

OECD Public Governance Reviews

FINLAND

WORKING TOGETHER TO
SUSTAIN SUCCESS

Capacity to Act

31 May 2010

The crisis has hit Finland hard: The public sector must respond quickly

The worldwide recession hit Finland harder than most other OECD countries

- Export volumes fell by almost a third from their mid-2008 peak
- The fiscal balance has declined sharply

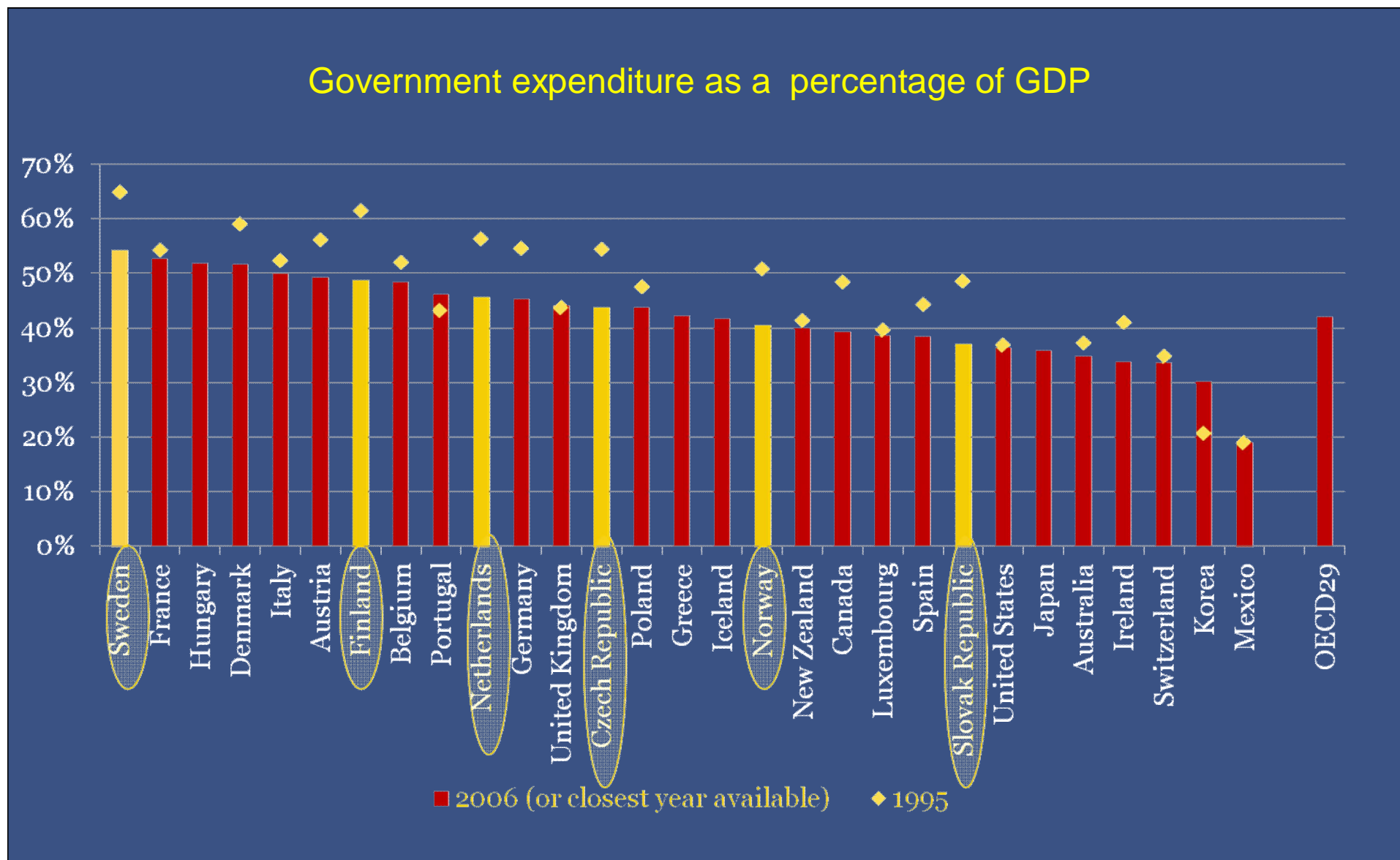
The crisis has worsened the fiscal situation, calling for a clear consolidation strategy

- In the past two weeks, financial markets have forced many European governments to publicly show their political determination to swiftly push through dramatic public sector cuts
- Fast-growing municipal expenditures need to be restrained
- Ageing population issues will hit Finland earlier and stronger than most other countries – fiscal consolidation all the more urgent
- Walking the fine line between fiscal consolidation and economic growth: is there a tradeoff?

