



PRIME MINISTER'S OFFICE  
FINLAND



## **Finland 2020 – From thought to action**

Final report by the Growth Initiative working group



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<b>Abstract</b>  The Growth Initiative working group, a working group seeking to strengthen long-term economic growth, proposes measures to boost productivity growth in Finland in the 2010s. In the long term, beyond the current economic cycle, growth in productivity will be the only driver of the nation's average income growth or GDP per capita. In the short term, improving the employment rate is also important.  The Growth Initiative working group's final report begins by providing a brief introduction to issues vital to productivity growth. It then presents the working group's policy recommendations, divided under the following ten headings: 1) Science and innovation policy, 2) Education policy, 3) Life phase policy, 4) Competition policy, 5) Enterprise policy, 6) Public sector operating policy, 7) Public sector information system policy, 8) Public sector procurement policy and the general availability of publicly collected information, 9) Broadband network and intelligent transport policy and 10) Transport infrastructure policy.			
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## FOREWORD

The Growth Initiative working group, a working group to strengthen long-term economic growth appointed by the Prime Minister's Office in the spring of 2009, has sought measures to boost productivity growth in the 2010s in Finland. This final report aims to present tangible policy recommendations towards the achievement of this goal while taking into account environmental factors and the need for social sustainability. In line with its mandate, the working group had a particular focus on evaluating the impact of the State and the wider public sector on economic growth.

The Growth Initiative working group proposes that the Prime Minister's Office requests the relevant ministries to provide an assessment of the working group's proposals, to be used in, for example, future government programme negotiations. Furthermore, a growth policy programme could be created based on the growth-supporting and enhancing measures which are under the various ministries' responsibility. The Policy-analysis Unit of the Prime Minister's Office should continuously monitor the implementation of the programme, present the related reports to the Government and the general public and inform the Prime Minister should his or her authority be needed in order to promote the related projects.

The interim report<sup>1</sup> by the Growth Initiative working group was published on 17 February 2010. It provides an extensive discussion on the concepts of productivity and well-being as well as considers the various elements of productivity growth, both theoretically and practically. This final report does not provide such background analysis; instead, we encourage the reader to refer to the interim report for such information.

In the long term, productivity growth generates growth in incomes. In the shorter term, the development of employment, or the amount of work performed, also contributes to economic growth. This is the case in situations where a weak economic cycle or structural problems have caused high unemployment and low employment. Finland is currently facing such a situation. Thus, raising the employment rate is crucial to Finland's economic growth and public finances in the 2010s.

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<sup>1</sup> Prime Minister's Office (2010): "Sustainable growth – towards well-being and better quality of life", Prime Minister's Office Reports 2/2010, [www.vnk.fi](http://www.vnk.fi).

Employment related issues have recently been discussed in various forums. The Policy Programme for Employment, Entrepreneurship and Worklife, established by the Government on 19 April 2007, examined the length of working careers. Moreover, the working group led by Managing Director Jukka Rantala considered how the retirement age might be raised, for instance by altering the pension system, while another working group led by Director Jukka Ahtela analysed motivation and well-being at work. A working group established by the Ministry of Education and Culture considered the transition into education and the achievement of a degree in its memorandum "Ei paikoillanne, vaan valmiit, hep!". A group led by State Under-Secretary Jukka Pekkarinen is currently examining the raising of the employment rate and the lowering of unemployment as part of the Sustainable Economic Growth and Employment Programme established in March 2010.

The Growth Initiative working group excluded from its analysis a major factor affecting productivity growth: taxation. Overall taxation reform is being evaluated by a taxation working group chaired by Permanent Under-Secretary Martti Hetemäki, the working group's term of office ending on 31 December 2010.

On 9 March 2010, the Growth Initiative working group organised a seminar, bearing the name of its interim report, for non-governmental organisations and interest groups in the House of the Estates in Helsinki. Furthermore, five half-day, sector-specific dialogues were arranged between 29 and 31 March 2010 to which participants were invited through Akava (the Confederation of Unions for Professional and Managerial Staff in Finland), the Confederation of Finnish Industries (EK), the Association of Finnish Local and Regional Authorities, the Central Union of Agricultural Producers and Forest Owners (MTK), the Central Organisation of Finnish Trade Unions (SAK), the Finnish Confederation of Professionals (STTK) and the Office for the Government as Employer. Moreover, the Finnish Youth Co-operation Allianssi and the Advisory Council for Youth Affairs arranged a hearing for young people. An open, web-based national debate was organised by Fountain Park Ltd from 17 February to 31 March 2010, attracting nearly 2,000 participants. Prior to publishing its interim report, the Growth Initiative working group arranged a seminar on 3 November 2009 ("Small-country solutions in a globalising world – A Nordic perspective"), attended by Lars Leijonborg, the chair of the Swedish Globalisation Council, and Pelle Øby Andersen, Head of Unit at the Ministry of Economic and Business Affairs of Denmark, who reported on the work and conclusions of globalisation working groups in their respective countries.

The working group to strengthen long-term economic growth was headed by its Chair, Mr Antti Tanskanen, ministeri (Finnish honorary title), and Deputy chairs, Ms Maria Kaisa Aula, Ombudsman for Children, and Mr Velipekka Nummikoski, State Secretary. The working group's members include Mr Philip Aminoff, Chairman of the Board (Electrosonic Group); Mr Pasi Holm, Managing Director (Pellervo Economic Research PTT); Ms Anni Huhtala, Professor (MTT Agrifood Research Finland); Ms Seija Ilmakunnas, Director General (Government Institute for Economic Research); Mr Jaakko Kiander, Director (Labour Institute for Economic Research); Ms Heli Koski, Head of Unit (Research Institute of the Finnish Economy); Ms Gunvor Kronman, Director (Hanasaari Swedish-Finnish Cultural Centre); Ms Anita Lehikoinen, Director (Ministry of Education and Culture); Mr Jarmo Leppiniemi, Professor (Aalto University School of Economics); Mr Petri Peltonen, Director General (Ministry of Employment and the Economy); Mr Matti Pohjola, Professor (Aalto University School of Economics); Ms Tanja Rantanen, Senior Adviser for Finance (Ministry of Finance); Mr Oras Tynkkynen, Member of Parliament (Green League); and, until 15 February 2010, Mr Vesa Vihriälä, State Under-Secretary (Prime Minister's Office). The project's secretariat comprised Mr Ville Kaitila, General Secretary (Prime Minister's Office), and assisting secretaries Mr Mika Honkanen, Ministerial Adviser (Ministry of Employment and the Economy); Mr Pekka Sinko, Economist (Prime Minister's Office); and Mr Sami Yläoutinen, Director (Ministry of Finance).

