**

julkaisut.valtioneuvosto.fi

Publication sale

**Online bookstore
of the Finnish
Government**

vnjulkaisumyynti.fi

Government
Prime Minister's Office
CC BY-ND 4.0

ISBN pdf: 978-952-383-962-5
ISSN pdf: 2490-0966

Layout: Government Administration Department, Production of publications

Opportunities for Finland Messages from the Permanent Secretaries to support the change of government

Publications of the Finnish Government 2023:12

Publisher	Finnish Government		
Author(s)	Juhani Damski, Jaana Husu-Kallio, Minna Kivimäki, Timo Lankinen, Anita Lehtikoinen, Raimo Luoma, Juha Majanen, Veli-Mikko Niemi, Kirsi Pimiä, Esa Pulkkinen, Jukka Salovaara, Pekka Timonen, Henrik Haapajarvi		
Language	English	Pages	40

Abstract

Opportunities for Finland is a joint outlook of the Permanent Secretaries of the ministries on the key questions for the next two government terms. The document identifies the key challenges and reflects on possible directions for solutions. In the Permanent Secretaries' view, the governments in the next two parliamentary terms will face the following five interlinked challenges that will require decisions: (1) rapid progress must be made on the green transition, (2) general government finances must be balanced considerably, and (3) both of these must be achieved in a fair and egalitarian manner, (4) the conditions for economic growth must be strengthened, and (5) further measures must be taken to improve Finland's security and resilience to crisis. With respect to economic policy, the key message of the document is that reforms aiming to improve the conditions for economic growth should be implemented quickly, as their effects take time to materialise. At the same time, the next government should begin working to balance general government finances. Efforts should be made to achieve a balance in general government finances over the next two parliamentary terms. Economic growth should not be sought at all costs; instead, investments should be made in the green transition. The document presents 15 main messages and possible directions for solutions to provide a basis for election discussions and government formation talks. The themes of the messages are closely intertwined and will therefore require simultaneous attention over the next two government terms.

Keywords foresight, government programmes, future, Government, strategic leadership

ISBN PDF 978-952-383-962-5 **ISSN PDF** 2490-0966

URN address <https://urn.fi/URN:ISBN:978-952-383-962-5>

Mahdollisuudet Suomelle Kansliapäälliköiden viestit hallitusvaihdokseen

Valtioneuvoston julkaisu 2023:12

Julkaisija

Valtioneuvosto

Tekijä/t

Juhani Damski, Jaana Husu-Kallio, Minna Kivimäki, Timo Lankinen, Anita Lehtikainen, Raimo Luoma, Juha Majanen, Veli-Mikko Niemi, Kirsi Pimiä, Esa Pulkkinen, Jukka Salovaara, Pekka Timonen, Henrik Haapajarvi

Kieli

englanti

Sivumäärä

40

Tiivistelmä

Mahdollisuudet Suomelle on ministeriöiden kansliapäälliköiden yhteinen virkamiesnäkemys avainkysymyksistä kahdelle seuraavalle hallituskaudelle. Asiakirjassa on tunnistettu keskeisiä haasteita sekä niihin liittyviä ratkaisujen suuntia. Kansliapäälliköiden näkemyksen mukaisesti tulevan kahden vaalikauden hallituksilla on edessään seuraavat viisi toisiinsa kytkeytyvää haastetta, jotka edellyttävät päätöksiä: (1) vihreässä siirtymässä on edettävä nopeasti, (2) julkista taloutta on tasapainotettava merkittävästi ja (3) molemmat näistä on tehtävä oikeudenmukaisesti ja yhdenvertaisuutta edistäen, (4) talouskasvun edellytyksiä on vahvistettava ja (5) Suomen turvallisuus ja kriisinkestävyys vaativat lisätoimia. Asiakirjan keskeisin talouspoliittinen sanoma on se, että talouskasvun edellytyksiä parantavat uudistukset käynnistetään nopeasti, sillä vaikutukset ovat viiveisiä. Samalla aloitetaan julkisen talouden tasapainottaminen. Julkisen talouden tasapainoa tulee tavoitella kahden vaalikauden aikana. Talouskasvua ei tavoitella hinnalla millä hyvänsä, vaan sen sijaan panostetaan vihreään siirtymään. Asiakirjassa esitetään 15 pääviestiä ja niihin liittyviä ratkaisujen suuntia, jotka tarjoavat eväitä vaalikeskusteluihin ja hallitusneuvottelujen pohjaksi. Viestien aihealueet ovat vahvasti keskinäisriippuvaisia ja näin vaativat samanaikaista panostusta tulevilla kahdella vaalikaudella.

Asiasanat

ennakointi, hallitusohjelmat, tulevaisuus, valtioneuvosto, strateginen johtaminen

ISBN PDF

978-952-383-962-5

ISSN PDF

2490-0966

Julkaisun osoite

<https://urn.fi/URN:ISBN:978-952-383-962-5>

Möjligheter för Finland Kanslichefernas synpunkter inför regeringsskiftet

Statsrådets publikationer 2023:12

Utgivare	Statsrådet		
Författare	Juhani Damski, Jaana Husu-Kallio, Minna Kivimäki, Timo Lankinen, Anita Lehtikainen, Raimo Luoma, Juha Majanen, Veli-Mikko Niemi, Kirsi Pimiä, Esa Pulkkinen, Jukka Salovaara, Pekka Timonen, Henrik Haapajarvi		
Språk	engelska	Sidantal	40

Referat

”Möjligheter för Finland” är ministeriernas kanslichefers gemensamma tjänstemannasyn på nyckelfrågor under de två kommande regeringsperioderna. I handlingen identifieras de mest centrala utmaningarna och föreslås riktlinjer för möjliga lösningar. Kanslicheferna anser att regeringen under de kommande två valperioderna står inför fem utmaningar, som alla är kopplade till varandra, och som kräver beslut: 1) den gröna omställningen måste ske snabbt, 2) de offentliga finanserna måste balanseras betydligt, 3) båda dessa måste genomföras rättvist och så att jämlikheten främjas, 4) förutsättningarna för tillväxt måste stärkas och 5) Finlands säkerhet och resiliens kräver vidare åtgärder. Det centrala finanspolitiska budskapet är att reformerna för att stärka förutsättningarna för tillväxt måste sättas igång snabbt eftersom effekterna syns med fördröjning. Samtidigt ska de offentliga finanserna balanseras. Balans i de offentliga finansernas bör eftersträvas under de kommande två valperioderna. Tillväxten ska inte eftersträvas till vilket pris som helst utan fokus ska ligga på den gröna omställningen. I handlingen presenteras 15 huvudbudskap och riktlinjer i anslutning till dem. Dessa ska utgöra ett underlag för valdebatter och regeringsförhandlingar. Dessa teman är alla kraftigt beroende av varandra och kräver därför simultana satsningar under de kommande valperioderna.

Nyckelord framsyn, regeringsprogram, framtiden, statsrådet, strategisk ledning

ISBN PDF 978-952-383-962-5 **ISSN PDF** 2490-0966

URN-adress <https://urn.fi/URN:ISBN:978-952-383-962-5>

Contents

Summary	7
1 Introduction	12
1.1 Challenges and solutions are interlinked in many ways.....	14
1.2 General preconditions.....	15
2 Preconditions for economic growth	17
2.1 Increasing productivity.....	18
2.2 Availability of labour	22
3 Green transition solutions at the heart of climate and growth policy	25
3.1 Making use of the most cost-effective governance methods in a wide range of ways.....	27
3.2 Investments to meet climate and environmental targets, halt nature loss and accelerate the green transition	27
3.3 Investment in research, development, innovation and competence	28
3.4 Circular economy at the heart of the green transition	29
4 Strengthening equality and democracy	30
4.1 Stable democracy strengthens crisis resilience	31
4.2 Prevention of inequality	31
4.3 Targeted and incentivising benefits and services for those in need.....	32
5 Finland’s security and crisis resilience	33
5.1 Finland as an active international actor	33
5.2 Crisis resilience and defence must be ensured.....	34
5.3 Internal security and a healthy society of trust provide the basis for crisis resilience	35
6 Balancing general government finances	36
6.1 Revenue generation and growth policy.....	37
6.2 Cost reduction	38

SUMMARY

Finland is a successful society in many ways. Finland has enjoyed a tailwind created not only by hard work and successful choices, but also by a favourable operating environment. We are now building the Finland of the next decade. There are plenty of challenges, opportunities and difficult choices. This report summarises the joint outlook of the Permanent Secretaries of the ministries on the strategic situation picture and, in particular, the recommended directions for solutions. The timeframe for the recommendations is the next two parliamentary terms, until 2031.

