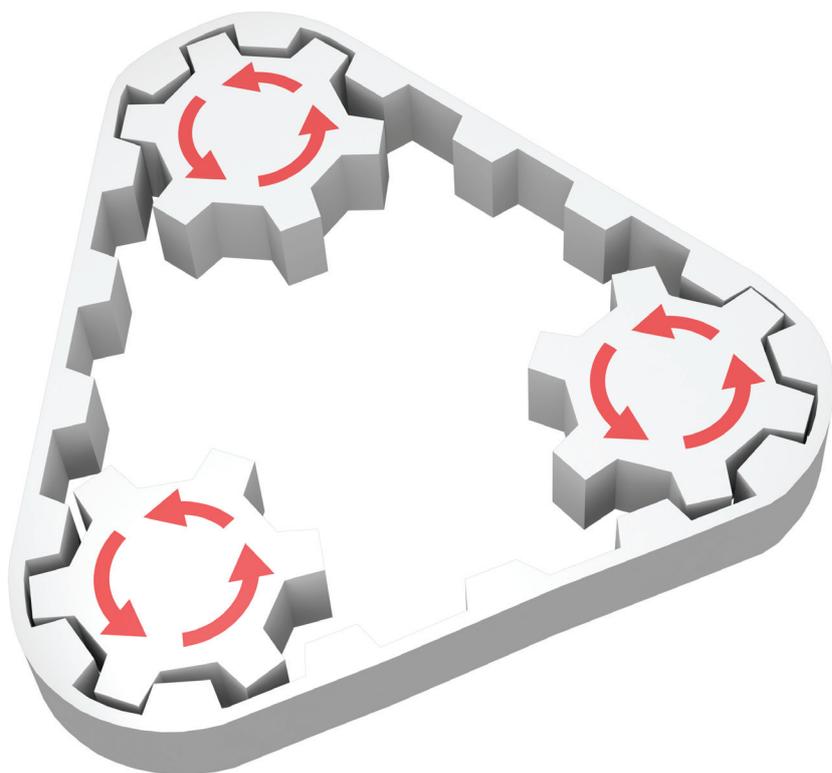




Olli Kangas and Antti Saloniemi

Historical making, present and future challenges for the Nordic welfare state model in Finland



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Preface

The Nordic countries share a number of distinguishing features. With their small economies, well-developed welfare states and organized labour markets, they have given rise to the concept of “the Nordic model”. This social model or models have occasionally been met with criticism: It has been claimed that they are characterized by over-inflated public sectors and excessive tax levels, as well as rigid labour markets caused by strong trade unions, comprehensive collective bargaining and regulations. In recent years the models have attracted positive global attention, since the Nordic countries have demonstrated good results in terms of growth, employment, gender equality, competitiveness, living conditions and egalitarianism when compared to other countries. This ability to combine efficiency and equality has spurred debate in politics as well as in social research.

The Nordic models are facing a host of new challenges, and cannot afford to rest on their laurels. The fallout from the financial crisis has entailed a stress test of Nordic institutions and traditional policy measures. External change in the form of increased global competition, climate problems, migration and European integration, interacting with internal change associated with an increasing, ageing and more diverse population, urbanization and rising expectations with regard to health services, education and welfare in general, will be a test of these models’ resilience. A core issue is whether the social actors will be able to encounter these challenges by renewing the institutions and policies without jeopardizing goals for a fair distribution, balanced growth, full employment and the political support for the models.

NordMod – Erosion or renewal in the Nordic countries 2014–2030?

NordMod2030 is a joint Nordic research project studying the impact that international and national development trends may have on the Nordic social models. The purpose of the project is to identify and discuss the risks and challenges that these countries will need to cope with in the years up to 2030. The project’s goal is thus to produce knowledge that can serve as a basis for designing strategies for reinforcing and renewing the Nordic social models.

The main report from the project will be submitted in November 2014. Until then, a number of sub-reports will be published and open seminars will be arranged in all the Nordic countries. The sub-reports will present specific analyses of selected topics, while the main report will incorporate all the findings and draw the main conclusions. All activities will be posted on the project’s website: www.nordmod2030.org.

- The first sub-reports describe the fundamental pillars of the Nordic models, challenges associated with future demographic change, changes in tax policies and how globalization affects the frameworks of the models. The goal is to analyse external and internal forces of change in the models.
- Country studies are undertaken in each of the five countries to describe development trends from 1990 to 2013. These country reports present analyses of changes in financial, social and political indicators associated with key objectives, institutions, policies and social outcomes in the national context. The country reports also provide input to the analysis of challenges facing the models in each of the countries.

- Finally, a series of thematic reports will be prepared on the basis of Nordic comparisons in the areas of integration, welfare state policies, the future of the collective bargaining model, climate challenges and democracy/participation. The discussion of issues related to gender equality will be integrated into all the reports.

Nordic research group

The research project will be undertaken by a Nordic research group consisting of two representatives from each country and is headed by Fafo. The paired researchers from the different countries will be responsible for the country studies, and will provide input to the design of the other country reports. Several researchers will also contribute to the other sub-reports.

Denmark: Lisbeth Pedersen (Research Director, SFI – The Danish National Centre for Social Research) and Søren-Kaj Andersen (Head of Centre, FAOS, Copenhagen University).

Finland: Olli Kangas (Professor, Director, Kela – The Social Insurance Institution of Finland) and Antti Saloniemi (Professor, University of Tampere).

Iceland: Katrín Ólafsdóttir (Assistant Professor, Reykjavik University) and Stefán Ólafsson (Professor, University of Iceland).

Norway: Jon M. Hippe (Managing Director, Fafo), Tone Fløtten (Managing Director, Fafo Institute for Labour and Social Research), Jon Erik Dølvik (Senior Researcher, Fafo), Øyvind M. Berge (Researcher, Fafo).

Sweden: Ingrid Esser (Assistant Professor, SOFI, Stockholm University) and Thomas Berglund (Assistant Professor, University of Gothenburg).

In addition to this core group, other researchers will also contribute to some of the subreports: Richard B. Freeman (NBER, Harvard), Juhana Vartiainen (VATT), Jan Fagerberg (UiO), Line Eldring (Fafo), Anne Britt Djuve (Fafo), Anne Skevik Grødem (Fafo), Anna Hagen Tønder (Fafo), Johan Christensen (EU European University Institute (EUI), Florence) and others.

Project organization

The project has been commissioned by SAMAK – the cooperation forum for the Nordic trade union organizations and the Nordic social democratic parties. For the duration of the project period, SAMAK has also entered into a cooperation agreement with FEPS (Foundation for European Progressive Studies) concerning contributory funding. The commissioning agent (SAMAK) has appointed a reference group consisting of two resource persons from each of the Nordic countries. Although the reference group may provide input, the authors are solely responsible for the project reports. This means that SAMAK as an institution or the members of the reference group have no responsibility for the content of individual reports.