Increasing inequalities challenge Finland's social model and may be aggravated by the crisis

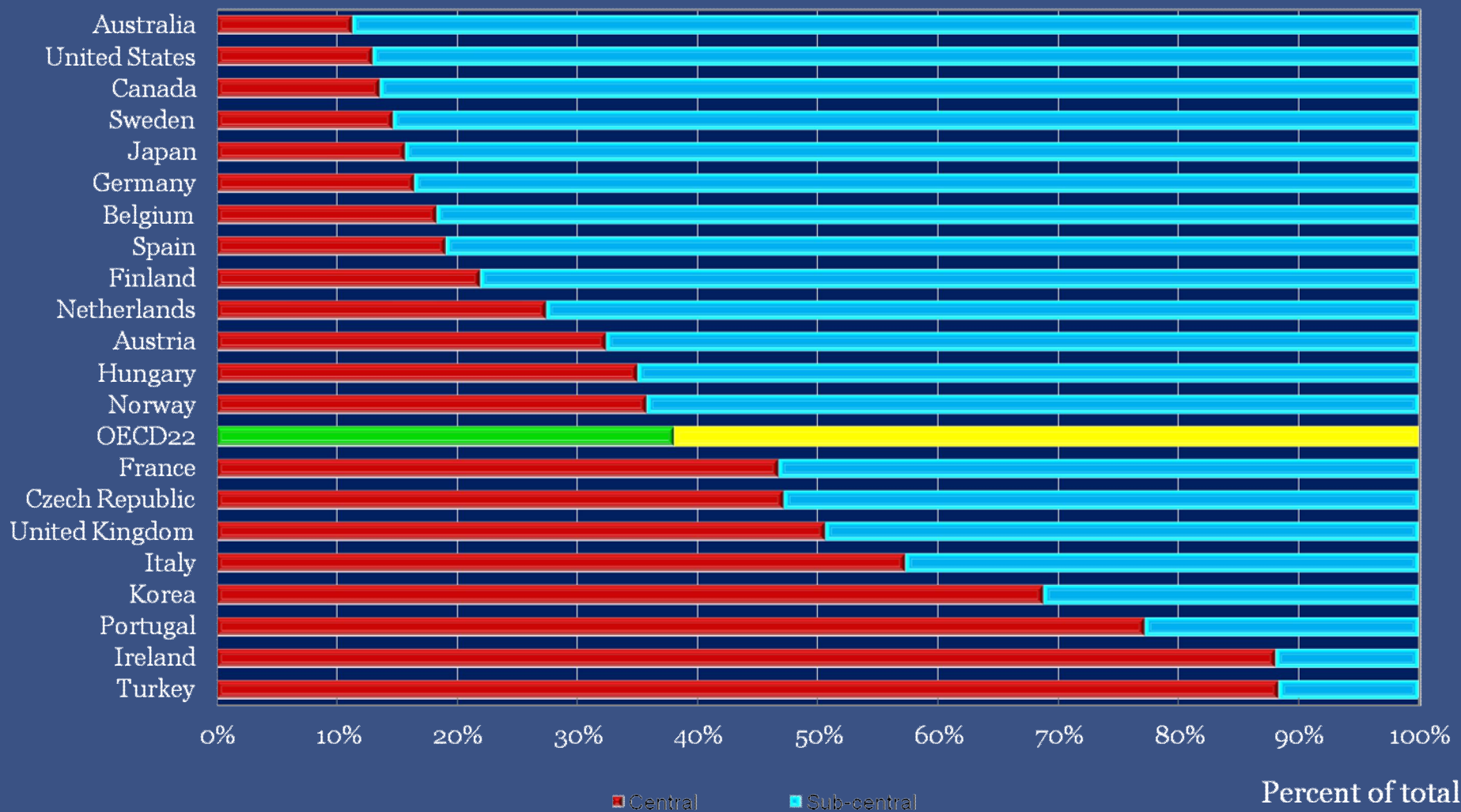
1. The International Context

Governments are major economic actors: fiscal consolidation will have an impact on economic activity