The governments in the next two parliamentary terms will face the following five interlinked challenges that will require decisions:

1. Rapid progress must be made on the green transition.
2. General government finances must be balanced considerably.
3. Both of these must be achieved in a fair and egalitarian manner.
4. The conditions for economic growth must be strengthened.
5. Further measures must also be taken to improve Finland's security and resilience to crisis.

The five points described above form the backbone of the report. It is essential to advance all of them concurrently and on a long-term basis.

For the next two parliamentary terms, we recommend that reforms aiming to improve the conditions for economic growth be implemented quickly, as their effects will take time to materialise. At the same time, the next government should begin working to balance general government finances. Efforts should be made to achieve a balance in general government finances over the next two parliamentary terms.

It is difficult to balance general government finances without the support of economic growth. In recent years, our economic growth has lagged behind that of the other Nordic countries. Measures to boost growth may ease the situation, especially as we approach the end of the 2020s, but even strong economic growth will not eliminate the need for fiscal consolidation.

Economic growth should not be sought in the short term and at all costs, because climate change and biodiversity loss are among the greatest challenges facing humanity. The large investments required for the green transition are mainly financed by private capital, but public measures can steer and encourage investments and strengthen human capital.

In adapting to the changes ahead, care must be taken to ensure that the situation of disadvantaged people does not deteriorate. For example, we need to decide how to accelerate investments in the green transition in a sustainable way from the point of view of general government finances while strengthening equality.

Another underlying factor is the change in the global operating environment, where multilateral cooperation is more difficult than before. Russia's invasion of Ukraine has changed the security environment profoundly and in the long term, which will also require further strengthening of security and crisis resilience in the future.

Given the scale of the action required, we recommend that the next governments clarify and communicate clearly and consistently about their key goals and objectives. Setting main objectives that are measurable will ensure that they remain at the centre of decision-making and policy-making.

Finland also needs discussion on social values regarding the direction we want to move in. For example, if immigration takes place on the scale we recommend, it will change Finnish society.

We must particularly emphasise that, in many areas, previous governments have already set objectives and drawn up programmes and plans. That is why many of the recommendations of this report concern adherence to long-term objectives. It is important to direct the Government's resources towards the achievement of existing objectives rather than towards the formulation of new objectives.

The following are our main suggestions for directions for solutions:

1. Even in a difficult fiscal situation, it is critical to strengthen the preconditions for economic growth and promote the green transition.

In the green transition, the public sector should act especially as a facilitator and, to a lesser extent, as a financier.

2. We need to adhere to the objective of increasing research and development expenditure to 4% of GDP by 2030.
3. Finland should strive for a high level of competence and education in international comparisons. We should set a target level for the share of tertiary graduates in 2040. A level of 70% could move us from the bottom rankings among the OECD countries to near the top.
4. Finland must further strengthen the prerequisites for the digital transformation. Alongside traditional physical infrastructure, the preconditions for economic growth are increasingly being built on digital, 'soft' infrastructure, such as digital identity and real-time economy solutions.
5. We should consistently aim for an employment rate of 80% in the long term. Achieving this objective requires a number of parallel and difficult steps. The measures considered should emphasise options that strengthen general government finances. The availability of labour is already a key bottleneck in economic growth. Based on the population projection, the labour force will begin to decrease at the same time as the demand for labour in health and social services increases.
6. We should aim to double the current level of employment-based immigration.¹ This is an ambitious goal. The key actions required relate to attracting talent and strengthening recruitment, structures and services, rather than to organisational reforms. In order to achieve this goal, we also need discussion on values in society.

Failure to substantially increase the employment rate and employment-based immigration will further increase the pressure on general government finances.

1 Roadmap for Education-based and Work-based Immigration 2035 (2021). <http://urn.fi/URN:ISBN:978-952-383-939-7>

7. It is of paramount importance to adhere to the objective of carbon neutrality by 2035 laid down in the Climate Change Act and to adhere to biodiversity objectives. Cost-effective instruments in the reduction of climate emissions include ones that price emissions from production, such as emissions trading and taxes, as well as legislation. To bring about the green transition, the circular economy must become the mainstream of the economy. Sustainable, resource-wise choices should be made attractive, easy and economically viable. The effects of the green transition and the balancing of general government finances on the trends in inequality should be assessed as part of decision-making. This will ensure that the chosen policy is seen to be fair and that the direction can be maintained as the parliamentary terms change.
8. In the green transition, the primary role of public authorities is to encourage and promote the channelling of private investment through cost-effective and consistent means. The investments needed for the green transition globally are historic in terms of speed and scale, which is an opportunity for Finnish companies. In Finland, the investment need is estimated at EUR 3–8 billion per year for the next 30 years.
9. A high employment rate, the provision of incentives and balanced general government finances should play a central role in changes to the social security system, taxation and the service system. This also requires supporting work ability and functional capacity.

Inequality must be prevented by strengthening the ability of disadvantaged people to cope with difficult life situations. The rise in the cost of living and the development of the situation in the coming years is a topical issue.

10. The risks of global economic division, protectionism and closure have increased. The need for international influence will be emphasised. The openness of the global economy and the functioning of the EU's single market are essential from the perspective of exports.
11. Russia's invasion of Ukraine and the ongoing war will have wide-ranging, long-term and partly unpredictable effects. The development of the situation must be monitored so that the necessary decisions can continue to be taken in a timely and proactive manner. Relations and tensions between major powers make the global operating environment uncertain and entail a risk of wider global conflict.

Finland's security and crisis resilience must be strengthened by developing preparedness and readiness. National military defence and internal security require increasing attention. Comprehensive security and a healthy society of trust provide the basis for crisis resilience.

12. Based on international comparisons, Finnish public administration has been judged to be quite efficient. Curbing increasing costs is essential, especially in health and social services. Investment is also needed to improve services and productivity. It is important to keep the finances of the wellbeing services counties within the framework of the calculated financing model.
13. Ensuring the coordination of municipalities and wellbeing services counties will be of key importance during the forthcoming parliamentary term. With the health and social services reform, it is necessary to examine the development of regional state administration. At the same time, the tasks and number of municipalities must be assessed.
14. It is critical to safeguard the government's ability to prepare and make decisions. It is also necessary to prioritise the care of basic legislation and additional resources for legislative drafting.
15. All of the above must be done while taking into account the boundary conditions of general government finances. Fiscal consolidation is a very demanding and ambitious objective that requires a combination of various measures. Efforts must be made to achieve a balance over the next two parliamentary terms. The emphasis and timing of the measures will require due political consideration.

An expenditure and structural survey and tax survey will be completed in early 2023 and will be available to the next government. Increasing fees is also among the available means.

1 Introduction

Finland in 2023 is a successful society in many ways. We are consistently at the forefront of various international comparisons, whether they relate to democracy², trust³ or even happiness⁴. As a form of society, the Nordic welfare state has been able to implement the idea of sustainable development with the best results in the world.⁵

As a nation, we look to the future from a good standpoint. The solutions we are proposing aim to ensure that Finland continues to be a successful country in 2031 – after the next two parliamentary terms. Functional democracy, trust in society and a happy life are the sum of many factors and long-term work. It is essential to nurture the population's faith in the future of both Finland as a country and in their private lives.

The governments of the next two parliamentary terms will face five intertwined challenges that will require decisions:

1. Rapid progress must be made on the green transition.
2. General government finances must be balanced considerably.
3. Both of these must be achieved in a fair and egalitarian manner.
4. The conditions for economic growth must be strengthened.
5. Further measures must be taken to improve Finland's security and resilience to crisis.

2 Freedom House (2021). <https://freedomhouse.org/report/freedom-world/2021/democracy-under-siege>

3 Eurostat (2021). https://ec.europa.eu/eurostat/en/web/products-datasets/-/ILC_PW03

4 World Happiness Report (2022). <https://happiness-report.s3.amazonaws.com/2022/WHR+22.pdf>

5 <https://dashboards.sdgindex.org/rankings>

We want to highlight the opportunities afforded by these challenges. It is very difficult to balance general government finances through expenditure and revenue adjustments alone. Our view is that reforms that improve the preconditions for economic growth must be launched quickly during the next government term. The fruit of this labour will not be harvested immediately. Even strong economic growth will not eliminate the need for fiscal consolidation. Efforts to balance general government finances need to begin during the forthcoming government term, with the aim of achieving a balance over the next two parliamentary terms.