Jaakko Kiander and Tanja Rantanen have submitted dissenting opinions on the final report of the Growth Initiative working group. These are available after the actual report text.

The Growth Initiative working group extends its warmest thanks to everyone who participated in the preparation of the interim and final reports.

Helsinki 6 August 2010



Antti Tanskanen



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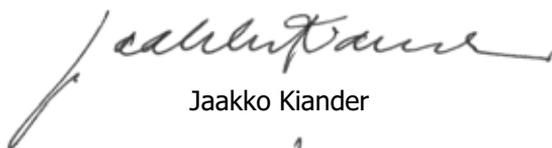
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# 1 PRODUCTIVITY DETERMINES INCOME LEVEL

## *Human well-being stems from a variety of sources*

Life experiences, environmental factors, material standard of living and the opportunities to improve one's life and that of family and friends contribute to the mental, physical, social and psychological well-being of human beings. Our material standard of living, which affects other key elements of well-being, originates from productivity and work performed. Combined, these two form the gross domestic product. GDP divided by population gives the average income level.<sup>2</sup>

This report focuses on productivity. Productivity refers to the volume of output divided by the amount of work performed. The amount of work performed is the number of hours worked. Output refers to value added or the value of produce – goods and services – less the value of intermediate goods and services used in their production. In today's society, the distinction between goods and services has blurred; the manufacture and use of a good often involves a substantial amount of a variety of services.<sup>3</sup>

Productivity growth generates opportunities for increasing the consumption of goods, services and leisure. Furthermore, higher productivity can be utilised to reduce taxation, increase public services or reduce income inequalities.

## *Employment is an important factor of well-being*

Besides productivity, work performed contributes to the material standard of living, but also more widely to human well-being. At the national level, working-age people as a proportion of the entire population will decrease as large numbers retire. In the future, the need for labour-intensive social and health care services will increase in tandem with the growing elderly population. The resulting demand for labour can be decreased by increasing productivity.

Other factors in meeting the demand for labour include a higher employment rate – in particular, the lengthening of working lives both at the beginning and at the end – and work-related immigration. Thus, measures supporting labour supply in the longer term should be promoted, in addition to productivity growth. Furthermore, meeting labour demand and curbing unemployment will

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<sup>2</sup> For a more extensive discussion on well-being, the GDP indicator and productivity, see the Growth Initiative working group's interim report, Prime Minister's Office (2010): "Sustainable growth – towards well-being and better quality of life", Prime Minister's Office Reports 2/2010 [www.vnk.fi](http://www.vnk.fi).

<sup>3</sup> Although the definition of productivity is relatively clear, its statistical measurement requires further developing.

play a key role in today's weaker economic environment. However, in line with its mandate, the Growth Initiative working group focused on measures promoting productivity growth in the long term.

### *The sources of productivity growth*

Economic growth requires qualitatively higher and/or quantitatively larger human, physical and social capital as well as the reorganisation of work and increased business competencies. In the long term, however, the amount of work per capita remains virtually unchanged, so the trend in income levels will be determined by productivity growth. Our productivity grows as we learn to produce more or better goods and services over any given time.

Productivity growth stems from the implementation of new, improved production ideas, or innovations. This means bringing on stream efficient machinery and equipment developed elsewhere, as well as innovative business practices, corporate cultures, production processes and management, planning and marketing doctrines. The newer they are, the higher the level of education usually required to adopt them.

Introducing own product and process innovations requires even greater human capital. Strong scientific know-how in various fields supports modern and internationally competitive education, training and open innovation activity. R&D and other intangible investments play a key role in innovation.

### *A favourable operating environment as a growth enabler*

Key productivity growth enablers include a favourable and efficiently implemented regulatory environment as well as well-functioning, flexible and competitive markets and good physical infrastructure.

Well-functioning markets are important at the national and EU level and also more widely at the global level. The functioning of the EU internal market must be improved, in particular with respect to digital and other services. Various barriers to new companies entering the market and old, unprofitable companies exiting the market must be reduced in order to spur economic dynamism and renewal. This will enhance the allocation of limited human and financial resources.

For enterprises, competition is an important incentive for developing their operations. On the other hand, excessive competition may lower profitability to such an extent that companies cannot afford to innovate. In order to incentivise companies to innovate under the pressure of competition, innovation must generate some kind of market power through qualitative differentiation. This will

render competition weaker, at least temporarily, until new innovations emerge on the market.

Up to a certain limit, geographic agglomeration of production promotes economic growth since it increases competition, choice and economies of scale. Simultaneously, this makes it possible for enterprises to concentrate even on small niche products in a profitable manner. The mobility of people between enterprises and organisations increases in line with increased opportunities. Good social skills create extensive networks which support an individual's competencies and the exchange of ideas. On the other hand, information technology does enable the unbundling of certain tasks.

Other important growth enablers include well-being at work, a sustainable, long-term economic policy, a free and well-functioning civil society and ecologically and socially sustainable economic activity. Society's attitudes, norms and support structures must encourage experimentation, foster readiness for change and encourage entrepreneurship and innovation. The tax system and public financing must reinforce companies' willingness and opportunities to grow.

#### *Productivity growth has decelerated in Finland*

In Finland, productivity growth has decelerated during the last few decades. Among other things, this is due to the fact that Finland has now largely exploited the benefit of catching up with others, with its productivity now approaching that of its competitor countries. However, Finland still has unexploited opportunities.

Productivity growth has decelerated even though Finland boasts a strong and competitive mobile phone cluster. This proves that the success of one sector does not suffice for the whole national economy. Therefore, increasing productivity is important in all industries, both in the public and private sector. In this regard, every employee is important. The country as a whole can benefit if its citizens are adept users of services provided by the information society.

#### *Structural problems, the need for change and opportunities*

The deceleration of productivity growth combined with an ageing population constitutes a major problem from the viewpoint of financing the welfare society. Even in the absence of the economic downturn that began in 2008, Finland's public finances would have had a structural sustainability problem. Together, these structural and cyclical factors will continue to strain the public sector's financial position for long into the 2010s.

Due to this large sustainability gap, public finances must be supported both through measures that strengthen the budget balance and through structural reforms to promote productivity growth in the public sector and ease the pressure on public expenditure caused by an ageing population. Furthermore, preventive health care can help reduce the need for social and health care services in all age groups.