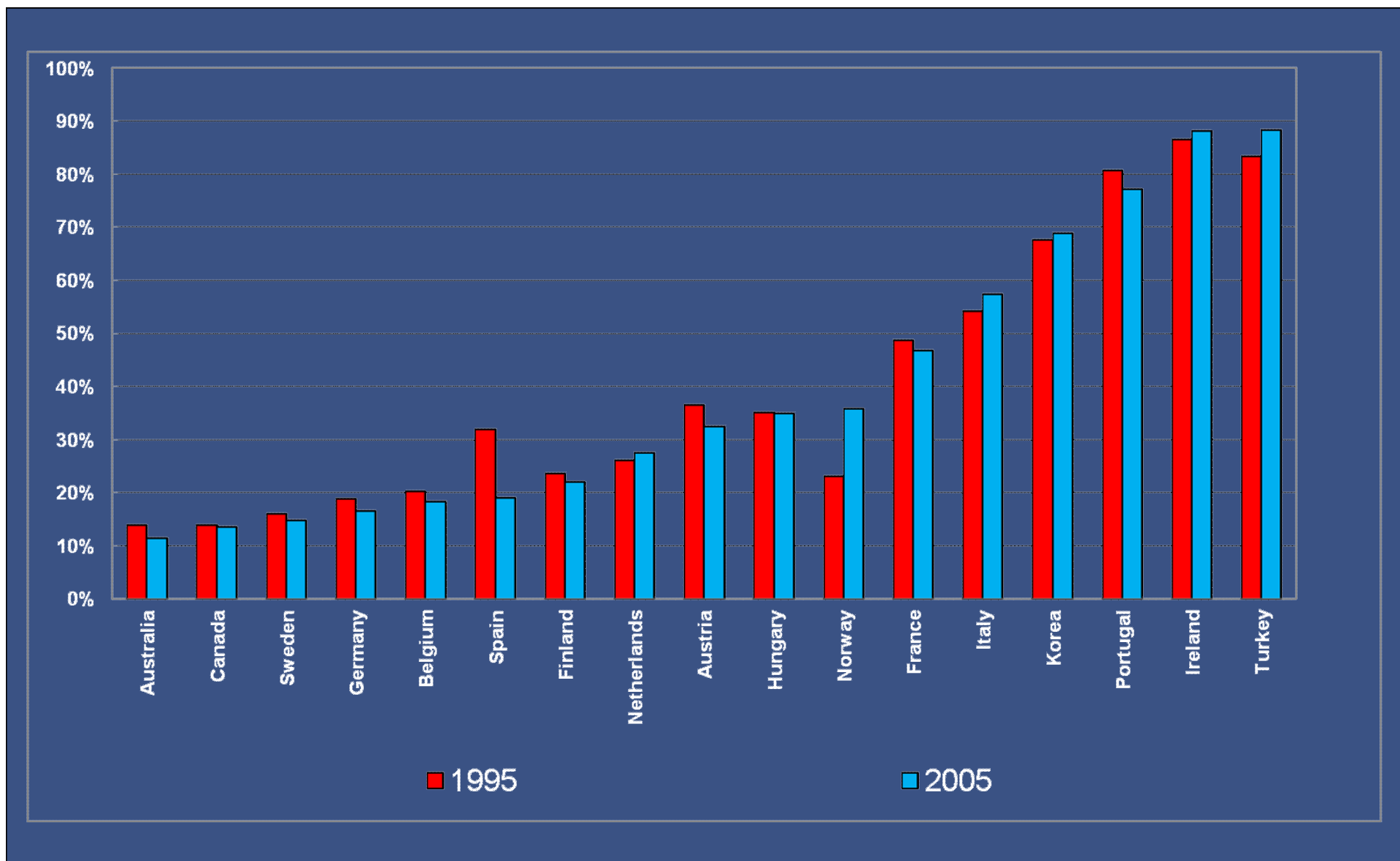
Employment is highly decentralised: spending cuts have implications for all levels of government

Distribution of employment between the central and sub-central levels of government (2005)