Economic growth should not be sought at all costs; the economy should operate within the limits of the planet's carrying capacity. The green transition refers to a shift towards an ecologically sustainable economy and growth that is not based on overconsumption of natural resources or fossil fuels. The green transition will support structural adjustment of the economy and help to build a carbon-neutral welfare society. This is a global phenomenon that involves a huge need for investment. In this respect, Finland has many strengths and has the potential to generate export-driven growth from investments in the green transition.

Seventy years ago, people wondered whether our country had the patience to prosper. Now we are once again faced with the same question, but our growth model is different. Growth in the 2020s and 2030s will be driven by our knowledge, skills, innovations and connections to the global economy⁶. In growth policy, the role of public authorities is first and foremost to create the preconditions to foster an environment that is stable and attractive for investments, and to increase the nation's human capital. Our key message is that, especially in difficult times, reforms and investments that will build the future must be made.

Globalisation has not treated all Finns equally – some have been left behind and excluded. Similarly, the present dual revolution of the green and digital transitions looks different depending on the position from which it is viewed. Our second key message is to constantly strive to increase equality and reduce inequality.

6 Finland is estimated to be one of the countries that has benefited most from globalisation. See e.g. Globalization Report 2018 (2018). http://www.iberglobal.com/files/2018-2/MT_Globalization_Report_2018.pdf

As a whole, Finland needs a discussion on the direction of our society and the policies to be chosen, so that the necessary decisions are felt to be justified and we can remain a well-functioning society. Finland is the safest country in the world, and we want it to stay that way. People's safety and feeling of safety are at the core of Finland's democracy and welfare society. The deliberation of issues together as a society builds trust in policy-making.

Economic, ecological and social sustainability perspectives need to be promoted simultaneously when making decisions. Tensions also exist, which is why political value judgements are needed.

The fifth, summative aspect of this report is the security of Finland. Russia's invasion of Ukraine in February 2022 has significantly weakened Finland's security and international security. Rules-based cooperation within the international system has become more difficult. This uncertain and unstable operating and security environment emphasises the need to improve risk management, security and crisis resilience. It also highlights the need for international influence.

This report summarises the shared strategic outlook of the state's senior public officials regarding the priorities of social policy in the 2020s. On many issues, continuity is important, as preparations and policy measures are already under way. These measures are not listed in detail, and many other issues requiring action also remain unmentioned. The report makes use of the Futures Review⁷ published in autumn 2022, which includes an extensive ministry-specific examination. The report has been prepared in cooperation between the ministries using a phenomenon-based approach.

1.1 Challenges and solutions are interlinked in many ways

The challenges described in the introduction and their solutions are interconnected in numerous ways. They have direct or indirect effects on each other, either negative or positive. A key feature of public administration is the abundance of different goals, objectives and obligations. There are dozens of possible perspectives for impact assessments. Of these, we propose emphasising the following: the conditions for economic growth, the green transition, the reduction of inequality, security and general government finances.

7 Futures Review (2022, in Finnish). <https://valtioneuvosto.fi/tulevaisuuskaatsaus-2022#/>

In practice, this means that the policies being prepared should, where possible, have a positive impact on the conditions for economic growth and general government finances, promote the green transition and reduce – or at least not increase – inequality. At the overall level, we recognise a need to strengthen ecological and social sustainability perspectives alongside the economic perspective. In addition to these, we highlight the role of security as a prerequisite for a stable and well-functioning society.

A key aspect of the relationship between economic growth and the green transition is that particularly strong growth is needed in activities aligned with the green transition, while unsustainable activities must be clearly reduced in the coming years. Measures aimed at fiscal consolidation and accelerating the green transition must not exacerbate inequalities. Promoting the green transition and safeguarding the sustainability of general government finances are important factors in ensuring intergenerational fairness.

Conducting impact assessments from viewpoints other than just the main objective or primary viewpoint of the matter being prepared is also more laborious than a straightforward approach that adheres to administrative boundaries. The following governments need to prioritise the projects and entries to be included in the Government Programme.

It would be advisable for Government Programmes to name a few of the government's main points of view or main objectives. In this way, the preparation of official duties could systematically reflect on the relevant issues to the main objectives set by the government. This procedure would clarify the focus of policy drafting under the conflicting pressures of numerous goals, guidelines and viewpoints to be taken into account.

1.2 General preconditions

The EU is Finland's most important reference group and channel of influence. As part of its EU policy, Finland must be more proactive in exercising its influence in the EU. To be effective in the Union, Finland must take a prioritised, continuous and systematic approach. The new government will have a key role to play in influencing, among other things, the EU's five-year strategy adopted by the European Council and the priorities of the new Commission. As part of Finland's advocacy work, the recruitment of Finns to the EU must be promoted so that the decreasing number of Finnish officials in institutions does not weaken Finland's effectiveness in various EU institutions and reduce the acceptance of the EU among citizens.

Attention has been repeatedly called to the preconditions for legislative work. In order to ensure the government's ability to prepare and make decisions, more resources must be allocated to legislative drafting.

In a regulation-intensive operating environment, it is important to find a balance between the preparation of the reforms outlined by the government and ensuring that the current regulations are up to date and effective. Functional and appropriate basic legislation is part of the basic structure of society, which provides a solid foundation for all activities. It is necessary to prioritise the clarity and currency of basic legislation in the current decade. All ministries should be able to carry out periodic evaluations in their own administrative branches and draft the necessary amendments to legislation. Currently, this work is largely undone, as the resources are being spent on individual preparatory projects. It is recommended that the Government form a common view of the main development lines of legislative drafting and commit to its implementation and to the sufficient resourcing of legislative drafting.

2 Preconditions for economic growth

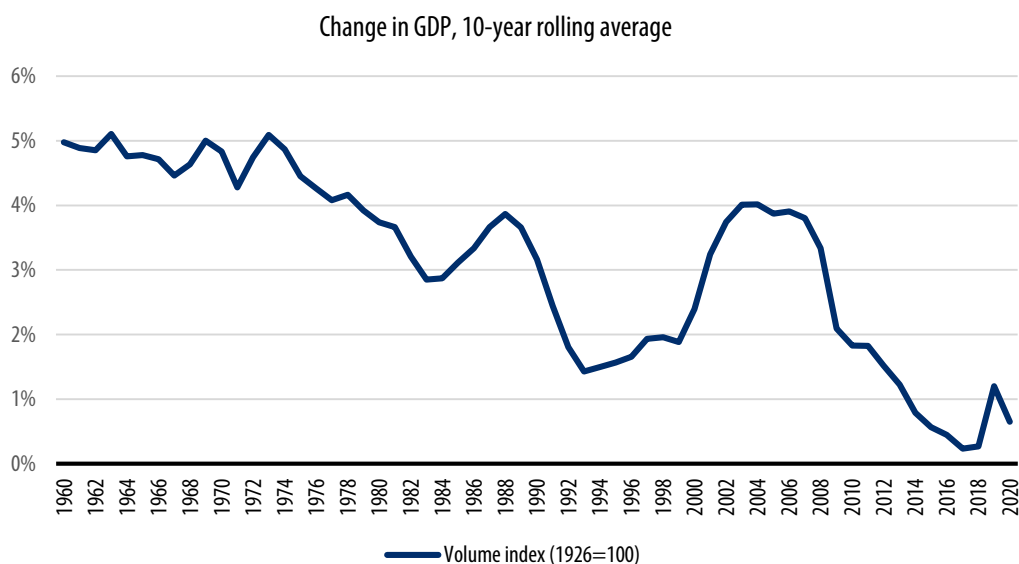
Finland's economic growth has been subdued for 15 years (Figure 1). Based on the medium-term forecast, economic growth can be expected to average around 1.5%. The most important sources of economic growth in the long term are productivity and a sufficient and skilled labour force. An open world economy and a well-functioning EU single market are key issues in Finland's external operating environment. Looking beyond the borders of the country, weakening skills and falling behind peer countries in terms of educational attainment will slow down economic reform and productivity growth and exacerbate structural unemployment. Sluggish economic growth burdens general government finances and increases the pressure to raise taxes, cut services or incur significant public debt. Finland can ambitiously aim for a steady economic growth of 2–3%, but achieving it will require significant reforms.

Due to demographic change, the availability of labour is a particular challenge and a major bottleneck for the growth of companies (others include the concentration of RDI activities and an insufficient degree of internationalisation). There is already a significant shortage of workers in many occupational groups. In addition, more than one third of public sector employees will retire by 2030⁸.