In addition to the above, numerous other factors have an impact on growth prerequisites. Rapid development of information and communication technology (ICT) affects the choices of businesses and individuals. East and South Asia are driving global growth, which means that the world economy will comprise several strong regions. Meanwhile, Finland's export industry is facing structural change due to the gloomy growth outlook for the traditional forest industry and intensified competitive pressure faced by the electronics industry. The position of metal industry subcontractors has also become weaker. In the years to come, the prerequisites for economic growth threaten to weaken worldwide due to the global financial crisis, since the ability of financial markets to channel financing into growth-driving investments has partly reduced.

However, old, inappropriate social structures or unprofitable businesses should not be maintained through subsidies since this increases costs and reduces economic growth. The operating conditions for strong, traditional sectors must be secured through neutral means that do not distort the production structure, and businesses themselves must also seek to reform their operations. Meanwhile, the prerequisites for new growth sectors must be secured.

#### *Human wellbeing a key consideration*

Both the fruits of growth and the cost of structural change to individuals should be distributed relatively evenly across society to support socially sustainable economic growth. Simultaneously, sufficient financial and other incentives for work and risk-taking should be secured.

Reconciliation of work and family life in the various stages of the lifecycle must be supported. The risks of social exclusion must be reduced since exclusion causes large human and societal costs. In this respect, children and young people in particular must be taken care of. Early exclusion often means remaining without proper vocational education, which in turn impedes later participation in productive work.

#### *Energy and material use efficiency must be increased*

The production, distribution and consumption of goods and services requires natural resources, some of which are non-renewable, and causes various types

of emissions to the environment. Even many renewable natural resources are used beyond their renewal capacity. Biodiversity supports the ability of nature to survive and renew itself. Nature is not merely of instrumental value to humans, but is of intrinsic worth.

International and EU-level policies combating climate change affect the choices made by individual citizens and businesses. However, the Finnish economy and production structure are relatively energy-intensive, which may prove a risk as international climate policy sets limits that may hamper the development of markets for energy-intensive products.

Conversely, the markets for new, green, environmentally friendly technology are growing. Finnish companies are not alone in these markets; a multitude of other players are also making major investments in them. Because old and established, less environmentally friendly technology remains entrenched, the development of green technology may require various types of support in order to emerge from the shadow of its predecessor. Furthermore, solutions that increase environmental load may be underpriced if their market price does not correspond to their total cost to society. Support for green technology may also be justified on the basis of positive environmental outcomes, thanks to which the social return on investment from these projects will exceed the private return on investment.

*Determination is needed to develop a high-skill information society*

Finland is a country of relatively high skills and technology and equal education and opportunities. These strengths must be further reinforced and society must build on them extensively and open-mindedly. Finland needs to invest in modern know-how and new technology, while allowing people's creativity to flourish.

Finland must be developed as an information society that makes extensive and broad-based investments in the development, application and exploitation of information and communication technology. This requires innovative practices and thinking, without which the benefits of the latest technology will remain modest.

The ability of citizens to make full use of the information society must be improved. In the private sector, this involves improving the prerequisites for e-services and e-commerce, among other things. In the public sector, a customer-driven change in operating models combined with more efficient use of information and communication technology provide opportunities for substantial productivity improvements. The information society and social media open remarkable new opportunities for citizens, especially young people, to participate more extensively in the development of society.

### *Investments in a good future*

Some public sector measures promoting growth will put a strain on public finances. These measures must be understood as investments that will pay themselves back, as opposed to consumption expenditure. In the monitoring of public finances, a clearer itemisation of education and investment expenditure would therefore be desirable. Although a lot can be done without increasing expenses, or even by cutting them, a good future has its price.

The Growth Initiative working group did not seek a monetary evaluation of the cost or benefits of measures proposed in this report, nor did it consider questions related to the sustainability of or the room for manoeuvre in public finances.

### *An issue for the whole European Union*

Boosting productivity growth in EU Member States was part of the Lisbon Strategy until 2010, and is now included in its successor, the EU 2020 Strategy. The new Strategy's thematic objectives include creating value by basing growth on knowledge (education and research, innovation and creativity); empowering people in inclusive societies; and creating a competitive, connected and greener economy.<sup>4</sup>

The Growth Initiative working group has considered matters that are closely related to the EU 2020 Strategy. Thus, the interim report published in February 2010 and this final report also serve to contribute towards a broader-based social debate and policy objectives within the EU.

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<sup>4</sup> European Commission (2009): "Commission working document - Consultation on the future "EU 2020" strategy", Brussels 24 November 2009, COM/2009/647.

## 2 PROPOSALS FOR ACCELERATING PRODUCTIVITY GROWTH

**The implementation of policy recommendations is the responsibility of several ministries; the Prime Minister's Office confirms the division of responsibilities between them.**

### 2.1 Science and innovation policy

**Sector-specific implementation of these policy recommendations is the responsibility of the Ministry of Education and Culture and the Ministry of Employment and the Economy.**

- Public R&D financing will be increased to at least 1.2 per cent of GDP.<sup>5</sup> The Research and Innovation Council will provide guidelines for the distribution of funding among ministries. In doing this, the Council will take account of the fact that, on the one hand, free, long-term and scientifically high quality research will create the basis for internationally competitive education and the nation's ability to use information in a variety of ways and, on the second hand, business-driven research that serves societal decision-making will promote the practical use of information. (Ministry of Education and Culture, Ministry of Employment and the Economy)
- We must more actively influence the contents of pan-European education, research and innovation policy as well as the preparation of EU framework programmes determining research focus areas. A determined drive should be made to increase high-level international contacts in scientific research and the innovation system, both within the EU and with other leading countries. At the policy definition stage, we should also better exploit the opportunities provided by the information society, stricter international environmental policy and the implementation and development of green technology. (Ministry of Education and Culture, Ministry of Employment and the Economy)

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<sup>5</sup> The Government Programme of Prime Minister Matti Vanhanen's second Cabinet (19 April 2007) defines the goal as increasing public and private R&D financing to a total of four per cent of GDP. The document 'The Finnish Government's Mid-Term Policy Review Process' (Prime Minister's Office Publications 26/2009) refers to the Science and Technology Policy Council of Finland's (presently Research and Innovation Council) Review 2008 document which states that the share of public funding should remain at 30 per cent, that is to say it should be 1.2 per cent of GDP.