Oslo, April 2013
Jon M. Hippe
Project Director

1. INTRODUCTION¹

Lots of academic effort, intellectual inspiration and perspiration have been used in the debate on welfare state models or regimes. How many models are there? What are the main characteristics of the models? Which countries belong to different models? Some scholars have questioned the morals of the whole welfare state modeling business: every country is unique, has its own history and, thus, there are as many models as there are countries. Much of the answers in the regime debate depend on the perspective we use. As regards the Nordic countries, while it is easy to see multiple similarities if we look at the Nordic region from a distance, those similarities are not that obvious if we have only the Nordic countries in focus. While binoculars produce one kind of a story, a microscope reveals something else. It is sometimes said that there indeed is a Nordic model but it consists of five exceptions. In this chapter we analyze one of the exceptions, i.e., Finland. Finland shares many important family resemblances with the Nordic model but also deviates from the model in some crucial points when it comes to the socio-political background, institutional set-ups and governance of the welfare state. In this article we take a closer look at the historical roots, developmental patterns, institutional set-ups and consequences of the Finnish welfare state. In the latter part of our analysis we describe political challenges and possible trajectories in the development of the Finnish variant of the Nordic model.

¹ We want to thank Tapio Bergholm, Jon Erik Dølvik, Jon Hippe and all other Nordmod participants for their useful comments on the paper.

2. ECONOMIC AND POLITICAL SYSTEMS

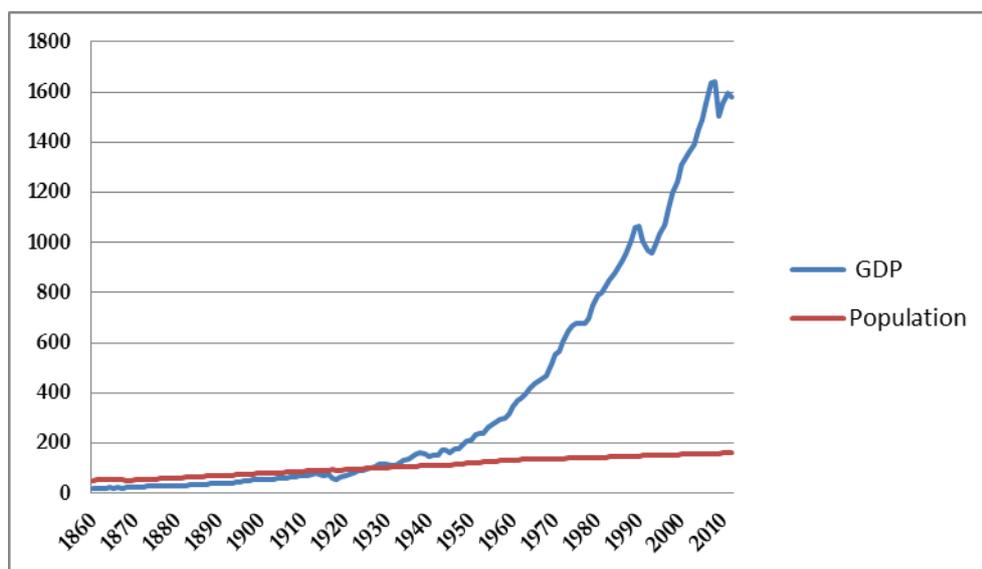
2.1. *Structure of Finnish Economy 1945–2008*

Finland has traditionally been a very agrarian and poor Ulthima Thulean nation. The country, situated around the Arctic Circle, did not offer especially lucrative possibilities for easy livelihood. Farmers, who up to the 1960s formed the biggest socio-economic group, had to fight against the harsh nature. Older Finnish literature is a story of frost that destroyed the seed and of hunger, suffering and premature death. By 1900 life expectancy in Finland was more than ten years less than life-expectancy in the Scandinavian countries or in the US or the UK ². In the beginning of the nineteenth century the Finnish GDP was one of the lowest in Europe, e.g. less than one half of that in the UK and in the US (see e.g. Maddison 1982). “Our land is poor, and so shall be” stated the Finnish national poet J.L. Runeberg a century and half ago. The situation was certainly not improved by the severe Civil War that broke out in 1918 (Jussila & al. 1999; Pesonen and Riihinen 2002).

For a long time, the slogan about the poverty of the country was more than true. Much has changed since those miserable times described by the poet. By the first decades of the present millennium the standard of living in Finland has become among the highest in the world. By now, life expectancy is at the high Nordic levels, e.g., surpassing the U.S. levels. In 2010, the gross domestic product was 15-fold compared with the situation in the beginning of Finnish independence (1917). The growth began after the Civil War, levelled off during World War II, whereafter a rapid expansion took place up to the ‘Great Depression’ in the early 1990s. The impact of the global crisis of 2008 is also clearly visible in the grand narrative of economic growth. Interestingly enough, despite a visible stagnation with a couple of zero-growth years, the oil crises of the 1970s had not as big an effect on the Finnish economy as they had in the other OECD countries. The explanation is the bilateral trade with the Soviet Union. While import from the Soviet Union was mainly oil and other raw materials, export was based on industrial products. The higher the price for oil, the more industrial products could be exported to the giant neighbour in the East.

² <http://www.mortality.org/>

Figure 1. Development of GDP and population 1860–2010 in Finland (1929=100).



Source: Statistics Finland (2013): Historiasarjat: Kansantalouden tilinpito.

One of Finnish peculiarities is a late but rapid structural transformation of the economy. Finland was an agrarian society much longer than her Scandinavian neighbours and until the late 1950s primary production, i.e. agriculture and forestry, was the dominant branch of industry. In 1950 the share of agricultural labour force was the same as it had been in 1920 in Sweden and in 1900 in Denmark and Norway (Alestalo and Kuhnle 1987). Still in the mid-1960s, the number of labour force working in the primary sector was equal with the other two sectors (Figure 2). Of the total labour force of 2.1 million, 0.69 million were in the primary sector, 0.69 million in the secondary and 0.74 in the tertiary sector. As can be seen in Table 1, the total number of the employed steadily grew until the depression in the 1990s. From 1990 to 1995 the absolute level of employment declined by 0.4 million and the numbers have yet to reach the 1990 level.

Another Finnish peculiarity is that the expansion of the secondary and tertiary sectors have taken place simultaneously at the expense of the fast shrinking primary production, not consecutively as in many other countries. The secondary sector has maintained its shares of the labour force as well as of value added in production (right-hand panel in Figure 2) despite the expansion the service sector. However, if we look at the absolute number we get a somewhat different picture of the development. First, the total number of labour force reached its peak in 1990 (2.504 million) and during the economic recession of the 1990s it went down to 2.481 million in 1995. A new peak of 2.703 million was reached in 2008 whereafter there has been a stagnation (2.690 million in 2012; Statistics Finland 2013c: 78).