Any measures taken will mainly have delayed effects. The measures presented here are interlinked: RDI investments, for example, require skilled labour, which comes from the education system and also through employment-based immigration.

8 See e.g. (in Finnish) <https://www.keva.fi/uutiset-ja-artikkelit/joka-kolmas-kunnan-ja-valtion-tyontekija-elakkeelle-seuraavan-kymmenen-vuoden-aikana/>

Figure 1. Change in Finland's GDP, 10-year rolling average. Source: Statistics Finland & Hjerpe, R. (1988) The Finnish economy 1860-1985: Growth and structural change.



2.1 Increasing productivity

Investments that enhance productivity are needed in a context where general government finances must at the same time be balanced. It is necessary to make use, where possible, of alternative forms of financing to public funding.

1. We need to adhere to the objective of increasing research and development expenditure to 4% of GDP by 2030.

In Finland, R&D intensity peaked at 3.7% of GDP in 2009–2010. Since then, we have fallen behind the world's top level (about 3% of GDP in 2021). Achieving this ambitious target will require a significant increase in public R&D investment (around one third of R&D expenditure) and more effective incentives to increase private R&D investment. At the same time, it will be necessary to further develop the R&D system to support this goal.

When engaging in and providing direction for RDI activities, it is important to anticipate, identify and focus on global challenges and the opportunities they provide. Finland must decisively strive to be a leading maker of a sustainable future by developing system-level design, development, research and business expertise in key technology and competence areas, such as energy and environmental technology.⁹

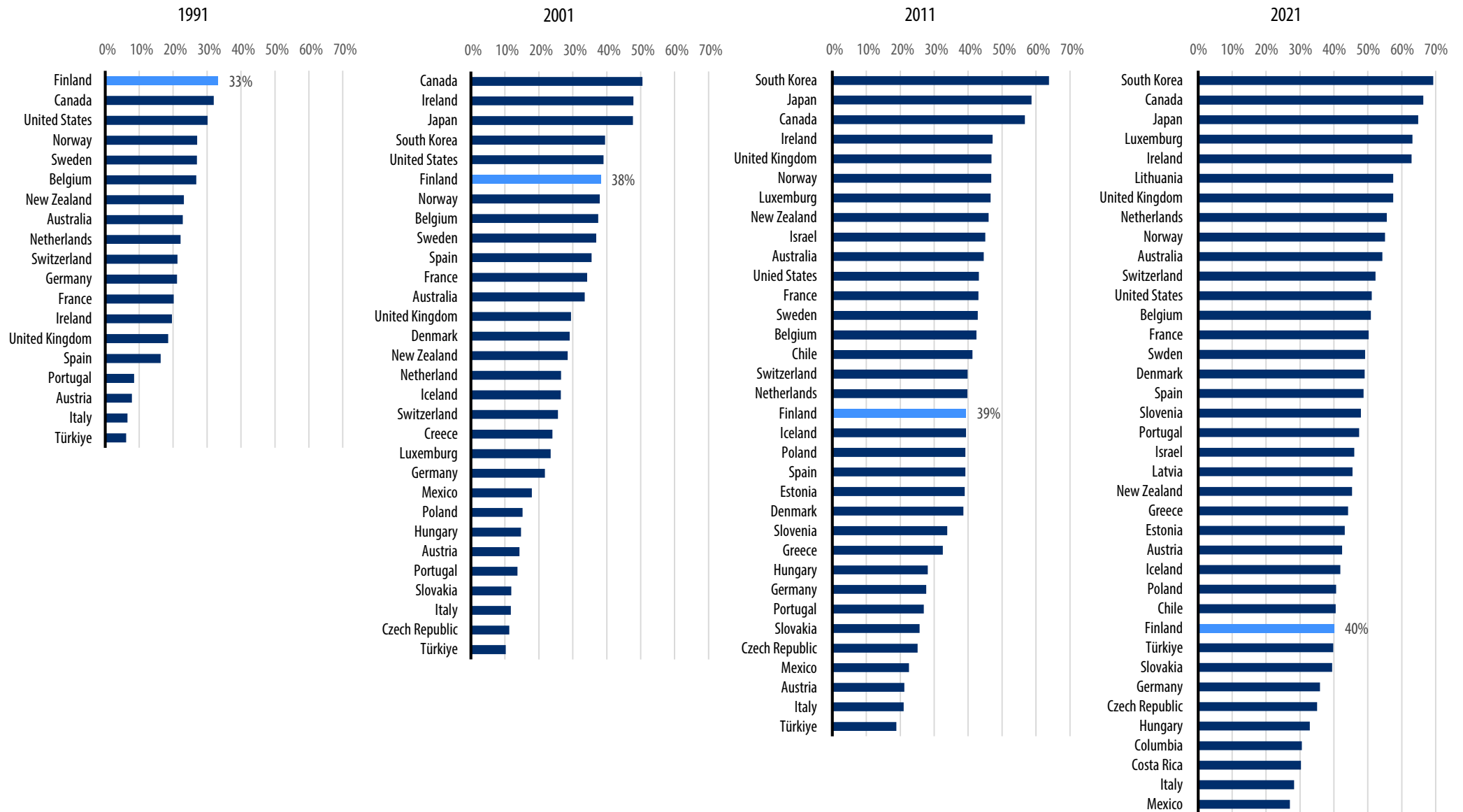
2. We should set a target level for the share of tertiary graduates in 2040.

Finland should strive for a high level of competence and education in international comparisons.¹⁰ Finland is clearly behind the top OECD countries in terms of its share of tertiary graduates (Figure 2). The employment rate of tertiary graduates is significantly higher than that of adults with upper secondary and primary education. During the next parliamentary term, decisions will be made that will affect the education structure of the 2040s. If 70% adults had tertiary degrees, Finland could get close to the current top rankings among the OECD countries. This requires a long-term programme.

9 Final Report of the Parliamentary Working Group on Research, Development and Innovation (2021). <http://urn.fi/URN:ISBN:978-952-383-516-0>

10 The Bildung Review 2030 describes this phenomenon more extensively. <https://urn.fi/URN:ISBN:978-952-263-744-4>

Figure 2. Percentage of 25–34 year-olds with tertiary degrees, OECD countries comparison. Source: OECD, Education at a Glance.



The improvement of education levels should be supported by strengthening the continuum of education from early childhood education to tertiary education. Continuous learning is focused on targeted training, and the qualification training of adults is directed towards training that raises the level of education.

3. Finland must further strengthen the prerequisites for the digital transformation.

The data economy in the EU is growing faster than other industries.¹¹ Digital solutions are central to the green transition and the circular economy. Consequently, new solutions for value creation offer growth opportunities for Finnish operators in the EU's digital single market and globally. As a whole, digitalisation is a key factor in increasing labour productivity, and the data economy offers opportunities for all sectors. Digitalisation and automation are key means of reducing the disadvantages caused by labour supply challenges.

The success factors for digitalisation and the data economy of the society of the future are

- a digitally skilled population and workforce,
- sustainable digital infrastructure,
- increasing companies' value creation and productivity through digitalisation, and
- effective digital public services¹² (see also Chapter 6).

Information security and cybersecurity are prerequisites for digitalisation to be realised. The implementation plan for the Digital Compass and the investments made to implement it will contribute to strengthening the conditions for growth.

Alongside traditional physical infrastructure, the preconditions for economic growth are increasingly being built on digital, 'soft' infrastructure, such as digital identity and real-time economy solutions. It is critical to make full use of EU financial instruments to finance the necessary investments. Public administration plays a key role in opening up and utilising data and enabling digital solutions and the platform economy. Finland will establish a management model for digitalisation development, which includes a permanent, intersectoral digital agency and a ministerial working group promoting digitalisation and the data economy.

11 European Data Market Study (2020). <https://digital-strategy.ec.europa.eu/en/library/european-data-market-study-update>

12 Finland's Digital Compass (2022). <http://urn.fi/URN:ISBN:978-952-383-609-9>

2.2 Availability of labour

In the 2020s, Finland's demographic structure will be in a situation where the availability of labour is an even greater socio-political challenge than before.

Background

The outlook for the availability of labour between now and 2035 is summarised below. There are four key issues:

- ageing is increasing the need for labour in health and social services;
- the availability of labour is a limiting factor for economic growth;
- without significant policy measures, the workforce will shrink from the current level; and
- employment-based immigration can be used to attempt to cover the need for labour.