- In research activities, the division of responsibilities between universities and polytechnics must be clarified. Universities should be developed into internationally recognised and competitive institutions for high quality research and researcher training, whereas polytechnics should focus on R&D&I activities in which regional characteristics are taken into account. (Ministry of Education and Culture)
- The physical infrastructure supporting R&D activity must be further strengthened and regularly modernised. High-performance computing and information networks for research must be updated. As with any investments, this should be based on a comprehensive cost-benefit analysis. (Ministry of Education and Culture, Ministry of Employment and the Economy)

#### *Basic scientific research*

- Universities must pay more attention to strategic planning and profiling. By dividing responsibilities between universities, we can create more competitive units enabling sufficient specialisation at individual level as regards professional skills. These units must be large enough in their field to achieve a critical mass in producing, applying and teaching high-quality information. (Ministry of Education and Culture)
- The financial resources for basic research must be developed by shifting the focus of public financing available to universities towards depending on the quality of research and teaching as well as international contacts. This requires the development of monitoring and feedback systems. Foreign research financing must be increased. Since not all universities and research units have the ability to seek EU funding or other international funding for their research activities, these capabilities must be improved either through a common support organisation or by increasing cooperation between universities. Universities must be incentivised to acquire sufficient resources to enable the exploitation of research results and societal interaction. (Ministry of Education and Culture)

#### *Innovation, product development and business competencies*

- The administration of business development support must be clarified and simplified and the number of organisations providing such support reduced. As regards public technology support, the customer orientation, commercialisation and implementation of innovations must be emphasised. Furthermore, public technology support must be further diversified away from product development into broader business

competencies. Public innovation funding must be developed so as to support the broad-based utilisation of competencies in higher education institutions, taking account of open innovation activity and the expanding service sector. More R&D financing must be allocated to develop ICT-based services for the public sector. Companies should have better access to information on innovation financing from EU sources. (Ministry of Employment and the Economy)

- Sectoral research reform must be completed without delay. Research that satisfies the immediate information needs of the central government's various administrative sectors must be transferred from universities to sectoral research institutions and, correspondingly, basic research must be transferred from sectoral research institutions to universities. The funding of sectoral research institutions must be increasingly directed to research questions that are relevant to present and future social and production structures. (Ministry of Education and Culture)

## 2.2 Education policy

**Sector-specific implementation of these policy recommendations is the responsibility of the Ministry of Education and Culture and the Ministry of Employment and the Economy.**

### *Primary and secondary education*

- Primary education must be developed so as to support more diverse language skills, alongside social and learning skills, creativity, information society capabilities, general civic skills and multicultural skills. Cost-cutting measures taken by municipalities must not jeopardise, even in the short-term, the right of citizens to equal, high-quality primary education. (Ministry of Education and Culture)
- Comprehensive school graduates must be guaranteed the opportunity, in the year they leave, to embark on studies at the next level, i.e. in vocational training, upper secondary school or through special schemes (preparatory training, workshops etc.). (Ministry of Education and Culture, Ministry of Employment and the Economy)

## *Higher education*

- Greater investment must be made in the pedagogical skills of universities' teaching staff. A review must be initiated on the quality of teaching in universities, followed by a determined programme of action. Furthermore, an incentive system for high-quality teaching must be created. Teaching resources available to universities should be increased in line with growth in student numbers. Greater investment must be made in working in small groups and providing research-related guidance. Moreover, in order to promote high-quality teaching, universities must have better opportunities to focus on long-term research. (Ministry of Education and Culture)
- The efficiency of studies must be increased by accelerating the transfer from upper secondary schools to higher education. Financial incentives available to individuals must be developed in order to increase the efficiency of studies in higher education, such as student financial aid that encourages rapid graduation and students' social benefits. (Ministry of Education and Culture)
- The degree structure of universities, and the extent of the right to study, must be assessed taking account of the need to expedite studies and enhance national and international mobility. In certain disciplines, consideration should be given to changing into a model in which students first complete a lower university degree (bachelor's degree), after which they have to reapply for entry to the next level studies towards a higher degree (master's degree). Simultaneously, the acceptance of a bachelor's degree as a sufficient qualification on the labour market must be promoted. (Ministry of Education and Culture)
- The networking and specialisation of universities at EU level must be promoted. This requires the attractiveness of universities to be enhanced in order to increase the numbers of foreign students and staff as well as further investments in international student exchange. (Ministry of Education and Culture)
- There are too many polytechnic campuses in Finnish municipalities. While the number of units must be reduced, polytechnics should further increase their specialisation. The operations of polytechnics must increasingly be steered at national level so that the present and future needs of working life are better taken into account when drawing up education plans. Furthermore, the financing of polytechnics must shift towards a more national system. This financing must include incentives that drive improvements in operational quality, efficiency and

effectiveness. Meanwhile, the administration and management of polytechnics must be reformed. (Ministry of Education and Culture)

### *Adult education*

- The opportunities for the working-age adult population to acquire education with the aim of improving and expanding their competencies at all stages of their careers must be enhanced. This increases professional mobility. On the other hand, the continuing education of those with higher education degrees must not impinge upon resources available to, and thus compromise, the degree education of young people. (Ministry of Employment and the Economy, Ministry of Education and Culture)
- Workplaces must introduce working life and career models and plans in support of professional development. Unemployed jobseekers must have a statutory right to vocational working capacity support services. Labour market training must be reallocated so as to train the unemployed to meet the needs of growth industries. Apprenticeship-type training must also be increased in adult education and the information society skills of the adult population must be strengthened. (Ministry of Employment and the Economy, Ministry of Education and Culture)
- In order to promote growth entrepreneurship, the business competencies (including management, commercialisation of ideas and products, sales and marketing, and internationalisation) of SMEs in particular must be developed through education. (Ministry of Employment and the Economy)

### *Connections between education, research and working life*

- Connections between education, research and working life must be strengthened. Meanwhile, the needs of enterprises and the labour market must be increasingly reflected in vocational study programmes. In practice, this means fewer student admissions in some fields and more student admissions in others. Practical entrepreneurship training must be introduced as a voluntary subject in university curricula and secondary education, as well as in the final grade of comprehensive school. Universities and polytechnics should also be given the possibility to arrange company-specific education subject to a fee. (Ministry of Education and Culture, Ministry of Employment and the Economy)

## 2.3 Life phase policy

**Sector-specific implementation of these policy recommendations is the responsibility of the Ministry of Social Affairs and Health, the Ministry of Education and Culture, the Ministry of the Environment, the Ministry of the Interior, the Ministry of Employment and the Economy and the Ministry of Finance.**

