Policy Responses to Economic Crises

Finland, 2008-

Note: Policy background memos contain information from various sources on the political economy of a particular country and economic and social policy choices before, during, and after an economic crisis. The memos do NOT contain any original information or analyses, but rather summarize material from various sources. The material is at times quite raw – the text is often presented in bullet points and sources are often quoted verbatim. Thus, the background memos should primarily serve as an overview of 1) policy developments in a particular country, and 2) academic research on the subject.

1 Background

Economy

Like the other Nordic countries, Finland had enjoyed strong economic growth in the lead up to the crisis. The economic expansion followed a deep recession in the 1990s and was driven by exports, a depreciated currency and sound economic management (OECD 2010a, 20).

Politics

A right of center coalition, between Kesk (Center party), Kok (National Coalition Party), RKP (Swedish People's Party) and Vihr (Green League), took office in 2007 and was in power at the onset of the crisis.

2 Crisis

"The Finnish economy was relatively severely hit by the global economic crisis in 2009 with GDP falling by 7.6 % from the previous year. Growth is expected to remain weak, below one percentage point, also in 2010. The state of public finances also deteriorated rapidly and the public sector budget balance turned to a deficit of 2.2 % of GDP in 2009, having displayed rather hefty surpluses during the past ten years" (European Commission 2010, 190).

3 Policy Response and Politics

During 2008-2010, Finland pursued a policy of fiscal stimulus, with the bulk of the stimulus coming from tax cutting (Cameron 2012, 114). "The thrust of the stimulus has been on tax cuts, primarily focused on lower income brackets, but social security contributions have also been reduced. Additional resources have been channeled towards unemployment support and municipalities […] A significant part of the stimulus consists of permanent tax cuts announced in the 2007 government programme, which were timed on cyclical grounds and implemented in 2009. Only one third of the stimulus was of a one-off nature or for a limited period" (OECD 2010a, 12). The size of automatic stabilizers are average compared to other OECD countries (Girouard and André 2005, 22)

Autumn 2008

Fiscal → "The Finnish discretionary stimulus measures were similar in size to the expansionary packages adopted in the other Nordic countries—according to the Finance Ministry's calculations, they amounted to 1.8 percent of GDP in 2009 and 1.6 percent of GDP in 2010 […] They had a different composition, however—40 percent of the measures represented tax cuts and the abolition of employers' national insurance contributions, and approximately 20 percent were categorized as "construction and renovation" and "civil engineering." Only 2 percent went to labor policy and education, and only 3 percent went to benefit increases. These priorities are consistent with the agenda of the center-right government, and arguably also with the economic model that Finnish governments have built after the deep recession of the early 1990s" (Lindvall 2012, 253).

Taxation → VAT on food reduced from 17% to 12% as of October 2009 (European Commission 2010, 33).

January 2009

Employment → "The government announced further fiscal measures valued at around EUR 2 billion (1.7% of GDP) with a focus on job training for unemployed youths, as well as transport and other infrastructure spending, and temporary measures to boost housing construction by means of grants and interest rate support for the construction of rental housing" (OECD 2010a, 27)

Autumn 2009

Fiscal → In the 2010 Budget proposal a 1 percentage point increase in the VAT rate on food [partly reversing last year's decrease] is planned for mid-2010, with the rate on catering and restaurants being lowered to 13% to harmonize with the lower rate on food. Income tax is to be cut for lower income earners by lowering the limit on the local government income tax allowance […] The 2010 Budget proposal also includes additional appropriations for labour market spending, and increased transfers to municipalities that are struggling to fund service commitments through the downturn" (OECD 2010a, 27).

Unemployment → Several measures were introduced that contributed to making unemployment benefits more generous. From Jan 2010 onward, the maximum amount of basic allowance was increased from EUR 1480 to EUR 2200 and the nominal values of benefits index-linked to consumer price changes will not be cut although consumer prices decreased under the reference period. Several other smaller measures were also introduced (OECD 2010b, 24–25).

Autumn 2010

Fiscal → "In the government's budget proposal for 2011 the fiscal stance shifts from being expansionary in 2010 to a gradually tighter fiscal policy" (OECD 2011a, 104).

Old age → New minimum pension benefit introduced (OECD 2010b, 26).

April 2011

Politics → The right of center coalition government, led by KESK (Center Party), lost its majority in the election, with KESK losing the most seats (16 out of 51 seats). The winners of the elections were the populist euro-skeptic PS (True Finns), which are generally associated with lower middle class voters, small farmers, and small entrepreneurs. Even so, KOK (National Coalition Party) was the largest party after the elections and took the lead in forming a coalition after the elections. After protracted negotiations, a six party majority coalition emerged, with three parties (of four) from the outgoing government – KOK, VIHR (Green League), and RKP (Swedish People's Party) – joining arms with three opposition parties – SDP (Social Democrats), VAS (Left League), and KD (Christian Democrats). Issue wise, the campaign focused on campaign financing, taxation and same-sex marriages, with economic management and the economic crisis not appearing to play a large role (Nurmi and Nurmi 2012).

Autumn 2011

Fiscal → The budget for 2012 is "broadly neutral", with the government allowing for the full operation of automatic stabilizers, but not enacting any large discretionary measures (IMF 2012, 20).

Unemployment → "The basic unemployment daily allowance and labour market support for the unemployed will be increased by EUR 100 per month as of 1 January 2012. This will also increase earnings related unemployment benefits. The basic amount of social assistance will be increased by 6% as of 1 January 2012. In addition, EUR 5 million will be allocated towards increasing the social assistance provided to single parents" (OECD 2011b, 26).

Unemployment → "The means-test of labour market support against spouse's income will be abolished as of 1st of January 2013" (OECD 2012, 25).

Family → "The index adjustment of child benefit will be suppressed 2013-2015." (OECD 2012, 25)

Taxation → "New income bracket with higher tax rate for annual incomes over 100 000 EUR will be introduced (so called "solidarity tax"). There will also be increased tax for annual pension incomes exceeding 45 000 EUR." (OECD 2012, 25)

November 2013

Fiscal → The budget for 2014 introduced. The deficit planned to be -2% for 2014, which is unchanged from 2013 (European Commission 2014).

Old age → The government announces aims to increase the effective retirement age by 1.5 (up to 62.4) by 2024 (IMF 2014, 8).

Unemployment → Active job seekers are allowed to earn up to €300 a month without it affecting their unemployment benefits (IMF 2014, 8).

January 2014

Taxation → The corporate income tax lowered from 24.5% to 20% (European Commission 2013, 14).

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