According to Statistics Finland's population projection, the number of persons aged 85 or over will nearly double by 2035. This will increase the need for health and social services and, thus, the number of people working in the sector. The number depends on many factors but may fall within the range of 30,000–70,000 additional workers needed.¹³ Without clear cutbacks in services, it is very difficult to imagine a scenario in which the need for workers would not increase. The growth in the need for services can be slowed down by investing in the promotion of the health and functional capacity of older people.

Labour productivity growth, and thus, economic growth, has been subdued for a long time with no significant productivity leap in sight. The availability of labour is also a constraint on economic growth. In the future, this supply constraint will only intensify as the working-age population decreases. At the same time, the growing need for health and social services will take up a larger share of the increasingly scarce labour potential.

¹³ According to a recent estimate, growth is expected to be about one fifth in the 2020s and 2030s. See Honkatukia, J. & Vaittinen, R. (2022). <https://urn.fi/URN:ISBN:978-952-343-996-2>

The working-age population will decrease by 2035. Under the current employment rate of 75%, there would be 40,000 fewer people in employment. At an employment rate of 80%, the number of employed persons would be approximately 125,000 higher than at present. However, even an employment rate of 80% would mean that the supply of labour to sectors other than health and social services would remain quite limited.

The population projection estimates net immigration to be approximately 15,000 persons per year. The figure also includes non-employment-based immigration, such as children. The aforementioned factors illustrate that even a fairly moderate increase in the need for health and social services will result in a large additional need for employment-based immigration of approximately 100,000–200,000 people over the next 12 years. This would mean doubling the current level of immigration.

Slowing down the growth in labour demand in health and social services, achieving a high employment rate of 80% and doubling employment-based immigration are all very challenging goals. The failure of one of them would mean that the other two would have to be even more successful.

4. We should aim for an employment rate of 80% in the long term.

While the employment rate has developed well in recent years, it is still lagging behind the other Nordic countries. However, fiscal consolidation and the challenges posed by the availability of labour require a relatively high employment rate. From an individual's point of view, work brings prosperity and is the best way to prevent poverty. The proposed objective is very demanding and requires broad-based and parallel measures in several policy areas and administrative sectors, such as taxation, labour, education, family and immigration policy, social security, and the promotion of the capacity to work and function. Some of the necessary measures are politically difficult to implement. The measures considered should emphasise options that strengthen general government finances.

5. We should aim to double employment-based immigration in accordance with the objectives set in the Roadmap for Education-Based and Work-Based Immigration.

Finland is on the way to reaching the European level in terms of the share of immigrants in the population. Finnish society needs discussions of values related to immigration and multiculturalism. We compete for employment-based immigrants with other countries, many of which are more active or, as a rule, more attractive than Finland. Without a clear increase in employment-based immigration, it will be difficult to have a sufficient workforce, which will weaken economic growth and general government finances. The shortage of highly skilled workers in Finland is the highest in the OECD countries.

Similarly to raising the employment rate, education-based and employment-based immigration can only be effectively promoted through decisive and comprehensive action in the context of economic, industrial, employment, innovation, education and integration policy. The Roadmap for Education-Based and Work-Based Immigration 2035¹⁴ already contains the most important measures to improve the availability of skilled workers. It sets the objective of at least doubling employment-based immigration. A comprehensive immigration policy programme is needed as a new element.

During the current parliamentary term, national and local structures have been created to support the attraction and recruitment of talent, and the processing times of employment-based and education-based permits have been accelerated to a level that stands up to international comparison. Instead of organisational reforms, we need to strengthen structures and services to respond to the growing number of arrivals and to eliminate bottlenecks. Facilitating faster integration into the labour market also plays a key role in immigration that is not based on education or employment (see also Chapter 4).

14 Roadmap for Education-based and Work-based Immigration 2035 (2021). <http://urn.fi/URN:ISBN:978-952-383-939-7>

3 Green transition solutions at the heart of climate and growth policy

Climate change and biodiversity loss are the greatest challenges facing mankind.¹⁵ The response to the climate and ecological crisis requires the green transition, that is, a shift towards an ecologically sustainable economy and growth that is not based on overconsumption of natural resources or on fossil fuels (see Figure 3). The economy must function sustainably in terms of people's health and wellbeing (planetary health) and the use of natural resources, and the use of fossil energy sources must be phased out quickly.

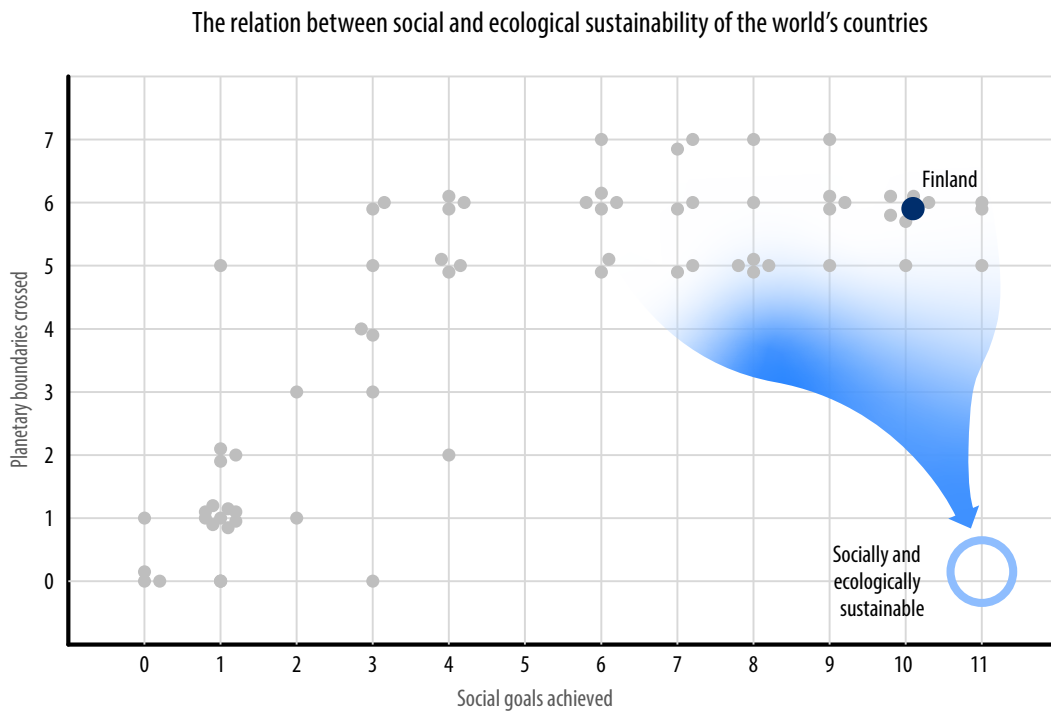
The green transition offers significant opportunities for growth and export. The investment needs of the green transition in Finland and abroad are historic in scale and speed. Finnish companies have good chances of success in the green technology market, for example, but this requires capital, R&D investments and successful commodification and marketing. Export promotion structures can be developed to take greater account of the promotion of the green transition.

The green transition will necessitate a comprehensive transformation of the economy and society that will have extensive effects. Preparations for the green transition must be made in collaboration with civil society to take better account of the impacts on different groups in the type of measure. For example, the social security system has the potential to both provide a guard against the increased costs of the transition and to compensate for them. Solutions can promote society's self-sufficiency and, consequently, security of supply, comprehensive security and crisis resilience.

15 Global Risks Report (2022). <https://www.weforum.org/reports/global-risks-report-2022/shareables/> 2021 Global Risks Outlook (2022). <https://markets.businessinsider.com/news/stocks/visualized-a-global-risk-assessment-of-2021-and-beyond-1030001232>

Figure 3. The social and ecological sustainability of the world's countries.

Source: O'Neill et al. (2018) Finnish Environment Institute & Sitra.



The Finnish Climate Change Act states that Finland will be carbon neutral by 2035. Finland is committed to taking action in accordance with the objectives of the EU Biodiversity Strategy and the new UN Convention on Biological Diversity to halt the loss of biodiversity and to put biodiversity on a path to recovery. It is of paramount importance to adhere to the objectives set.

3.1 Making use of the most cost-effective governance methods in a wide range of ways

The emissions reduction path leading to the achievement of climate targets can be implemented cost-effectively by choosing policy measures that cause as little cost to the economy as possible. Cost-effective instruments in the reduction of climate emissions include ones that price emissions from production, such as emissions trading and taxes, as well as legislation. In addition to emissions pricing, subsidies for the development and introduction of low-emission technologies can be used. Emissions should be regulated directly in situations where the damage from emissions is significant and more effective instruments are not available.