### *Children, young people and families*

- Basic services (social, health, education, youth work and cultural services) must be planned and managed at the central government and municipal level with an increasingly integrated, life cycle-based and human-driven approach. Greater investment must be made in better and preventive social welfare and healthcare – mental and physical well-being – in early childhood and at school age. The effectiveness of measures to prevent social exclusion among young people must be monitored more closely while ensuring that measures taken by the various administrative sectors are coordinated through extensive cooperation. Parents must be supported at the earliest possible stage by providing low-threshold services before problems come to a head. In the development of working life, the importance of parenting must be identified and the reconciliation of work and family life improved by, for example, increasing part-time employment. (Ministry of Social Affairs and Health, Ministry of Education and Culture)
- Strong interventions must be made in cases of bullying and all other types of mental harassment in all communities, starting at the pre-primary education stage, in order to prevent social exclusion, promote well-being, strengthen social capital and reduce social costs. The importance of interpersonal trust and reciprocity must be promoted in schools, workplaces and elsewhere in society. (Ministry of Education and Culture, Ministry of Social Affairs and Health)

### *Working-age population*

- Social security and more flexible employment terms must be developed in order to support individuals and families at various stages of life (e.g. working time banks, telework etc.) and facilitate transfer from one situation in life to another (studies, salaried work, entrepreneurship, unemployment, immigration, parenthood). Such flexibility is a key facilitator of growth if it more effectively supports independent initiative-taking and the improvement of one's own situation but without

essentially reducing incentives for participating in working life. Monitoring of the ability to work and the efficiency of occupational health care must be developed, both at national and workplace level, along preventative lines to promote the ability to work. In this respect, there is room for improvement especially in SMEs. The average retirement age must be postponed by developing financial and other incentives and coping at work. (Ministry of Social Affairs and Health, Ministry of the Interior, Ministry of Employment and the Economy)

- The preconditions and incentives for mobility in Finland must be further developed. The development of land use planning and taxation could improve the functioning of the housing market, while enhancing housing production in growth centres in general and moderately priced rental housing production in particular. The preconditions for commuting must be further improved. This will give the labour force more flexibility in moving to locations where demand is highest. The Employment Administration should seek new operating methods and ways of improving services, which should include benefiting from the experiences of other nations (e.g. the Danish model). (Ministry of the Environment, Ministry of Employment and the Economy, Ministry of Finance)

#### *Work-based immigration*

- In all sectors of society, work-based immigration must be seen as a way of attracting highly-skilled professionals to Finland, thus enhancing productivity growth. We must try to lower and remove the legal, administrative, social and attitudinal barriers which hinder immigrants from integrating with Finnish society. In addition, more resources than today should be allocated to the improvement of immigrants' language skills. (Ministry of the Interior, Ministry of Education and Culture)

## 2.4 Competition policy

**Sector-specific implementation of these policy recommendations is the responsibility of the Ministry of Employment and the Economy, the Ministry of the Interior, the Ministry of Justice, the Ministry of the Environment and the Prime Minister's Office.**

- Since better legislation is of key importance to efficient markets and effective competition, the role of competition policy in legislative drafting and societal decision-making must be strengthened. Furthermore, legislative drafting affecting market efficiency must be

supplemented with a competitive impact assessment. (Ministry of Employment and the Economy)

- The resources of the Finnish Competition Authority must be substantially increased and its independence secured. Matters monitored by competition authorities require solid and substantial expertise in economic theoretical reasoning, monitoring of the competitive environment, independent identification of barriers to competition, and the handling of long and demanding legal proceedings. (Ministry of Employment and the Economy, Prime Minister's Office)
- An independent competition council consisting of Finnish and foreign experts should be established, tasked with monitoring developments in the competitive environment, introducing initiatives aimed at better legislation and evaluating the effectiveness of supervision. Furthermore, this council will support research activities in its field while promoting better understanding of the importance of competition in society. The Finnish Competition Authority will be in charge of the council's secretarial duties. (Ministry of Employment and the Economy)
- Regulation resulting in exclusive rights and privileges, limitations on the means of competition available to business enterprises, and barriers to market entry must be reduced. A critical eye should be cast on legal monopolies and means-testing. Public authorities must implement the structural changes required to increase competition. This must be carried out through legislative measures and by reorganising state-owned production. (Ministry of Employment and the Economy)
- EU competition legislation must be amended to allow companies to be dissolved on competition law grounds if the structure of the relevant market does not allow effective competition and there are no other means available to promote competition. (Ministry of Employment and the Economy)
- Competition law-based sanctions must be strengthened. The possibility of implementing personal criminal sanctions in severe cases involving a bidding cartel must be investigated. The resources and legal sanctions available to the authorities to tackle the grey economy must be strengthened. (Ministry of the Interior, Ministry of Justice)
- Effective competition is a prerequisite for increasing productivity and lowering costs in, for example, welfare services financed by public authorities. Legislation on public production activities, which is already under preparation, must be enacted to safeguard the competition

neutrality of public and private production. This will enable intervention in structures and market behaviour that distort competition. (Ministry of Employment and the Economy)

- Land use planning has a major impact on the competitive environment. A mechanism must be created to take competition systematically into account in zoning and other land use planning. (Ministry of the Environment)
- Nordic electricity transmission system operators have plans for eliminating bottlenecks between the Nordic countries by increasing electricity transmission capacity. Execution of these plans must be ensured throughout the market area to safeguard a better functioning electricity market. In order to supervise the functioning of the market, detailed information on supply and demand should be made available for research purposes. (Ministry of Employment and the Economy)
- An intelligent electricity network, or a customer-led market place for decentralised energy production and consumption, must be developed, built and utilised. Price elasticity in demand for electricity must be strengthened, for instance by improving consumers' price awareness and ability to alter their consumption habits. Administrative barriers to small-scale electricity production must be reduced. (Ministry of Employment and the Economy)

## 2.5 Enterprise policy

**Sector-specific implementation of these policy recommendations is the responsibility of the Ministry of Employment and the Economy, the Ministry of Social Affairs and Health, the Ministry of Finance, the Ministry of Education and Culture, the Ministry of Justice and the Ministry for Foreign Affairs.**

- The public financing system and other support offered to enterprises must be developed into a clearer and more customer-oriented entity which, together with well-functioning private finance and service markets, will support business activity. Particular attention must be paid to the financing criteria for small enterprises requiring moderate capital input, as well as the operating conditions for innovative, international entrepreneurship within and at the interface of institutes of higher education. Meanwhile, we must critically evaluate the requirement for, and effectiveness of, R&D support directed to enterprises. Public R&D support to large enterprises must be allocated to long-term strategic

research and the strengthening of cooperation with universities and SMEs. The general risk-taking capacity of companies engaged in public equity investment activities (Finnish Industry Investment and Finnvera plc) must be increased so that they can better participate in the financing of start-up businesses. (Ministry of Employment and the Economy)