In the mid-1970s manufacturing employed more Finns than ever before and after. Still the decline started long before the crash of the 1990s: even the growth years in the 1980s meant continuous, although slight decline. The level of employment in manufacturing has never reached the pre-depression level. The 1990 crisis also hit employment in services but already at the turn of the millennium the number of employees in the tertiary sector surpassed the 1990 volume. In fact, the whole subsequent growth in the number of employees has taken

place in the expanding service sector but the expansion has not been sufficient to compensate for the 1990 dive in employment.

Table 1. Absolute numbers of the employed in primary, secondary and tertiary sectors in Finland 1963–2012.

Year	Primary sector			Secondary sector			Tertiary sector			All
	Men	Women	Total	Men	Women	Total	Men	Women	Total	
1970	307	230	537	514	238	752	415	531	946	2235
1980	186	127	313	555	249	804	492	708	1200	2317
1990	143	79	222	553	204	757	611	912	1523	2502
1995	112	57	169	430	142	572	551	801	1352	2093
2000	99	43	142	489	154	643	637	908	1545	2330
2005	86	34	120	468	132	600	687	988	1675	2395
2010	82	33	115	444	117	561	729	1033	1762	2438
2012	81	29	110	449	108	557	743	1063	1806	2472

Source: Ministry of Employment and Economy, <https://www.tem.fi/files/36899/tak22013.pdf>.

Finland has been a pioneering country in female labour force participation. During World War II Finnish industry was dependent on female employees and participation rates remained at a high level also after the war. As a consequence, the female participation rate in 1960 was 41 percent in Finland which was the highest in the Western world. The OECD / EEC average was less than 30 per cent. In the other Nordic countries the corresponding numbers were 28 per cent for Denmark, 23 for Norway and 33 for Sweden. No data are available for Iceland. Due to the expansion of the welfare state, the public sector became an important employer in the Scandinavian countries and by the late 1970s Danish and Swedish female labour force participation rates exceeded the Finnish ones. (OECD 1982: 32.) Participation rates have continued to increase also in Finland and 2012 they were 69 per cent – compared to 73 per cent for Finnish men. Although the female participation rates have historically been higher than in the other Nordic countries they are now somewhat lower than in Denmark (71%), Iceland (81%), Norway (76%) and Sweden (83%) but higher than in the EU on average (61%). In contrast to the Scandinavian countries, the public sector in Finland has employed fewer women than in the Nordic neighbours. Since the Finnish welfare state has been a smaller employer, the Finnish women have had to find their employment in the private sector.

The flip side of the coin is that the Finnish labour market is strongly segregated by gender. Therefore, there is a good reason to consider the distribution of employees into different sectors separately for men and women as done in Table 1. When it comes to the decline in primary production, the decline is equal by gender. Although the majority of service employees still are women, the gradient of the growth is equal for men and women. In manufacturing the situation is somewhat different: decline in industrial work has been deeper among women than among men.

Traditionally, wood processing and pulp and paper industry were the back bone of the Finnish economy; exporting paper and cellulose was the basis in the process of industrialization which gradually began to accumulate prosperity in the country. Later, metal and electronics and ICT entered the picture. These changes, rises and falls of the branches of manufacturing in Finland can be illustrated from different points of view each of which tells a different story. First,

albeit the Finnish paper cluster has been the most important export sector, the cluster has never been a massive employer. It has been a capital intensive branch. The number of employees in paper industry has been steadily declining since the late 1970s. However, now the disappearing of traditional forms of paper processing is a textbook example of the declining smokestack industries.

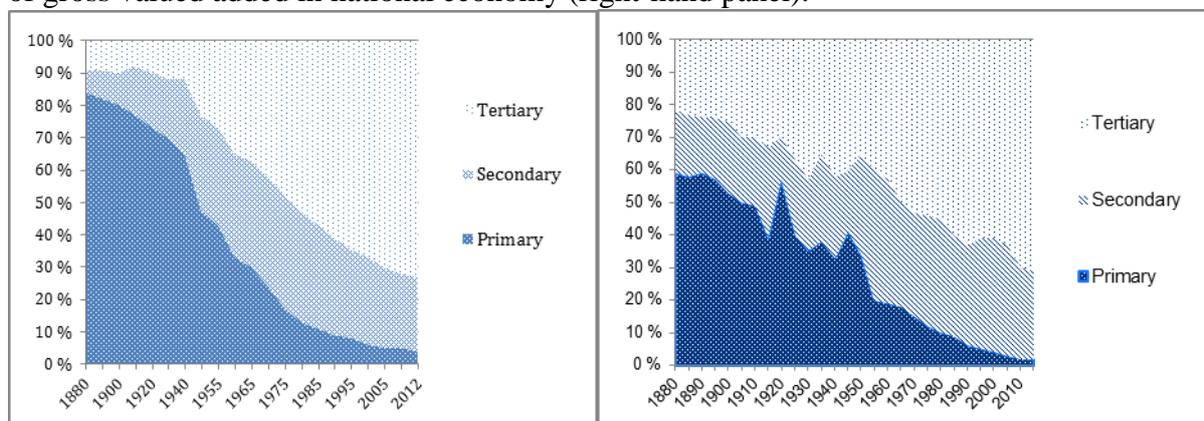
The metal (and technology) industry has always been the biggest employer in the country but, not surprisingly, the recession in the 1990s brought a sharp decline in the number of employees in the metal industry. Still, the years after the recession also meant a steep slope, which ended only with the crisis in 2008. The textile industry – at the end of the 1970s the third biggest industrial employer benefitting from the bilateral trade with the Soviet Union – virtually disappeared during last decades. The ICT industry is the only branch of manufacturing that has managed to increase the number of employees after the 1990 recession but after 2008 there has also been a rapidly declining trend in the ICT sector. In sum: only the metal and electronics industries managed to cover the work place losses caused by the recession in the 1990s. In 1975, those industries employed 41% of the workforce in manufacturing, in 2012 the proportion was 68%. During this period, the total number of employees in manufacturing has declined from 544,900 to 357,700.

Second, the sectoral transformation also brought on a rapid white-collarization of society. In the early 1960s 39 per cent of employees were white-collar workers. In the beginning of the 1980s the white- and blue-collar groups were equal in size. By 2012 about 70 percent of employees are classified to belong to the white-collar service class. Needless to say, this tertialization process has caused and will cause challenges for the trade unions and left-wing parties that have traditionally collected their votes from the working class.

Third, if we compare the relative size of the labour force in the three sectors (as done in the left-hand panel in Figure 2) and the relative role of each sector in the national economy (as done in the right-hand panel), an interesting discrepancy becomes evident. Whereas according to the population share the primary sector was dominant up to the 1960s as discussed above, in terms of value added in national economy, agriculture had lost its leading role already much earlier. However, as the right-hand panel in Figure 2 displays the role of agriculture expanded after the Civil War and after World War II. This is due to the resettlement policies to restore the wounds of the wars. Resettling demilitarized soldiers in agriculture also had some social-pacifistic goals. By giving the soldiers their ‘own’ plots of land the wished-for goal was to de-radicalize them and nullify left-wing radicalism (Kalela 1989). In fact, Finland was the only Western nation where the number of farms increased after World War II.