- It is important to ensure that public sector policy measures (regulation, steering, licensing, financing, taxation and other measures) as a whole consistently promote the good condition of ecosystems and the maintenance and growth of natural capital.
- We should continue to develop the tax system, in particular with regard to energy taxation and consumption taxation.
- The carbon sink policy needs to examine the prerequisites for the use of governance measures that price emissions and carbon sinks.

3.2 Investments to meet climate and environmental targets, halt nature loss and accelerate the green transition

Estimates of investment needs in Finland between 2022 and 2050 range from over EUR 100 billion (EUR 3.3 billion per year) to as much as EUR 242 billion (EUR 8 billion per year) in additional investments.¹⁶ The investments required to bring about the green transition must be mainly financed from private sources. In the financing of the green transition, the primary duty of the public sector is to use cost-effective and consistent means to encourage and promote the channelling of private investments. For companies considering investments, the predictability and stability of the operating environment in Finland and the incentives provided by the regulatory environment are important. Interest in green investments in Finland is already growing.

¹⁶ Working group on financing the green transition: Final report. Publications of the Finnish Government 2023:5. <http://urn.fi/URN:ISBN:978-952-383-847-5>

- We must assess how existing public funding structures and institutions (including administrative processes and permitting) and other governance methods can be utilised in Finland to systematically channel funding to promote the green transition. It is important to make strategic use of different sources of financing and risk-sharing instruments to leverage private financing in a cost-effective and efficient way.
- Subsidies that are harmful to the environment or prevent change should be redirected to support the green transition and social sustainability. For example, sustainability criteria and targets should be set for corporate financing and subsidies channelled by public organisations, drawing on the experience of international models to ensure that the operating environment of companies in Finland develops in line with that of our peer countries.

3.3 Investment in research, development, innovation and competence

The Parliamentary Working Group on Research, Development and Innovation proposes: “When engaging in and providing direction for RDI activities, it is important to anticipate, identify and focus on global challenges and the opportunities they provide. Finland must decisively strive to be a leading maker of a sustainable future by developing system-level design, development, research and business expertise in key technology and competence areas, such as energy and environmental technology.”¹⁷

- We should launch programmes to speed up the changes in energy production, transport, industry, construction and the food system, among other things. The programmes must include impact assessments that assess both ex ante and ex post the effects of the measures on, for example, emissions reductions, growth in added value and employment.

17 Final Report of the Parliamentary Working Group on Research, Development and Innovation (2021). <http://urn.fi/URN:ISBN:978-952-383-516-0>

3.4 Circular economy at the heart of the green transition

Overconsumption of natural resources is a key driver of climate change and biodiversity loss. More natural resources are consumed in Finland than in our peer countries.¹⁸ This emphasises the importance of boosting circular economy solutions, value added and RDI investments. The use and recycling of materials in a resource-wise manner and the utilisation of side streams bring cost benefits and reduce dependence on non-renewable raw materials and foreign imports.

For the green transition to take place, more products and services of higher value added must be produced from less. To bring about the green transition, the circular economy must become the mainstream of the economy. Finland has the capacity to achieve the objectives of the Circular Economy Programme of reducing domestic use of non-renewable natural resources to the 2015 level and doubling resource productivity and the circular material use rate by 2035.¹⁹ The long-term goal is a Finland that is able to decouple economic growth from emissions and overconsumption of resources.

- We should reduce the need for raw materials and other materials, for example, through material and energy efficiency and through sharing and service models. We need to extend the life of materials and products, for example, through reuse and remanufacturing, repair and recycling. It is important to develop and redirect economic incentives, policy instruments and guidance by information so that they support the economical use of natural resources, reduce carbon dioxide emissions, strengthen biodiversity and promote circular economy service models and digital infrastructures.
- We should increase low-carbon circular economy solutions, for example, in construction, energy and infrastructure projects, and service procurement in the public sector.

18 Pirtonen, H. (2022, in Finnish). <https://www.stat.fi/tietotrendit/artikkelit/2022/suomi-kuluttaa-luonnonmateriaalejaan-huomattavasti-enemman-kuin-muut-eu-maat-materiaalitilinpito-kuvaa-luonnon-hyodyntamista/>

19 Government Resolution on the Strategic Programme for Circular Economy (2021). <https://ym.fi/en/strategic-programme-to-promote-a-circular-economy>

4 Strengthening equality and democracy

Most Finns are doing well, but not everyone. An individual's financial situation (income and wealth), quality of life (such as health and perceived wellbeing), social participation and faith in the future are all correlated in their life situations – difficulties often accumulate. The prerequisite for economic growth and high employment are healthy citizens with a good capacity for work.

Crises and changes in our international operating environment, pressures to balance general government finances and the costs of the green transition will further challenge our ability to maintain the welfare state. The rise in the cost of living is a topical issue. In the prevention of inequalities, it is essential to assess the impact of decisions and actions on different groups of people, in particular the most vulnerable ones, in order to mitigate negative impacts.

From an individual's point of view, work brings prosperity and is the best way to prevent poverty. Good education, a high level of employment and confidence that the most vulnerable members of society will be taken care of are essential. The measures of public authorities are implemented within the limits of the sustainability of public finances. Reducing inequalities between population groups and regions is important, especially from the viewpoints of health, safety, a functioning democracy and social trust.

The rule of law is a key prerequisite for the realisation of citizens' rights, democracy and stable economic activity. In a stable and functioning democracy elections are free and fair, fundamental and human rights are respected, and citizens trust and participate in decision-making. Democracy functions better and is more resistant to information influence activities if it has lower levels of inequality and a good level of education. A free and vibrant civil society increases wellbeing and helps keep everyone involved in society.

The pursuit of a high employment rate should be central to changes to the social security system and the service system. We also need, for example, changes in taxation and tailored support.

4.1 Stable democracy strengthens crisis resilience

A functioning democracy is the foundation for social stability and crisis resilience, and thus, economic growth. Democracy policy must be developed in a long-term and cross-administrative manner in cooperation with civil society.

In order to combat inequality, it is essential to strengthen grassroots democracy and participation in everyday life and to support the ability of different population groups, especially young people, to participate in democratic decision-making on an equal basis. Effort must be invested in the development of new kinds of participation channels and democracy innovations, as well as digital forms of participation.

The public's trust in the authorities must be strengthened by continuing to promote transparency in administration and work against corruption. The capacity and autonomy of civil society must be safeguarded, and informed decision-making on civil society issues must be consistently promoted.

4.2 Prevention of inequality

Inequality must be prevented by supporting the ability of disadvantaged people to cope with difficult life situations. The general level of health and wellbeing has consistently improved in Finland, but is increasingly unequally distributed among the population. This is reflected, for example, in income inequality, health disparities and social exclusion, experiences of wellbeing and life satisfaction, education, and faith in the future. From the point of view of prevention, it is of paramount importance that the tasks remaining in municipalities, such as services related to education, training, the environment, housing, working life and the promotion of wellbeing and health, work well together with the health and social services that have been transferred to wellbeing services counties and form a functional whole with benefits. It is essential to promote the integration of immigrants in cooperation between municipalities and wellbeing services counties. A high employment rate requires supporting work ability and functional capacity.

The trend of social mobility in Finland has taken a bad turn. The intergenerational transmission of unemployment, disadvantage and low education can be combatted through broad-based early childhood education, upper secondary education and a significant expansion of tertiary education.

Inequality can often be prevented through social inclusion and communities. In addition to national decision-making, we also need regional and local solutions and cooperation to reduce inequality. The private and third sectors play an important role in this.

