Austerity measures in Finland

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To combat the budget deficit and growing public debt, the centre-right Finnish government launched austerity measures a few months ago consisting of cuts in social transfers and public services, and increased user fees. Whereas they may help balance the budget, these measures are likely to have a strong negative impact on the country's long-term social investment objectives.

Description

Since the 2008 economic and financial crisis, the general government budget in Finland has been constantly in deficit (Findikaattori 2017). According to the Ministry of Finance, the deficit will be 2.6% in 2017 (VM 2016). As a consequence, general government debt jumped from 33% of GDP in 2008 to 67% in 2017 (VM 2016). The deficit is still considerably lower than the EU-28 average (85% in 2015; Eurostat 2017). However, in Finland the alarming issues are the rapid increase in the debt, the low performance of the economy, the high level of unemployment and the ageing population. According to Eurostat population statistics, population ageing is occurring more rapidly in Finland than in the other Member States. Thus, in the future, there will be strong pressure to increase social spending, which already exceeds 30% of GDP.

It is in this gloomy context that the Juha Sipilä centre-right government (formed on 29 May 2015) has adopted an austerity programme expected to run up until 2019. The target of the programme is to save about 10% of general government outlay (€56 billion in 2017; VM 2017). The cuts are primarily targeted at public social and education expenditure (Honkanen 2017).

In childcare, austerity measures include limitations to the subjective right to day care (children of unemployed parents have access only to half-day care), increasing the number of children per day care group, and increasing day care fees. The calculated savings are €193 Million. However, somewhat surprisingly, in its mid-term review (24 May 2017) the government decided to introduce sibling discounts and reductions in childcare fees for low-income earners (Valtioneuvosto 2017). This decision will cost €67-75 Million (Yle 2017).

Cuts in educational expenditure amount to €584 Million, of which €289 Million are taken from basic and secondary education by increasing the number of pupils per class, closing down small schools, and increasing fees for after-school club activities. The remaining €295 Million are taken from higher education and research (merging educational units, closing down and centralising small disciplines, cutting financing to universities, polytechnics and the Academy of Finland).

Social and healthcare services will face cuts totalling €806 Million (increasing service fees, cutting costs in health care, reducing reimbursement for medicine, private medical and dental care).

Savings in social transfers and study allowances will make up one billion euros. These measures consist of cuts in study benefits, tightening criteria for housing allowances, merging of pensioners' and general housing allowance schemes, abolition of compensations for people with coeliac disease and diabetes, and freezing of indexation of basic income transfers and universal child allowances.

Savings (about €1.3 billion) in other policy areas are being made through cuts in employment services, subsidies to municipalities, developmental aid and subsidies to enterprises. In addition, the government and the social partners negotiated a "competitive pact" consisting of income policy measures aimed at limiting wage increases and avoiding substantial changes in labour market contracts with a view to restoring the competitiveness of Finnish enterprises.

The government was not able to implement all of the planned cuts. Some initiatives were overruled on a constitutional basis (the government has no right to overrule labour market contracts), some proposals met public resistance or were rejected by trade unions. However, most of the cuts in transfers and services have been passed, and by the year 2019, when the mandate of the Sipilä government ends, all the "basic" benefits will be reduced. For example, basic unemployment benefits will be cut from €705 a month (in 2015) to €664 (in 2019); the basic pension from €757 to €739; the child allowance from €96 to €91; the study allowance from €302 to €239, and the minimum sickness benefit from €601 to €566. The minimum social assistance (€485) will be left intact.

Outlook & commentary

The government is facing a double-edged challenge. On the one hand, it has to try to balance the budget by means of the savings spelled out in its austerity package. On the other hand, these savings mostly hit the most vulnerable groups of society, which are already on low incomes. The risk of poverty will increase. The planned cuts to childcare and the educational system may jeopardise the good results achieved by the Finnish educational system. These cuts endanger the social investment objectives, which, in the long-run, will have serious detrimental consequences (Karhula et al. 2016). The main fiscal policy goal of the current government is to ensure fiscal sustainability. The Economic Policy Council (2017) stated that the target will not be reached, and additional structural cuts of €1.1 billion are needed. However, the Council recommends that the cuts should be supplemented by borrowing funds to make public investments to enhance economic recovery.

Further reading

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