To summarize, in the Nordic context Finland has been an agrarian wage-earner society. Due to the sheer demographic size – and hence due to the political power – of the primary sector, rural interests were ‘over-represented’ in Finnish politics, economic policy-making and constructing the welfare state up to the early 1970s. Therefore, the politics were often backward-looking, seeking solutions to future challenges from the days gone. To some extent, the present situation with the industrial sector may be parallel to the primary sector half a century ago.

Figure 2. The structural change of Finnish economy in 1880–2012. The share of labour force (left-hand panel) working in primary, secondary and tertiary sectors and the sectoral shares (%) of gross valued added in national economy (right-hand panel).



Source: Alestalo 1984: 20-21; Statistics Finland 2013c: 317.

2.2. Political decision making: number of veto points compelled to pragmatism

In 1918 Finland got its independence from the Russian Empire. Until 1809, Finland was part of the Kingdom of Sweden but in the wake of the Napoleonic Wars small nations were used as pawns in the strategic game of the Great Powers and Finland was annexed to Russia as a semi-independent Grand Duchy with its own constitution, currency, legislature, parliament (the Diet), and government called the Imperial Senate. However, the powers of the Senate were limited since the Russian Czar had the ultimate power to accept or reject decisions made the Finnish Diet. Interestingly enough, whereas the Swedish Constitutional Act of 1789 (*förenings- och säkerhetsakten*) that carried out the Montesquieuan division of political and juridical powers and limited privileges of the nobility vis-à-vis peasants was in force up to 1918 in Finland, it was changed in 1809 in Sweden. In a similar vein many constitutive parts of Swedish legislation were preserved in the Grand Duchy of Finland in the fear of would-be Russification of the legislation if the laws were changed.

Swedishness also played a role in the early formation of the Finnish political parties that began to take form in the 1860s when Fennomans and Svecomans were activated around their linguistic agendas. Even nowadays the Swedish-speaking minority has its own lingual party, the Swedish People's Party (*Svenska folkpartiet*, SFP).

The first mass party was the Social Democratic Party (*Suomen Sosialidemokraattinen Puolue*, SDP), established in 1899. The introduction of universal suffrage in 1906 gave impetus to all political groupings to organize (Alapuro 1988). The first universal elections were victorious for the SDP which in 1916 won an absolute majority with 105 out of 200 seats in the Parliament. Expectations for social reforms were high, but the socialists soon realized that their legislative initiatives would not lead to any results (Kalela 1989: 39) and they began to lose their faith in parliamentarianism and started to look for alternatives (Kettunen 1986: 79–87). In the wake the October Revolution a civil war broke out in Finland in 1918 (Alapuro 1988). The war was a disaster for the 'reds'. Whereas the most radical leaders fled to Russia, established the Finnish Communist Party and continued their revolutionary activities in exile,

the majority of the SDP decided to follow the democratic route. As early as 1927 the SDP formed a government on its own.

The civil war left its mark on the first Constitution of independent Finland. For the conservatives the war showed that the country should have a strong sovereign who would counterbalance the Parliament. Despite the wishes of the royalists, the Constitution was written in favor of the republicans, but the President of the Republic got strong executive power: the President had the right to nominate the Prime Minister and dissolve Parliament. These rights were abolished in the 1999 Constitution that fortified the position of the Prime Minister as the political leader of the country.

The Finnish parliamentary electoral system has always been based on proportional representation and the system offers lots of individual choice since the voter does not vote for a list compiled by the party as e.g. in Sweden but for an individual candidate (Lane and Ersson 2002: 248). The absence of a vote threshold allows minor parties to enter into the Parliament. As a consequence, the Finnish party system is highly fragmented.

The Civil War also left its marks in the Finnish legislative process that included two important institutional veto points. Presidentialism was one of them: the President could refrain from promulgating a law accepted by the Parliament. In addition, a one-third minority of the Parliament could vote a bill to be 'dormant', e.g. to postpone the handling of the bill up to the next elections. As a rule, such bills never became effective. In the history of the making of the Finnish welfare state there are examples where the bourgeoisie parties effectively used that option to block social reforms.

The one-third minority rule compelled parties to cooperation and to form 'over-sized' governments that often were 'unholy' alliances including parties from the right, centre and left. The most frequent axis-partner has been the Agrarian Party (*Maalaisliitto*, since 1965 the Centre Party, *Keskustapuolue*). Since the late 1980 a number of 'rainbow coalitions' including the Conservatives, the SDP, former Communists and the Greens – not to forget the Swedish People's Party which has been the most frequent participant in the Finnish cabinets. In sum, due to the institutional structure of legislation, Finnish politics has been more pragmatic than ideologically pure and, in contrast to the Scandinavian countries, Finnish governments often have included both socialist and bourgeois parties. Finnish politics does not follow the same strong block lines as in Scandinavia.

All the major institutional veto points in the political decision making system were abolished in the 1990s. It remains to be seen what kind of ramifications the abolition brings into political processes and cabinet formation. One thing is sure, in the absence of veto points it is much easier for the government to get its bills through in the parliament than previously.

2.3. Party system: no hegemonic party

The Finnish party structure, with some modifications, follows the typical Scandinavian pattern of a tri-polar class structure (Castles 1979; Esping-Andersen 1985; Alestalo and Kuhnle 1987; Baldwin 1990). In addition to traditional working-class and right-wing parties, in the centre of the political spectrum there is a party representing the interests of farmers. However, the