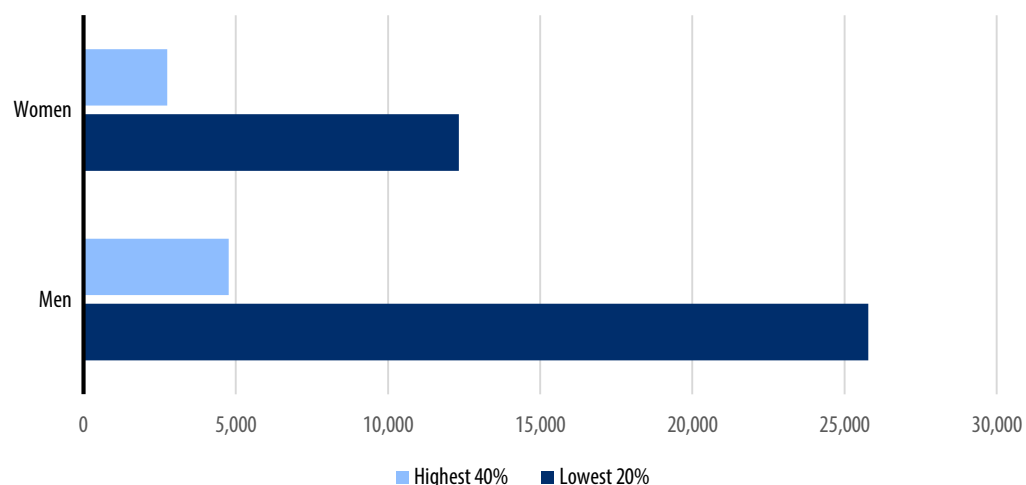
Social segregation can be prevented by meeting housing needs and by improving urban planning and the quality of neighbourhoods. This is a key issue in urban policy and is particularly linked to immigration. Agreements concerning land use, housing and transport should be used more actively to support sustainable urban structure and mobility and to combat segregation. Particular attention must also be paid to preventing the emergence of a parallel society.

4.3 Targeted and incentivising benefits and services for those in need

Many benefits are universal. In order to reduce inequality, it is essential to provide support those to whom it will make the most difference. Allocating support based on need is more efficient and promotes inclusion, the capacity for work and employment. Economic inequality even has a significant impact on life expectancy (see Figure 4).

The ageing of the population will increase the need for services, but this can be reduced through preventive measures. Measures targeted at those most in need are particularly effective. Opportunities for the participation of older people must also be secured as society changes, for example, as digitalisation progresses. Immigrants are another example of a group in need of targeted support. To strengthen participation, it would be important, for example, to get immigrant mothers into the labour market and their children into early childhood education.

Figure 4. Potential Years of Life Lost (PYLL) due to all causes of death aged 25–80 per 100,000 corresponding inhabitants in 2018–2020 by income group. Source: Finnish Institute for Health and Welfare (THL), Sotkanet



5 Finland's security and crisis resilience

Russia's war of aggression is weakening international security and having a profound and long-term impact on Finland's security. The situation is serious and difficult to predict. In addition to Russia's war of aggression, the situation is affected by global developments, such as population growth, competition between great powers and unstable conditions in many regions due to, for example, climate change.

Global developments and events also have a rapid impact on Finland. Relations and tensions between great powers make our operating environment uncertain and entail a risk of wider global conflict. Finland's prosperity is built on exports and an open world economy, which is being overshadowed by geopolitical tensions. Finland has a key interest in ensuring that the global economy remains open and free trade increases. In a turbulent environment, it is important to maintain the ability to monitor and anticipate emerging impacts from the Finnish perspective and to be active in international forums. Finland's security and crisis resilience must be strengthened by developing preparedness and readiness. National military defence and internal security require increasing attention. Comprehensive security and a healthy society provide the basis for crisis resilience.

Long-term and overlapping crises not only have a wide-ranging impact, but also pose particular challenges to the crisis resilience of society. Finland is well prepared, and we have systematically made decisions necessary for security, as evidenced, for example, by our application for NATO membership.

5.1 Finland as an active international actor

Finland participates actively in international cooperation to strengthen international stability as well as Finland's security, democracy, the rule of law, sustainable development, climate and environmental goals, and the rules-based system. By engaging in international cooperation, Finland prepares for a wide range of security threats and challenges. The problems Finland faces often start far from its own borders, and identifying and influencing them requires international cooperation and the capacity to act through foreign policy.

The challenge Russia poses to the security of Finland and Europe is long-term, comprehensive and not limited to its invasion of Ukraine. Russia will remain a neighbouring country of Finland and Europe and a major player in the global system with extensive resources. This will continue to affect the development of the security architecture of Finland and Europe and the global sustainability crises in the future. Finland is also responding to the challenges posed by Russia, above all by acting to bolster the unity and capability of the EU and NATO. NATO membership will open new opportunities for Finland to deepen its foreign, security and defence policy cooperation with the United States and, in particular, with Sweden and Norway.

Development policy and development cooperation are instruments for stabilising development by supporting economic, environmental and social development, good governance, population control and decent living conditions in developing countries. This is also essential for security. Major global development challenges require ways to involve private capital and the private sector more strongly in the development of developing countries' economies. This will also help lay the foundations for promoting our commercial and economic interests in emerging markets.

5.2 Crisis resilience and defence must be ensured

The foundation for operating under abnormal and emergency conditions is built during normal conditions in accordance with the comprehensive security operating model. The drivers of change in the security and operating environment necessitate a comprehensive examination of national security. Threats fall under the responsibility of an increasing number of different administrative branches, which increases the importance of the ability to coordinate preparations and measures. Society's crisis resilience, preparedness, continuity management and ability to lead and make decisions in rapidly evolving crisis situations must be continuously improved. The COVID-19 crisis and Russia's invasion of Ukraine have further emphasised the importance of functioning structures for local and regional cooperation and a cross-sectoral situation awareness in crisis management. In addition to national preparedness, international multilateral and bilateral cooperation on resilience and preparedness must be intensified.

Security of supply, the reliability of critical infrastructure and civil defence must be developed to meet the requirements of the changed operating environment. The private sector is an increasingly important part of crisis resilience, both from an economic perspective and as part of critical infrastructure. The importance of civil society and the self-motivated preparedness and capacity for action of individuals and communities

is also increasing. It is important to increase the awareness of comprehensive security among different population groups. A free and vibrant civil society is of key importance to democracy and to social resilience and trust.

The change in Finland's security solution, in other words Finland's membership of NATO, will have an impact on Finland's foreign and security policy. In particular, the integration of Finland's defence into NATO's collective defence will influence defence policy. As a member of NATO, Finland will share the responsibilities and benefits related to the alliance's collective security and defence. Finland's NATO membership will have an impact on the level of, for example, defence resources; the long-term target of at least 2% of GDP set by NATO will require political decisions from the next government. Alongside NATO membership, Finland's evolving comprehensive security cooperation model and the principle of comprehensive national defence are a key part of society's crisis resilience and part of our defence deterrent.

5.3 Internal security and a healthy society of trust provide the basis for crisis resilience

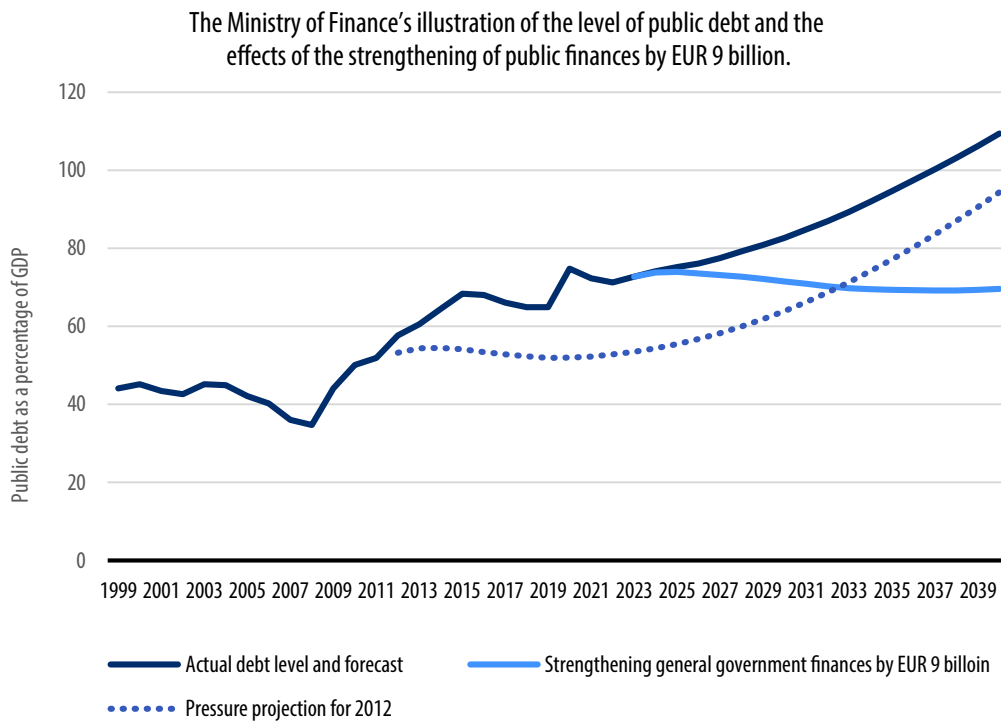
In order to ensure internal security, we need well-functioning security and rescue authorities with up-to-date powers and capabilities. Internal security and a good sense of security also contribute to the capability to cope with external security crises. It is essential to reduce inequality, segregation and polarisation and to increase participation in society. Finns have excellent media literacy and a high level of education, which helps us in many ways. When the authorities communicate their activities openly and in a timely manner, it strengthens trust in the functioning of the authorities and the rule of law.

