



# **Shrinking smartly in Estonia: Financing local public services and infrastructure Comments**

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# Does Finland has a “smart shrinking” policy?

- Ageing and declining population in many counties, low birth rate, regional disparities, pressure on further structural reforms... Sounds familiar 😊
- Is “smart shrinking” policy reality in Finland in municipalities? Yes and no!
  - Some municipalities have a clear strategy to adapt to a declining population
  - Most of the Finnish municipalities have not accepted it and are countering it
  - Municipalities have recognized that declining population erodes the tax base and increases per capita costs.
    - But many small municipalities are doing quite well because the state grant system helps municipalities with a declining population
- Does central government help municipalities in Finland to adjust to declining population? I’m not sure!
  - We don’t have a new systematic plan to deal with shrinking.
  - Voluntary co-operation with neighbouring municipalities is quite common. It could be increased.

# Municipal financing system in Finland doesn't actively encourage "smart shrinking" but as a main rule it doesn't encourage inefficiency either.

- Central government in Finland doesn't play a key role in municipal financing.
  - Tax revenue (48 %), operating income (20 %), **state grants (18 %)**, other (14 %)
  - Efficiency gains in the municipal service provision don't affect grants
- The main principle in Finland: the state grants are not earmarked
  - Indicators of the state grant system are quite neutral and municipalities have an incentive to improve the efficiency of the services.
  - In recent years the central government has made cuts to state grants as a way to balance governments expenditures.
- Fiscal rules: balanced budget rules speed up the municipalities' response to declining tax revenues with expenditure cuts
- Government in Finland is also proposing a reform of the real estate tax
  - to re-evaluate taxable land values to ensure better match between taxable land values and current market values

# Thank you

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