- Determination is needed to enhance the attractiveness of Finland as an investment destination. The operating resources and capabilities of Invest in Finland must be considerably increased in order to attract foreign investments and capital investments to Finland. Finland is lagging behind many comparable countries in promotional activity. (Ministry of Employment and the Economy, Ministry for Foreign Affairs)
- Legislative drafting must be of high quality, based on comprehensive impact assessment, while minimising any extra administrative burden imposed on citizens, enterprises and local authorities. It is imperative that progress towards these objectives continues and the achievement of results is ensured. Sufficient resources for courts of law must be safeguarded so as to avoid unreasonably long court proceedings. Industrial and intellectual property cases must be centralised in the Market Court.<sup>6</sup> (Ministry of Justice)
- Social security for entrepreneurs must be changed to lower the barriers to entrepreneurship. With respect to persons who, simultaneously, have a salaried job and work as entrepreneurs, their opportunities to choose more flexibly whether they wish their pension and unemployment cover to be arranged through the pension and unemployment schemes of either employees or entrepreneurs should be investigated. The debtor's status in a bankruptcy situation must be improved. (Ministry of Social Affairs and Health, Ministry of Employment and the Economy, Ministry of Justice)
- Price signals through taxation and subsidies must steer production, consumption, transport and housing towards lower emissions and reduced energy intensity. Tax or other incentives resulting in increased energy consumption or emissions must be abolished. (Ministry of Finance)

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<sup>6</sup> See Ministry of Justice (2010): "Teollis- ja tekijänoikeusasioiden keskittäminen markkinaoikeuteen", Memorandums and statements 28/2010 (in Finnish).

### *Non-governmental organisations and social enterprises*

- Private sector, non-profit companies and associations and non-governmental organisations (NGOs) must be used to a greater extent as partners and providers of public services. New operating models must be sought to involve NGOs increasingly in welfare service delivery. Public services should be outsourced if this is the most cost-efficient option, considering the general availability of the service and the quality and effectiveness criteria defined for it. Meeting the demand for services of an ageing population can succeed through the development of intelligent service concepts. This requires coordinated real estate and home-help services, a range of co-operating companies, social enterprises and networked services. (Ministry of Social Affairs and Health, Ministry of Employment and the Economy)
- To utilise and promote the potential services that could be provided by NGOs, their competition neutrality in relation to public service supply and enterprises must be systematically evaluated, and legislative reforms ensuring this must be implemented. Such evaluation and reforms must cover the taxation of businesses and private persons, the preconditions for using workforce, the requirements for professional skills, and new forms of business activities (social enterprises). (Ministry of Social Affairs and Health, Ministry of Justice, Ministry of Finance)
- The private sector and NGOs must be able to make greater use of public sector infrastructure (including health care, schools) whenever the public sector is not using it. This will enhance optimum utilisation of that infrastructure. Furthermore, it must be investigated whether NGOs could utilise public sector procurement organisations and expertise in connection with large procurements. (Ministry of Social Affairs and Health, Ministry of Education and Culture)

## 2.6 Public sector operating policy

**Implementation of these policy recommendations is the responsibility of the whole public sector, including municipalities, while responsibility for their coordination and promotion lies with the Ministry of Finance.**

### *Change in operating models*

- Old operating models and structures must be reformed so that the opportunities provided by information and communication technology can be utilised (see sub-chapter 2.7). Administrative and service processes must be analysed throughout as a whole, from the perspective of either the customer or the product in question. This must not be performed by each individual municipality but as a centralised function, ensuring both efficiency and consistency in the treatment of citizens throughout the country. However, each municipality must separately consider how they will arrange their service delivery.

### *Measuring public sector productivity and the effectiveness of public services*

- Public sector output must be examined on the basis of the quantity, quality and effectiveness of output. Uniform indicators must be developed on a centralised basis so that similar functions across the country can be openly compared. To this end, more research and analysis of best practices is called for. Moreover, the statistical measurement of private sector productivity must be further improved.
- The key output and the related cost accounting, basic account structure and financial statements of municipalities must be harmonised and rendered transparent.

### *Incentives to increase productivity*

- Better incentive systems must be created in order to improve public sector productivity. Greater emphasis must be put on incentivisation in the criteria for central government financing of municipalities. The opportunities provided by planning and budgeting systems must be better exploited so as to enable the more efficient reallocation of resources freed up through improved productivity, thereby providing individual economic units with an incentive to enhance their productivity.

- Productivity and effectiveness, the general development of services, well-being at work and employee rewarding must be linked more closely to support the motivation and incentivisation of various working communities, professional groups and individual employees to participate in boosting productivity.
- Political pressure for the improvement of services must be encouraged by producing comparative data on the quality and production costs of services based on reliable research and monitoring, and by publishing this information in a clear format on the Internet. For this purpose, more research and comparative data should be made available

### *Services*

- Citizens must be provided with a greater range of choice than today in, for example, public health care and nursing services. This will increase efficiency and competition in these fields as service providers are incentivised to develop their operations. The range of choice can be implemented through, for example, service vouchers. In addition, the implementation of service supply in line with the purchaser-provider model must be promoted. The models applied must promote market efficiency and the productivity and effectiveness of service provision.
- The treatment of certain illnesses and disabilities must be centralised in designated hospitals, enabling more efficient use of expertise and expensive equipment.

### *Administration*

- Municipal payroll administration in particular, and other financial administration duties as appropriate, must be centralised. Central government must use financial incentives to encourage the cooperation of municipalities in this respect.
- The number of municipalities must be further reduced. However, the solutions available may vary on a case by case basis. Furthermore, cooperation in service provision must be increased. Meanwhile, the total volume of municipal administration must be reduced through the elimination of duplicate functions in merged municipalities. The reform of organisational structures must begin when the municipal merger agreement is being drawn up. Furthermore, five-year protection of employees against summary dismissal must be abolished since it can impede the rationalisation of municipal functions.