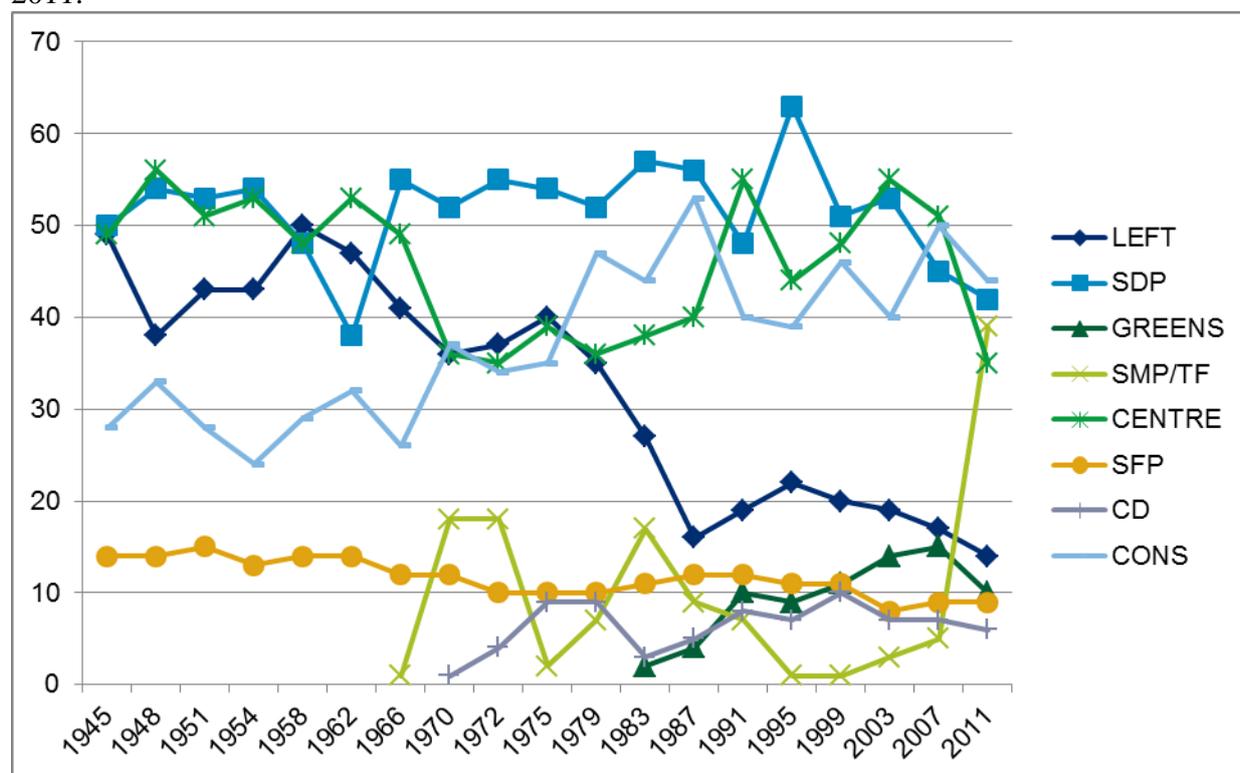
Finnish party system deviates from the Scandinavian ones in two points which have left their footprints on the Finnish welfare state.

First, the importance of the Agrarian Party (since 1966 the Centre Party) has been very strong. The party has participated in 24 out of 32 post-war political cabinets, and in 18 cabinets the party has held the position of Prime Minister. The corresponding numbers for the SDP are 24 and 13. The Agrarians had an upper-hand in Finnish politics up to the mid-1960s whereafter the SDP gained the status of the leading political force. Since the late 1980s the Conservatives have won more and more political influence and their impact and policy message have been more and more influential.

Second, in contrast to the Scandinavian countries, in Finland there has been a strong party to the left from the social democrats. After World War II the Communist/left-socialist party (SKDL) was released from its prohibition and in the 1945 elections it became the second biggest party with only one mandate less than the SDP. Since the elections of 1966, which gave the socialist parties an absolute majority in the Parliament, the SKDL (Left) has participated in nine governments. In the 1950s and 1960s the SKDL was a real challenger to the SDP and in social policy issues it often allied with the Agrarians. However, gone are those days: the once-biggest party with its 50 MPs got only 14 seats in the 2011 elections, but historically the powerful SKDL contributed to the SDP never obtaining such a strong position as its sister party did in Sweden.

Up to the early 1970s the conservative National Coalition Party (*Kokoomus*) had a subordinate position in the Finnish politics. Since then it has grown in importance and in 1987 the SDP and the Conservatives together with the Swedish People's Party (*Svenska folkpartiet*, SFP) and the Finnish Rural Party (*Suomen maaseudun puolue*, SMP) formed a cabinet with a conservative Prime Minister. Despite its strange composition, the cabinet persisted over the election period. The 1991 elections were victorious for the Centre Party that formed a bourgeois cabinet with the National Coalition, the SFP and the Christian Democrats (*Kristillisdemokraatit*, CD). The deep recession and cuts in welfare provisions hollowed out the support for the parties in the cabinet. In the 1995 elections the SDP with its 63 mandates achieved its best results since the 1930s. In the two 'rainbow' cabinets (1995–2003), led by the SDP party leader Paavo Lipponen, the main partners were the SDP and the Conservatives as senior partners and the SFP, the Greens and the Left Party as juniors. The two consecutive cabinets (2003–2007) were built on the Centre-SDP-SFP axis with the centrist Prime Ministers (Anneli Jäätteenmäki and Matti Vanhanen). In the 2007 elections the SDP lost 10 mandates and went into opposition, whereas the two bigger parties Centre and the National Coalition supported by the SFP (plus the representative of the Åland Islands) and the Greens took the responsibility of the government. The Prime Minister was changed in the middle of the mandate period when the Centre Party leader Matti Vanhanen stepped down in favor of the new party leader Mari Kiviniemi.

Figure 3. Members in the Finnish Parliament (Eduskunta) according to major parties 1945 – 2011.



Source: Nousiainen 1998: 168; <http://www.stat.fi/til/evaa/tau.html>.

As shown in Figure 3 in 2011 the True Finns (*Perussuomalaiset* TF) – an inheritor of the old Rural Party (*Suomen Maaseudun Puolue*, MP) – made a phenomenal entry to the forefront of Finnish politics. Criticism against the European Union and the ‘too lenient’ immigration policy produced as many as 34 new mandates and with its 39 mandates the party is only inferior to the National Coalition and the SDP. Despite this landslide victory the Finns Party was not included in the new “rainbow” cabinet representing the National Coalition, the SDP, the SFP, the Greens, the Christian Democrats and the Left Alliance.

In sum, Finnish politics is labeled by practical agreements that often go over block lines as exemplified by the Centre-Left cabinets and a number of “rainbow coalitions”. The Finnish welfare state is a result of political compromises that were perhaps not perfect ones for any party included but good enough to be accepted in consociational negotiations. The price for this pragmatism that may have been effective in muddling through hard times has been the loss of clear-cut differences in party profiles and the they-are-all-the-same feeling among the electorate which has hollowed out willingness to vote. Consequently, the Finnish voter turnout is much lower than in the other Nordic countries.

2.4. Labour movement: social pacts

One of the most important trademarks of the Nordic model has been three-partite collaboration between social partners and the state (Anderson & al. 2007). The pre-requisites for well-functioning collaboration are strong and unified employer and employee organizations that can make solid agreements and take into consideration long-term ‘national

interest', not only short-term interests of their own constituencies. In Finland, the achievement of such collaboration has been more difficult and much slower than in the Scandinavian countries. However, Finland belongs to countries where union density is and has remained at a high level and three out of four employees were unionized in 2012 (Figure 4).