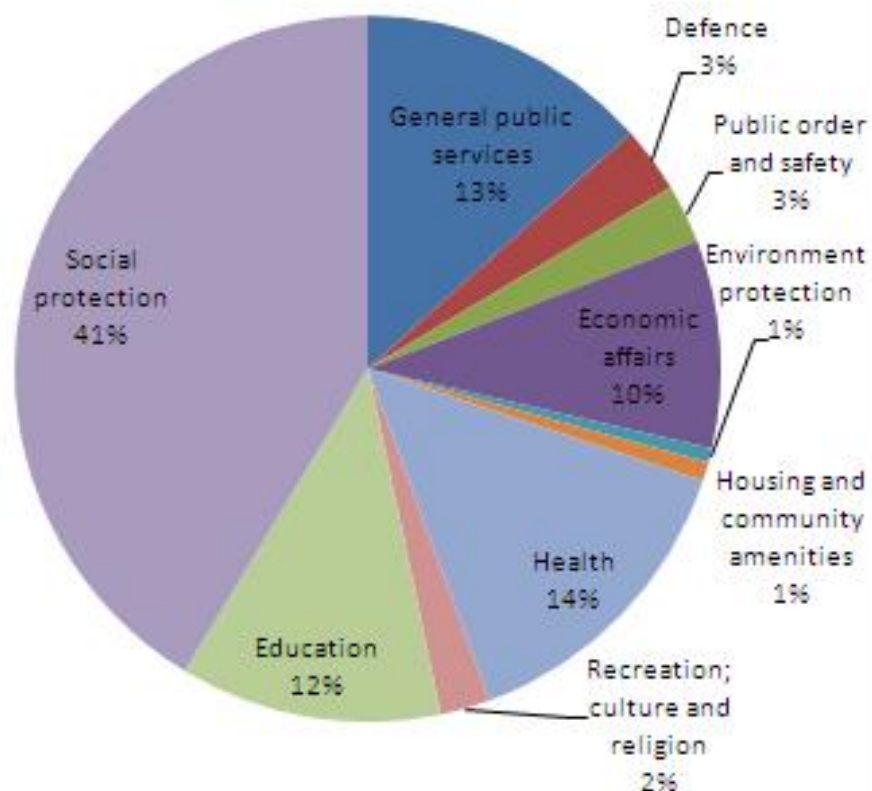


Employment at the centre has already been reduced: how can service quality be maintained if more cuts are needed?

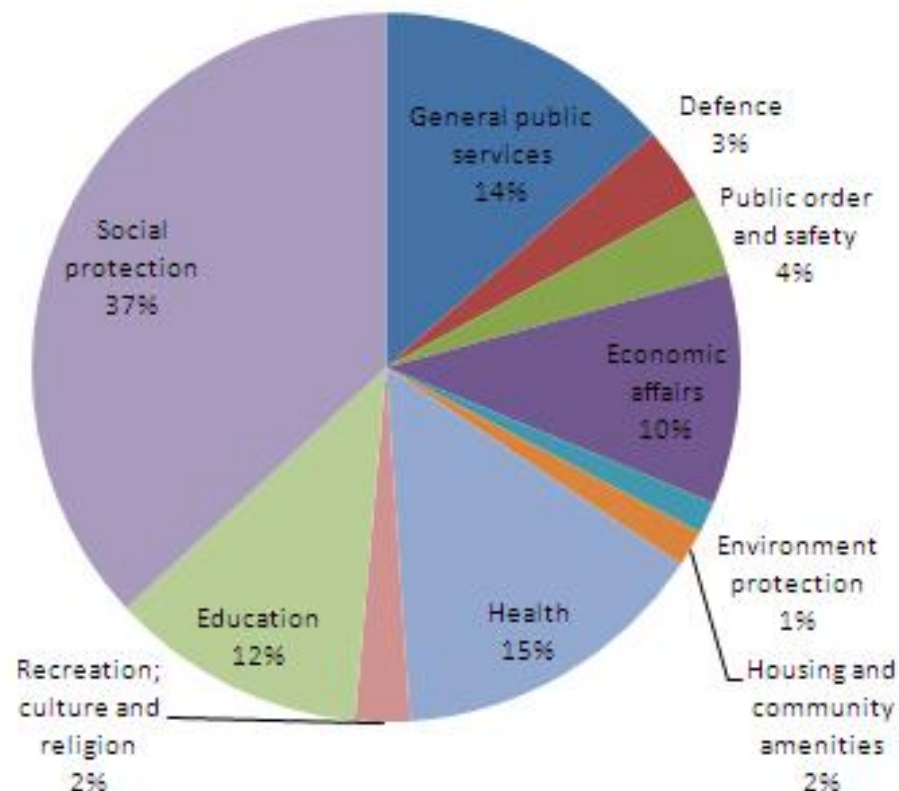


Sustaining the Nordic Model: how can exit strategies support social objectives *and* reduce spending?