## 2.7 Public sector information system policy

### **Implementation of these policy recommendations is the responsibility of the Ministry of Finance.**

- The Ministry of Finance must be given clear leadership and responsibility for the development of public sector electronic services and information management processes. A senior official should take responsibility of the process. (Ministry of Finance)
- The ICT based modernisation of public services and administration must be accompanied by a change in operating models. Through ICT solutions, the services of administration, business life and organisations must be combined into an easy-to-use, harmonised and customer-driven service package supported by shared information systems and databases. This service package must be as consistent as possible as well as easily and equally available and accessible to citizens. These operations should be organised at a national basis whenever possible. The services must be based on the 'one-stop shop' principle for the customer and on the 'single entry of data' principle for the authorities. Any legal, administrative and other barriers to this development must be abolished. (Ministry of Finance)
- Partial optimisation carried out by government agency or administrative sector, which is inefficient from the perspective of the whole, must be eliminated at central and local government level and in health care services, as well as in the relevant IT solutions. At present, the rigid linkage of these resources to administrative units is not justified from the viewpoint of good customer service, working or achieving results. Furthermore, separate administrative units leads to a duplication of investment. When a solution is sought for a specific area, its overall economic effect must be taken into account. (Ministry of Finance)
- Citizen-driven ICT services of the public administration enable more active participation by citizens in joint planning and decision-making. The use of social media and other interactive information and telecommunication technology in the interaction between the public administration and citizens must be systematically and substantially increased. Service users' experiences and opinions must be regularly reviewed. (Ministry of Finance)

- The use of free and open source software in the public sector must be promoted if this is the most cost-effective solution for citizens. (Ministry of Finance)

## 2.8 Public sector procurement policy and the general availability of publicly collected information

**Implementation of these policy recommendations is the responsibility of the Ministry of Finance, the Ministry of Education and Culture, and municipalities.**

### *Public procurement*

- Public sector procurement activities must be centralised to a considerably greater extent in professional procurement organisations, while maintaining sufficient contacts with internal customers. However, it must be possible to divide contracts into smaller wholes in order to increase bidding opportunities. Such a professional approach will increase expertise in the relevant legislation, procurement and contractual skills and market knowledge. This should generate efficiency gains and significant savings in public expenditure that can be reallocated to, for example, the financing of basic services. In order to achieve additional savings, demand must also be managed and requirements redefined. (Ministry of Finance, municipalities)
- Alternatives include 1) encouraging the establishment of large procurement organisations based on urban centres, 2) providing municipalities with the possibility of utilising the agreements of Hansel Ltd, the Finnish Government's central procurement unit, and 3) investing in the non-profit, joint procurement company KL-Kuntahankinnat Oy owned by the Association of Finnish Local and Regional Authorities. (Ministry of Finance, municipalities)
- Commitment to the development and the promotion of innovations must form part of the service strategies of municipalities. The promotion of innovative procurement in the public sector requires the organisation of procurement activities to enable both the definition of long-term strategic needs and the drawing up of procurement criteria in cooperation with suppliers and users. Measures are needed to manage the financial risks associated with the acquisition of innovations. These measures include the financing of higher initial costs related to

innovative solutions as well as allocating the risk between the supplier and the public sector. (Ministry of Finance, municipalities)

- To assist the procurement units, support services and units are needed, tasked with the development of procedures complying with best practice, assisting procurement units in the execution of practical procurement procedures, and developing and providing training in procurement activities. (Ministry of Finance, municipalities)
- Public procurement and other instruments must be utilised in the commercialisation of information and communication technology, low-emission sustainable solutions and other innovations, and in the establishment of domestic markets. (Ministry of Finance, municipalities)

#### *General availability of publicly collected information*

- Information held by the authorities, which is collected on the basis of legal provisions, must be made available for citizens, researchers, businesses and other organisations, either free of charge or for a price that covers the additional or marginal costs incurred in its disclosure. Costs arising from the collection and administration of information must be covered from central and local government budgets. If an authority, at a customer's request, modifies, classifies, sorts or otherwise processes information, this service should be subject to a fee at marginal cost. The transfer to pricing based on marginal cost will support the market development of information intensive service sectors and information products as well as promote the use of information for research. (Ministry of Finance, Ministry of Education and Culture)
- Open availability requires e.g. the creation and availability of common databanks and the development of electronic services to support information sharing. For example, possibilities for the remote utilisation of Statistics Finland's databases must be expanded without delay, on the basis of a pilot project. The legal and administrative basis for the joint use of data must be harmonised and clarified, as should pricing, while supporting technical and legal solutions should be developed. Moreover, issues which must be taken into account include ensuring the protection of individual privacy and the creation of a competitive environment for public information production in relation to private actors in the field. (Ministry of Finance, Ministry of Education and Culture)

## 2.9 Broadband network and intelligent transport policy

**Implementation of these policy recommendations is the responsibility of the Ministry of Transport and Communications and the Ministry of Finance.**

- Environmental imperatives and the importance of achieving balanced social and regional development argue for traditional physical traffic to be replaced by telecommunications wherever possible. The objective of the communications policy is '100 megabytes Finland', with the aim of bringing fast broadband connections to within two kilometres of each household and business location by 2015. The full achievement of this objective must be ensured, and the network expanded, so that it eventually covers all households and businesses. After this has been achieved, an increasing proportion of public services can be made available in electronic form. (Ministry of Transport and Communications)
- Intelligent transport systems (ITS) refer to the use of information and communication technology in transport systems. Intelligent services support the monitoring, management and control of transport and provide information to drivers, users of the transport system and operators. Information and communication technology enhances the usage of the existing infrastructure and transport services, improves safety, reduces logistical costs imposed on business and industry, while contributing towards climate policy. The privacy of citizens in using these services must be ensured by intelligent transport system suppliers and through legislative measures. The preconditions for the operations of private service providers must be ensured by e.g. allowing sufficient access to information at marginal cost (see sub-chapter 2.8). ITS applications include real-time traffic management in urban regions, priority for public transport at traffic lights, uniform ticketing systems, guidance on waiting times, positioning-based road user charges, announcements on traffic jams and disruptions, guidance services for drivers and automatic accident alarms. (Ministry of Transport and Communications, Ministry of Finance)

## 2.10 Transport infrastructure policy

**Sector-specific implementation of these policy recommendations is the responsibility of the Ministry of Transport and Communications, the Ministry of the Environment and the Ministry of Finance.**

- Long-term, comprehensive analyses must be commissioned regarding the costs and benefits to society generated by investments in new transport facilities and intelligent transport systems. Based on these analyses, new projects will be initiated if needed. New connections will only be necessary as demand grows. We must prioritise ecologically sustainable projects that are regarded as the most important from the viewpoint of use and economic growth. (Ministry of Transport and Communications)
- Transport investment can support environmental protection by influencing the location of citizens and businesses – and thus their transport needs – as well as the opportunities to build comprehensive and cost-efficient public transportation services as a substitute for private transport. This requires compact residential and commercial developments that also enable efficient pedestrian and bicycle traffic. (Ministry of Transport and Communications, Ministry of the Environment)
- The level of public investments must not conflict with the sustainability of public finances. The central government must be able to draw up a stable and systematic construction programme. However, the long-term development of infrastructure is hindered by the fact that, in their present state, the financing rules governing investments cannot stabilise levels of investment across the terms of different governments. In order to guarantee stability and prevent investment projects from becoming unnecessarily lengthy, we should develop budgeting models enabling the allocation of large investment expenditure beyond the actual construction time – a method comparable to the depreciation procedure applied in the private sector. Through financing arrangements, the central government's financing costs, which are lower than those of the private sector, could also be utilised in public infrastructure projects based on life cycle or other flexible financing models. An evaluation should be undertaken of which infrastructure investments must be implemented on a demand-driven and user-financed model, and how the limited financial support provided by central government might best be targeted. For example, in planned mining projects, income and expenses from joint infrastructure projects, which the various interest

groups allocate over different time periods, should be brought in line with the state budget. (Ministry of Transport and Communications, Ministry of Finance)