The birth of the employer and employee federations in Finland dates back to 1907 when both employers and workers established their central organizations. After World War II, intensive fissures between the communists and social democrats weakened the capacity of the trade union movement. Only as late as 1969 the feuding political camps could unify under the Confederation of Finnish Trade Unions (*Suomen Ammattiliittojen Keskusjärjestö – SAK*). An accelerating factor was the unemployment insurance that was organized along the Ghent principles: trade unions were insurance carriers and income-related benefits were paid for members of union-run unemployment funds. The membership of the SAK began to rapidly increase and is at the same high levels as in Denmark and Sweden that also still have a Ghent system unemployment insurance.

By 1980 the SAK umbrella covered one million workers. Despite decreasing industrial employment, the SAK has maintained its membership. The unions with the highest membership are the Trade Union for the Public and Welfare Sectors (*Julkisten ja hyvinvointialojen liitto – JHL*) with about 240,000 members, and the Service Union United (*Palvelualojen ammattiliitto – PAM*) with about 230,000 members. Interestingly enough, these female dominated unions outperform the traditionally strong male-dominated unions such as the Metal Workers Unions (*Metalliliitto*) with its 160,000 members not to speak about the Paper Worker's Union (*Paperiliitto*) with 40,000 members by 2012. (Statistics Finland 2013c: 420). The SAK has a close relationship with the SDP and the Left Alliance.

The Finnish Confederation of Salaried Employees (STTK) was established in 1947. Until the 1970s the membership rate of the STTK was rather low, but with a membership rate of 620,000 in 2012 it is a strong player in wage negotiations. Politically the STTK is divided, as is the lower white-collar class itself, between the SDP, the National Coalition, the Centre and nowadays also the Finns Party are getting votes from this stratum.

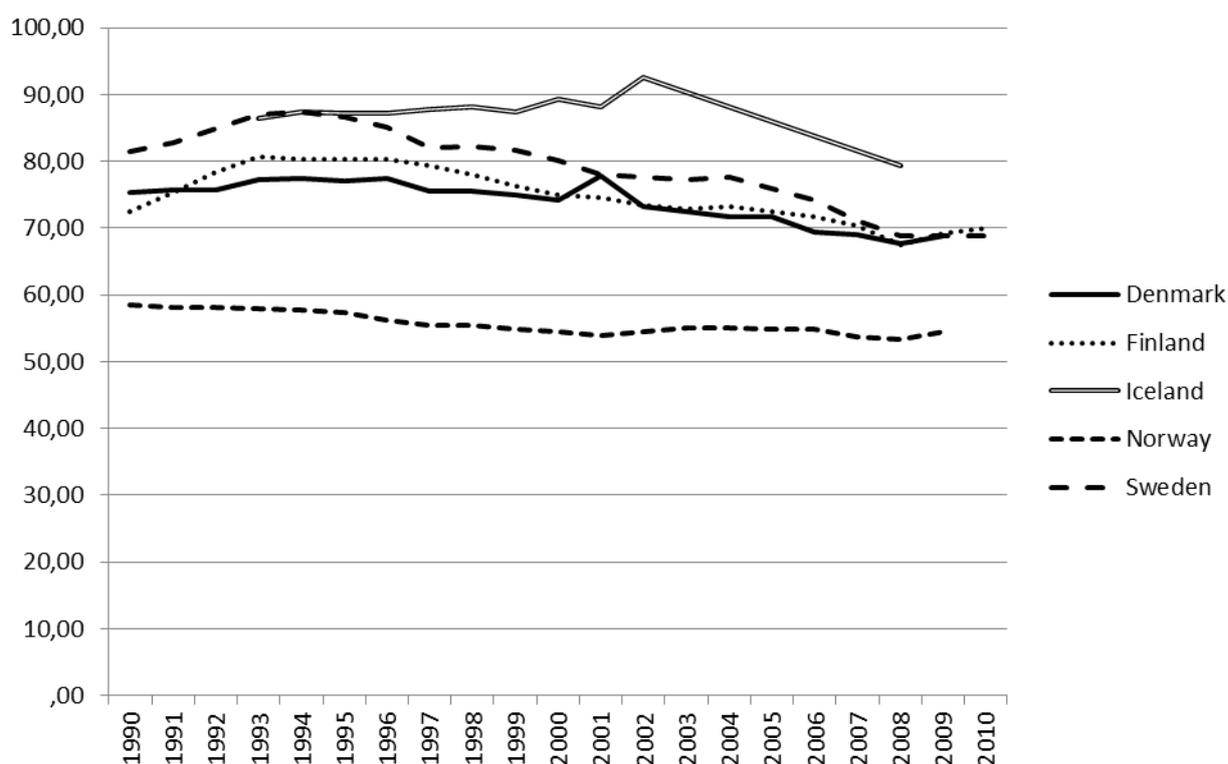
The Confederation of Unions for Professionals and Managerial Staff (AKAVA, founded in 1950), with more than 570,000 members, represents higher level white-collar workers and tends to be politically conservative. In sum, just over two million Finnish employees are unionized in three central organizations, each with separate core membership groups and consequently different political orientations and political preferences.

Traditionally the Organization of Agricultural Producers (*Maa- ja metsätaloustuottajain keskusliitto – MTK*) has had a strong position in Finnish politics, due to the sheer size of the agrarian sector and the MTK's direct links to the Agrarian/Centre party. The decline in the number of farmers and the effects of the EU membership have, however, undermined the MTK's importance.

Employer representation has also become more concentrated. In 1992 the oldest employers' federation, the STK (*Suomen työnantajain keskusliitto*) representing heavy industry, merged with the smaller Confederation of Finnish Industries (*Teollisuuden keskusliitto*). The concentration of employer interest was fortified in 2004 when the service sector employers

also joined the new Confederation of Finnish Industries (ET), representing the employers of approximately one million employees. In the public sector (530,000 employees) there are two separate employers' organizations: the Local Government Employers (440,000 employees) and the State Employer's Office (84,000 employees). Needless to say, the political orientation of the employers' organizations tends towards conservatism (Alestalo 1985: 194), and they actively pursue their interests in the political arena. In their social policy orientation the employers' federations have had different orientations. For large-scale industry, indirect labour costs arising from social security contributions have not been as important as for small-scale industry and service-sector employers. However, global economic competition has changed the picture and by now, all employers strive for lower labour costs and lower employer's contributions in great unison.

Figure 4. Union density (members / labour force, %) in the Nordic countries 1990–2012.



Source: NORDMOD database.

The unification of the SAK inaugurated a new era of social corporatism in Finnish policy-making. Income policy negotiations were conducted on a tri-partite basis. Employer and employee organizations bargained over wages while the government tried to promote agreements by using sticks and carrots. The sticks were mainly increased taxes if wage increases were excessive, and the carrots were typically promises of higher labour-related benefits.