Violence must be prevented in all sectors of society. This includes preventing gender-based violence and the formation of gangs. In addition to prevention, other effective measures need to be examined and the functioning of the current criminal sanctions systems needs to be reviewed as circumstances change. We must ensure that our system of administrative and legal protection functions well and foster public confidence in it. Health and social services also help support the mental crisis resilience of the population and maintain internal security. A strong and cohesive society raises the threshold for influencing Finnish society.

6 Balancing general government finances

Finland’s GDP growth is lagging behind our Nordic peer countries. However, Finland has succeeded in significantly extending life expectancy. The decrease in the size of age cohorts and the ageing of the population will weaken economic growth and put an increasing strain on general government finances. The green transition and the response to the climate and nature crises will put pressure on general government finances in the short term. Overall, there is a need to ensure room for fiscal manoeuvre for strategic needs. As interest rates normalise, the costs of servicing public debt will rise. In Finland, central government guarantees are at an exceptionally high level in international comparisons. Finland’s sustainability gap is estimated at approximately EUR 9 billion (Figure 5).

Figure 5. Pressure projection of public debt. Source: Statistics Finland, Ministry of Finance.



Fiscal consolidation is a very demanding and ambitious objective, which requires a combination of various measures. The emphasis and timing of the measures will require due political consideration.

1. There is a need to develop the fiscal governance framework.

The government outlines the objective for the general government budgetary position, i.e. the difference between revenue and expenditure, for a period the length of the parliamentary term. The spending limits system should continue to be regarded as a key tool for decision-making in the government's fiscal policy. A crisis mechanism should be included in the Government Programme.

6.1 Revenue generation and growth policy

2. A successful growth policy reduces the need for adjustment in the long term.

Medium-term growth potential is subdued, and the number of growth measures available to strengthen general government finances is limited. The effects of these measures are often only felt in the long term. Although economic growth cannot be expected to provide a silver bullet to rescue general government finances, a determined policy to improve the conditions for economic growth is of critical importance (see Chapter 2). The need for short-term adjustment must be covered using the following means.

3. The tax system should be improved.

Finland's total tax rate is among the highest of OECD countries along with the other Nordic countries, but is slightly lower than, for example, in Denmark.²⁰ Finland's tax structure provides opportunities to reallocate the tax burden in a way that will improve efficiency. It is important that tax policy is predictable and set with a long-term perspective and that it ensures that the tax base is tight and broad. The tax survey to be completed in early 2023 will be available to the next government.

20 OECD (2020). <https://data.oecd.org/tax/tax-revenue.htm>

4. We should consider the use of various fees.

There are a number of places where fees might be appropriate. Cost-relatedness can be increased in various central government functions. With respect to fees, it is critically important to take into account the risk of increasing inequality. It is also possible to increase environmental taxes and charges and, more broadly, the 'polluter pays' principle.

6.2 Cost reduction

5. Expenditure adjustments must be carefully considered.

The timing and allocation of possible expenditure adjustments must be carefully considered so that they do not cut growth opportunities or shift costs to other services, benefits or a later date. When allocating savings, the core tasks of the public sector must also be assessed.

The results of the expenditure and structural survey to be completed in early 2023 will be available to the Government. Expenditure and structural surveys will be made a more permanent part of the general government fiscal toolkit.

Cutting costs evenly has been practised for several parliamentary terms. Our assessment is that targeted cuts are also needed in place of a general reduction in costs.

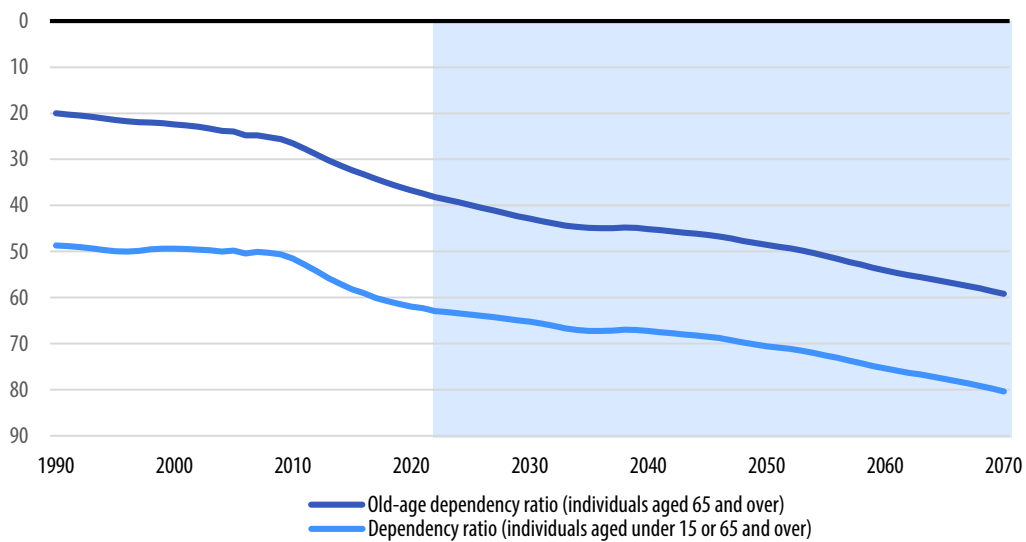
6. Working careers should be extended at the beginning, end and middle.

Structural reforms that improve employment can also strengthen general government finances. This topic is further discussed in the chapter on strengthening the conditions for economic growth.

7. We must increase the effectiveness or productivity of public activities.

In international comparisons, Finnish public administration is already estimated to be quite efficient²¹, but there is still room for improvement. The key is to curb the increase in costs so that the sustainability of general government finances does not deteriorate further.

Figure 6. Development of the dependency ratio and the forecast calculation until 2070. Source: Statistics Finland, Ministry of Finance.



The success of the implementation phase of the health and social services reform plays a critical role in the sustainability of general government finances. Curbing the increase in the costs of health and social services and keeping the finances of the wellbeing services counties within the framework of the calculated financing model are two key aspects.

There is also potential for improving how efficiently premises are used by public administration.

21 European Commission (2014). https://ec.europa.eu/commission/presscorner/detail/en/MEMO_14_526 More recent reviews have also supported the same conclusion, see e.g. *Worldwide Governance Indicators (2022)*. <https://info.worldbank.org/governance/wgi/>; KDZ (2021). *Cost and Effectiveness of Public Administration in Europe* | KDZ – Centre for public administration research

The tasks and number of municipalities must be assessed. The development of segregation in municipalities (for example, Helsinki is in very different situation to Luhanka, the least populous municipality in Mainland Finland) calls into question whether Finland will be able to continue to base its local government policy on a model of uniform municipalities. Efforts to break away from this model could be promoted in stages by testing them on a function-specific basis or according to regional needs. The separation of tasks could also be an appropriate way of proceeding with the identification and development of the specific role of cities. Alternatively, the number of municipalities should be reduced during the forthcoming parliamentary term. With the health and social services reform, it is also necessary to examine the development of regional state administration.

Digitalisation requires investment and maintenance costs in the short term, but in the long term it is necessary for cost management and the efficiency of public services. The automation of tasks may also partially alleviate the labour shortage in public services, which is expected to deepen in the coming years.

The COVID-19 pandemic and service backlog

The COVID-19 pandemic and the labour shortage in health and social services have caused a significant backlog in the provision of treatment, rehabilitation and services. The effective elimination of this backlog is necessary in order to avoid long-term cost effects. It will take years to rectify the situation. The measures taken and resources used to eliminate the backlog and maintain balance must be allocated and used in such a way that improves the productivity and permanent resilience of the service system. It is difficult to draw up an accurate estimate in euros of the backlog in the provision of treatment and services.

SNELLMANINKATU 1, HELSINKI
PO BOX 23, 00023 GOVERNMENT, FINLAND
valtioneuvosto.fi/en/
julkaisut.valtioneuvosto.fi

ISBN: 978-952-383-962-5 PDF

ISSN: 2490-0966 PDF