- Basic improvements to the main railway connections and enhancing their throughput, particularly in the largest urban regions, will enhance sustainable growth. Attention should be paid to the condition of the trunk road network (roads, bridges) before the need for repairs becomes excessive, causing larger social costs in the form of poorer traffic safety and slower traffic flows. Intelligent transport system (ITS) solutions should be introduced as one of the key tools of the transport policy. This requires investment, part of which could replace traditional investments in transport infrastructure. The mining industry, other exploitation of natural resources, and tourism, for instance, may require new transport connections. (Ministry of Transport and Communications)
- A plan of projects to be carried out over the next 10–15 years must be available in the government programme negotiations since this will promote long-term decision-making. Furthermore, launching the planning of such projects may serve as an important signal improving the prerequisites of growth. In the next parliamentary term, the need for budget allocations for transport infrastructure will double, even if no new transport projects are agreed. In view of the completion time of these projects, the rationale for building other connections must already be under examination, based on a comprehensive analysis of their costs and benefits to society.<sup>7</sup> (Ministry of Transport and Communications)

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<sup>7</sup> Possible future infrastructure projects have been discussed in, among other things, Publications of the Ministry of Transport and Communications 17/2008: "Transport policy guidelines and transport network investment and financing programme until 2020. Government transport policy report to Parliament" (in Finnish).

## DISSENTING OPINIONS

### **Dissenting/supplementary opinion: Economic growth also requires investment**

The final report of the Growth Initiative working group focuses on measures aimed at increasing productivity. The purpose of these measures is to improve the working of markets and promote the implementation of new information technology applications. These are fully justified goals. However, I wish to supplement the Growth Initiative working group's final report by emphasising the importance of investment, employment and structural policy.

The rate of, and opportunities for, economic growth depend on technological developments and the amount of production factors – work and capital. While increased productivity and the efficiency of production processes constitute important growth factors, key growth drivers also include labour supply and the accumulation of capital, which determine potential production. Capital accumulation refers to infrastructure and production capital (machinery, equipment, technology) generated as a result of investment, enabling industrial production, access to energy and transport networks. Rapid exploitation of technological developments is not possible without growth in, and renewal of, production capital since the implementation of new technology usually requires the implementation of new machinery and equipment, too.

Economic growth can be accelerated by promoting investment. Therefore, economic policy should focus on creating a business environment that is favourable to investment. This includes, for instance, taxation, regulation and land use planning. Furthermore, public authorities can improve the operating environment for businesses by investing in human capital (through e.g. education, labour market policy and health promotion) and by public investment in improving infrastructure.

In a country such as Finland, in which unemployment and underemployment have become almost permanent phenomena, growth policy should pay particular attention to achieving higher employment and longer working lives.

Regarding traditional public sector responsibilities, education policy and welfare policy should be seen as growth policy instruments. The increase in human capital generated through education, as well as the maintenance and improvement of working capacity, which are the goals of health, social and labour market policies, constitute important economic growth factors. In my opinion, it is evident that, in the Finland of the 2010s, economic growth policy has to be based on these factors.

In a world of free capital movement, a small, open national economy can improve its attractiveness as an investment location either through tax competitiveness or by investing in the improvement of its business environment, i.e. by engaging in infrastructure competition. Tax competitiveness – as well as competing through low wages – is a natural and, in practice, the only option for countries that lack a sufficient capital stock to pursue other alternatives. By contrast, an appropriate strategy for a solidly-based economy such as Finland is to invest further in innovation, infrastructure and improving the business environment. This is the basis on which Finland's economic growth policy should be planned.

In the 2010s, the public sector should take account of the needs of a growing economy and population concentration in urban areas in its infrastructure policy. In practice, this requires further improvement to transport networks that are vital to population centres, as well as an increase in the speed and capacity of the railway system. Meanwhile, preparations should be made to ensure that new residential building areas are served by efficient transport connections.

Profitable, long-term investments should not be postponed on the grounds of lack of funds. Instead, new solutions should be created to finance them.

In the 2010s and beyond, Finland has good opportunities to outperform the rest of Europe in terms of population and economic growth. Basically, our competitiveness is good and we have strong public finances. Furthermore, our long-term population growth is more securely based than the European average due to our higher birth rate. In the Europe of the 21st century, Finland could constitute a welfare society, with a growing population, good living environments, state-of-the-art technology and high-quality housing. The Finnish economy will grow if growth is set as the policy target and if we provide for continued economic growth through our investment and community planning. There are no obstacles in principle to such a development.

Helsinki, 6 August 2010

Jaakko Kiander, Director  
Labour Institute for Economic Research

## **Dissenting opinion on the final report of the project aimed at strengthening long-term economic growth**

The economic crisis has fundamentally changed the task setting and starting point of fiscal policy. Due to the crisis, the balance of public finances has dramatically deteriorated, making public finances increasingly vulnerable to cost pressures and the narrowing of the tax base arising from an ageing population. Safeguarding the sustainability of public finances has become an increasingly important challenge. These changed prerequisites must be taken into account in post-recession economic policy.

In line with its mandate, the working group to strengthen long-term economic growth sought to identify measures to boost productivity growth in Finland. The working group's final report contains a host of proposals worth supporting. However, it also contains measures that, if implemented, would increase public expenditure. The final report provided an opportunity for a critical analysis of expenditure as well as for proposals for changes in the allocation of expenditure. However, in the working group's final report, this perspective remains in the background. The Growth Initiative working group did not make a monetary evaluation of the cost or benefits of measures proposed in its final report, nor did it consider proposals for measures related to the sustainability of or room for manoeuvre in public finances.

As the representative of the Ministry of Finance, I find that there are no realistic opportunities for increasing public expenditure in future parliamentary terms. Instead, meeting the sustainability challenge related to public finances requires a preparedness to cut public expenditure. On these grounds, I submit my dissenting opinion on the final report.

Helsinki, 6 August 2010

Tanja Rantanen, Senior Adviser for Finance  
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