The first income policy agreement was reached in 1968 and since then many wage negotiations have included “a social package” to which the government adhered as long as the labour market partners behaved themselves. The social package was used to provide longer holidays in 1971, to agree upon employer-based health care, introduce sick-pay in 1972,

lengthen the duration of maternity leave in 1980, etc. Social package agreements could also include cuts in benefits. These agreements played a decisive role when the Parliament and government debated retrenchment bills in the 1990s. The corporatist elements in the employment-related pension system accentuated the role of the social partners. All major reforms in employment-related pensions have been the result of negotiations and agreements between central labour market partners and the role of politicians has often been rather limited (see Kangas, Lundberg and Plough 2010). These kinds of negotiations will be important also in the future when structural changes in welfare state arrangements – including pension ages and pension provisions – to combat rising age-related expenditure are discussed.

From the mid-1990s a clear trend towards lower union density is visible also in Finland (Figure 5). Despite rapid changes in politics and economy, the density has never dropped under 70 percent during the past thirty years. Insecurity in the labour markets and unionization seem to be connected with each other: the proportion of unionized employees increased by seven percentage points between 1990 and 1997 and a parallel trend is visible after the 2008 crisis.

Table 2. Union density according to gender, age and socio-economic status in Finland 1984–2012.

	Gender			Age			Socio-economic status		
	Total	Men	Women	–29	30–49	50–	Upper white collar	Lower white collar	Worker
1984	73%	72%	74%	58%	80%	77%	68%	71%	77%
1990	72%	71%	73%	52%	78%	83%	65%	72%	75%
1997	79%	75%	83%	59%	84%	85%	78%	79%	80%
2003	77%	74%	80%	58%	80%	85%	76%	78%	77%
2008	74%	70%	77%	58%	74%	83%	73%	75%	72%
2012	75%	65%	82%	+	+	+	+	+	+

Source: Quality of Working Life Survey data bases (1984, 1990, 1997, 2003 and 2008) and Working Life Barometer 2012

(http://pxweb2.stat.fi/database/StatFin/tym/tobarom/tobarom_fi.asp)(+ = data not available).

In their early phases trade unions were male-dominated. Gradually, in the wake of feminization and tertiarization of the labour market, union density began to expand among women as well as among white-collar workers. Indeed, in the 2010s unionization is more frequent among women than among men and among white-collar workers than among blue-collar workers. Thus, trade unionism by no means is a mere working-class issue. However, there are still important differences: whereas union density is the highest in manufacturing (84%) and among public sector employees (82%), the proportion is much lower in private services, where only half (50%) are organized. Thus, the expansion of the private service sector may cause severe challenges for the trade union movement in Finland.

A deep concern among union leaders has also been the lack of interest in trade union activities among younger generations. The concerns get support from the statistics: union density is

significantly lower among employees under their thirties, but the sunny side for trade unions is that there have been no major changes in youth density rates from 1984 up to now.

A third concern is linked to the unemployment protection system. In the Finnish unemployment insurance system, earnings-related benefits are paid by unemployment funds that used to be union run, i.e., union membership was a guarantee of unemployment insurance. However, since the early 1990 there has been an option to obtain unemployment insurance through 'independent' funds, without a link to union membership. Up to the 2008 crisis, the share of employees belonging to the independent Loimaa fund was about 10 percent. Since then the share has doubled among men, whereas it has remained at the 10 percent level among female employees which partially explains the expanding gender gap in union density in Finland (Table 2).

An important shift in the balance of power has also taken place in the labour markets, which forms a fourth challenge for the trade unions. Traditionally, the role of the social partners has been crucial for constructing the Finnish welfare state. Employer federations and trade unions have played an important role not only in establishing a well-functioning collective bargaining system – based on mutual institutional trust – on the labour markets, but also in the construction of social policy programmes. This kind of policy-making has increased the legitimacy of the outcomes, as well as the commitment to it among the social partners.

During last decade the employer federation has spoken in favor of branch or local level bargaining instead of centralized, top-level wage agreements that since the mid-1960s have been in use. The shift in emphasis mirrors the strengthening position of the employers vis-à-vis employees. The shift in power-balance is linked to the fact that whereas employers are acting in more and more global markets and benefiting from that, trade unions are more bound into national contexts. Furthermore, there is a steady decline in the share of unionized employees, which mirrors the structural transformation of employment from manufacturing with high union density towards services with a much lower degree of unionization. Needless to say, this kind of change in power constellations in politics and labour markets will inevitably influence orientations in welfare policies.

Finally, the expansion of the EU has enhanced movement of labour that is not without problems for the Nordic trade unions. Workers from cheap-labour countries are ready to accept wages and working conditions that do not meet the local standards – for example, the standards among the 50,000 or so Estonian construction workers working in Finland are much lower than the Union for Construction Workers would like to see. In most cases it is difficult for the local trade unions to take action, given the varying kinds of posted workers and long and murky chains of sub-contractors. In spite of reinforced control, trade unions are often toothless and cases brought into the European Court (e.g., the Viking & Laval case) have shown that the Court is more interested in promoting free movement than keeping an eye on social protection. The expansion of cross-border labour mobility would demand stronger trade union activities at the European level but it seems to be very difficult to unify e.g. the Romanian and Danish proletariats under the very same banner.

2.5. *The political history of the Finnish welfare state*

According to Esping-Andersen (1985) social democracy is a political movement that uses national legislation to improve the lot of citizens. Politics is used “against markets.” The Finnish experience confirms Esping-Andersen’s analysis, but only partially. The Finnish case clearly shows that the SDP wanted to use national legislation to achieve its goals, but the SDP or trade unions did not necessarily want publicly-organized insurance that had been universally open for all. Instead, whereas the Finnish labour movement often relied on corporatist, labour-market based administrative structures and as wide as possible workers’ insurance, the Agrarian/Centre Party – often supported by the Communists – was in favor of flat-rate benefits available also for the rural population and administered by the public national pension institute (Kela). In these political battles the National Coalition and the Employer Federation were often allies of the Social Democrats.

2.5.1. *Pioneer and laggard in social insurance*

The common assessment of the development of the Finnish welfare state is to emphasize the late start and radical enlargements of welfare programmes. The lateness thesis is true in part and false in part. This laggardness has often been explained with reference to late industrialization and to the sheer size of the agrarian population who lived partially in a subsistence economy, and therefore had no urgent need for social transfers via an insurance system as the traditional industrial working class did.

This verdict of lateness is true for pensions (implemented in 1939) and sickness benefits (1963), but it cannot explain the relative early emergence of work accident (1894) and unemployment (1917) schemes or universal child allowance (1948). In order to understand this phenomenon, one has to look at the institutional structure of the decision-making actors, the political power constellations, the socio-political priorities set by various political actors, and the possible targets of social policy measures. Such a historical short story also summarizes the political economy of the making of the Finnish welfare state and explains the prevailing governance structure of the whole system (for a more detailed description, see Kangas, Niemelä and Varjonen 2013) .