Finland: General Government Expenditures by Function, 2008

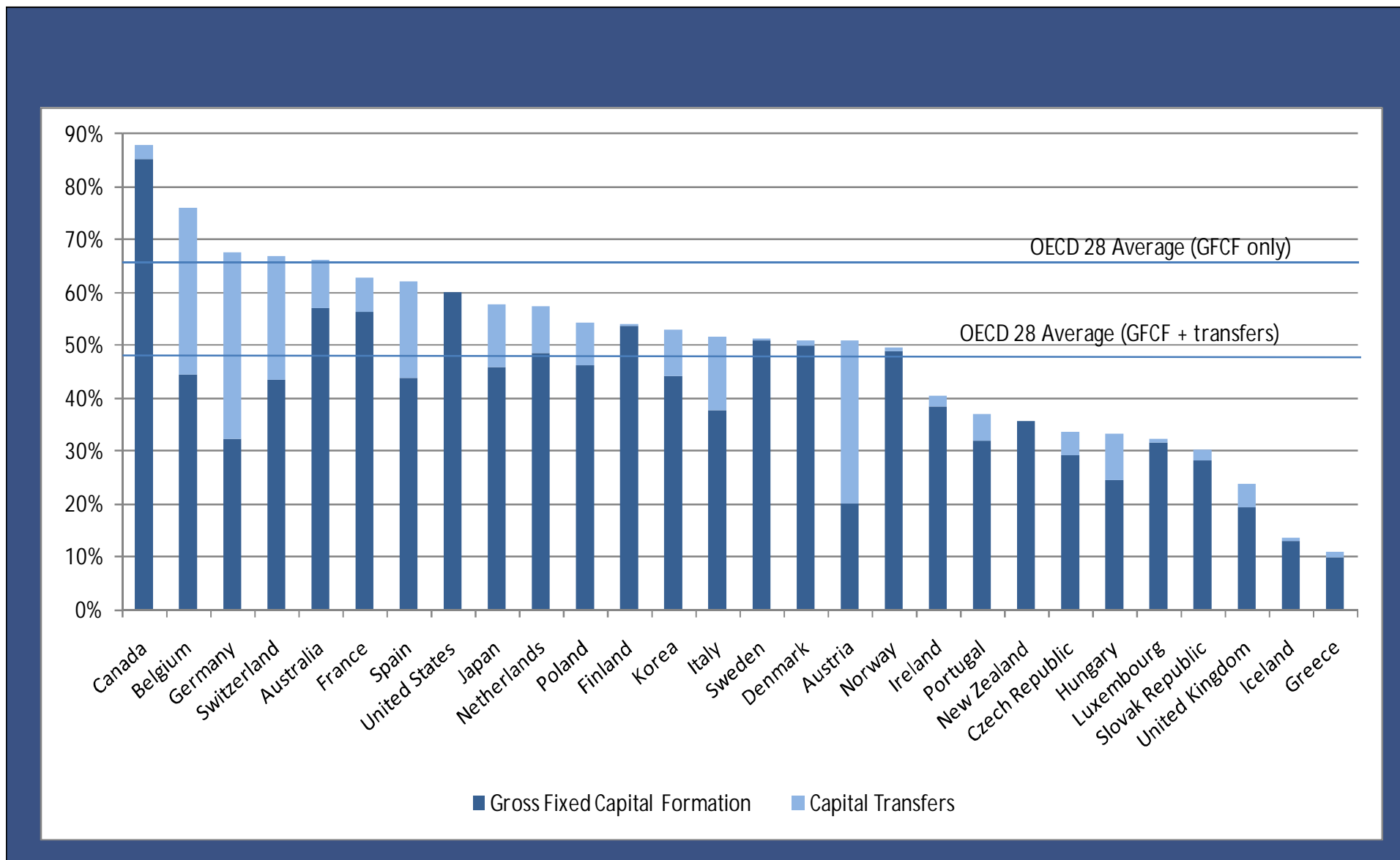


OECD 20: General Government Expenditures by Function, 2008



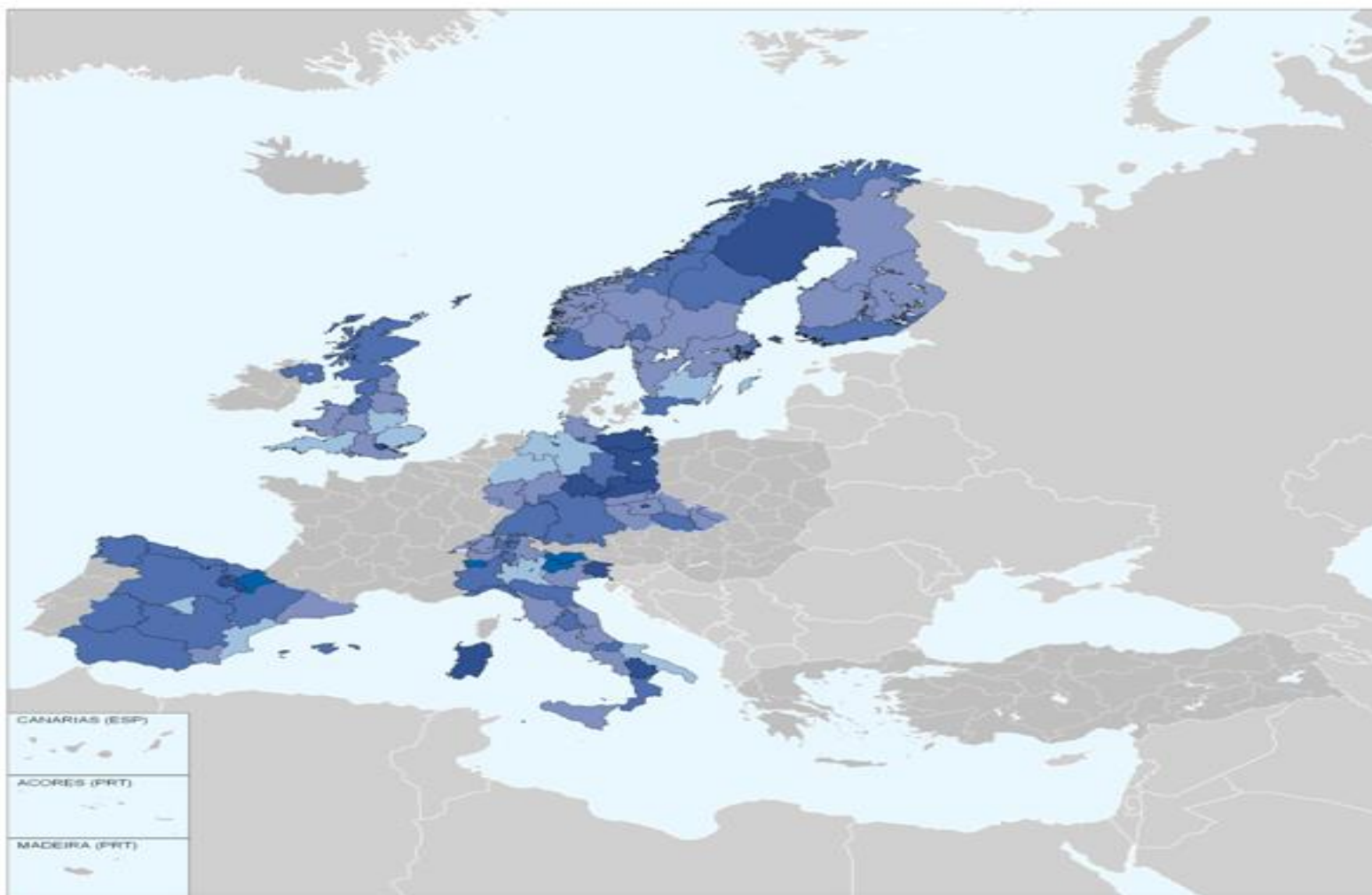


2/3 of investment is made by sub-national governments: how can we ensure that their investments are pro-growth?



Different regions have different investment needs: how to ensure that investment strategies don't reinforce disparities

Capital Expenditure per head
Country value = 100



2. OECD Advice to Finland's Public Administration

The OECD Public Governance Review of Finland has identified three main areas for action by the government:

1. Strategic insight
2. Collective commitment
3. Resource flexibility

1. Strategic insight

- Who to talk to?
- How to get and use evidence?
- What needs to be achieved?

2. Collective commitment

- Alignment of resources and objectives
 - Horizontally within state government
 - Horizontally and vertically across levels of government
- Choice of instruments
 - Directives
 - Incentives (financial, information, institutional)
 - Sanctions
 - Outcome-oriented targets
- Role of the Centre
 - Leadership
 - Capacity of the Centre

3. Resource flexibility

- What resources?
 - Reallocation of funds
 - Mobility of staff
- Changing priorities and conditions
 - Change is becoming faster and more unpredictable
 - How to keep up?
- Capacity to reallocate
 - Authority for priority setting and adjustment of strategic objectives
 - Whole-of-government criteria and data for decision-making
 - Flexibility and accountability