For the agrarian population, work accidents and unemployment were not important issues. When early discussions on work accident and unemployment insurances began, the Agrarian Party was not that interested in expanding coverage to the rural population. Therefore, the early implementation of work accident and unemployment insurance schemes could take the classical form of worker’s insurance with limited coverage and a gradual expansion to new groups of employees.

Work accident insurance was to be mandatory; however, each employer could choose the insurance carrier from a range of private insurance companies. Premiums have always been paid solely by the employer, and they have been and still are differentiated according to the risk exposure of the branch. The basic structure of the insurance has been maintained up to now. However, EU membership meant adjustments to the previously robust scheme: also foreign insurance companies may offer policies but they have to meet the Finnish standards.

Early forms of unemployment insurance in Finland were based on voluntary funds administered by the rising trade unions. In the 1950s, the Social Democrats put forward bills on a more comprehensive although not totally universal insurance but the bills were voted down in parliament every time. Finally, in 1959 when the political avenue did not appear to lead to any results (a socialist majority in the Parliament but an Agrarian-led government), the SDP and the trade unions agreed on the employer's initiative of a voluntary scheme financed chiefly by employer contributions but administered by trade unions. As in the case of work accident insurance, the basic structure of unemployment insurance is still very much the same as it was 50 years ago. For those who are not members of the unemployment funds or whose benefit period (500 days) has expired, a flat rate basic daily allowance is available.

In contrast to the two aforementioned social risks, the prevalence of old age, sickness and pregnancy are socio-economically more 'democratic', and they also caused problems for the rural population. When the SDP put forward initiatives on worker's insurance, the central issue for the Agrarian Party was to try to extend coverage to the rural population, or to reject the bill. Given the political veto possibility permitted by Finnish parliamentary rules, the Agrarians, with strategic coalitions with the National Coalition and the Communists, managed to prevent initiatives that did not cover the rural population. As completely universal programmes were expensive to realize, the implementation of pensions and sickness insurance was postponed until the economic pre-requisites were in place. This inevitably meant that Finland came to lag far behind other countries that started up schemes with much more limited coverage and hence with much lower costs.

2.5.2. Pensions: from national pensions to semi-public and semi-corporatist employment pensions

The first National Pension (NP) Act in Finland came into effect in 1939. The first NP scheme, as well as the later ones, was administered by the Social Insurance Institution which is a public institution under the supervision of the Parliament. Due to the turmoil of World War II, this fully funded system lost its significance and was totally reformed in 1956. As demanded by Agrarians, the funds of the 1939 scheme, mostly built up by employee and employer contributions, were universally distributed on a flat-rate basis to every citizen over 65 years of age. The pension was divided into two separate parts: (1) a universal basic amount paid on the basis of five years of residency; (2) an income-tested supplementary amount. The principle of income testing was applied until 1985; since then, the NP became tested only against other legislated pensions. In 1996 the basic amount was abolished, and the whole NP became tested against other pensions. The last reform in basic pensions took place in 2012 when the Centre-Right government introduced a guarantee pension.

In the late 1950s it became obvious that the NP was not sufficient to guarantee old-age security for employees. Trade unions, supported by the SDP, began to insist on compulsory earnings-related schemes. The condition the employers set for their acceptance of a legislated scheme was that the scheme should be decentralized, with private pension insurance companies as insurance carriers and the administration should be in the hands of the social partners (Salminen 1993). For the employees, adequate pension security was the most important issue and the question of organizational form was of less importance. Moreover, for political reasons, trade unions and the SDP were skeptical about a publicly administered scheme. In the parliament, the Agrarians and Communists were against the proposal, while

the SDP, the Conservatives and other bourgeois parties backed it; the law was passed in 1961 and private sector employees got their pension scheme (TEL). A separate scheme (LEL) was established for employees in short-term employment contracts. Later on, in 1974, farmers and other self-employed persons got their own programs (MYEL and YEL, respectively). In addition to the aforementioned schemes, there are a number of minor schemes for smaller groups such as artists, seamen, church employees etc. Thus, a certain degree of corporatism brands the Finnish pension design where coverage is defined according to sectoral and occupational lines (see Kangas and Luna 2011). The preliminary target pension level was 40 percent of the final wage after 40 years in employment, which increased to 60% as a part of labour market negotiations in 1974.

Existing arrangements for public sector employees (one for state and one for municipal employees) were neither financially nor administratively merged with TEL. Benefits in the public sector have traditionally been somewhat more generous than those in the private sector. They were 66 percent of the final salary after 30 years of employment, and the pension age was 63 compared to 65 years in TEL. Thus, the occupational “bonus” was built into the legislated schemes and separate occupational arrangements, which were commonplace in many other countries, were not developed in Finland. The need for occupational pensions was further circumscribed by the fact that there are no ceilings on benefits.

The administration of the companies and thus the decision-making power in funds and investments was in the hands of labour market partners, not within the power of the Parliament. In this way, the Social Democrats safeguarded the scheme against the Agrarians, and the peculiar administrative set-up created an institutionally strong veto possibility against the Parliament. It is no wonder then that social partners have always been centrally interwoven when any changes of the pension system have been discussed and planned.

Despite its sectoral divisions, the Finnish pension system is compact and all pensions are coordinated with each other. Until 1996, all pensioners received the universal basic National Pension (NP) and on top of that came employment-related pensions. For those with low employment-benefits, a Special NP supplement was payable. In 1996 the first SDP-led “rainbow cabinet” abolished the basic amount and the whole NP became tested against employment-related pensions which gradually began to grow in importance and to eat up national pensions and the Finnish pension design moved towards the Continental European type, with stronger emphasis on employment vis-à-vis citizenship.

There are no ceilings in Finnish earnings-related pensions. Until 1996, pension-carrying income was based on two median years for the four last years in employment – after 1996 according to the average for the ten last years. This kind of pension calculation was beneficial for employees whose earnings increased with years in employment. Therefore, these groups had no incentives to demand alternative occupational pension schemes to compensate relative losses in income. That is one reason the second and third pillars are virtually non-existent in Finland (see Table 1). The other explanation is that in Finland the coordination of first, second- and third-tier pensions had followed the “difference” or “tie-in”³ principle: the value of occupational benefits had been determined by the difference between the target level of 60

³ In the other Nordic countries, occupational pensions follow a “floating” principle: occupational pensions are paid on top of other pensions regardless of the size of the other pension.

percent and the actual pension level. The closer the actual pension comes to the target level the less room there is for additional arrangements. Consequently the share of voluntary occupational schemes has declined from six percent in 1965 to two percent in 2010.

By now it is difficult to anticipate what consequences the 2005 pension reform will have on occupational schemes. On the one hand, pension benefits are now calculated on the basis of life-time income instead of end-salaries which may create incentives among white-collar workers with increasing earning careers to try to obtain extra benefits, but on the other hand, the previous target level of 60 percent was abolished which means that by working a bit longer employees can improve their old-age security within the legislated system.

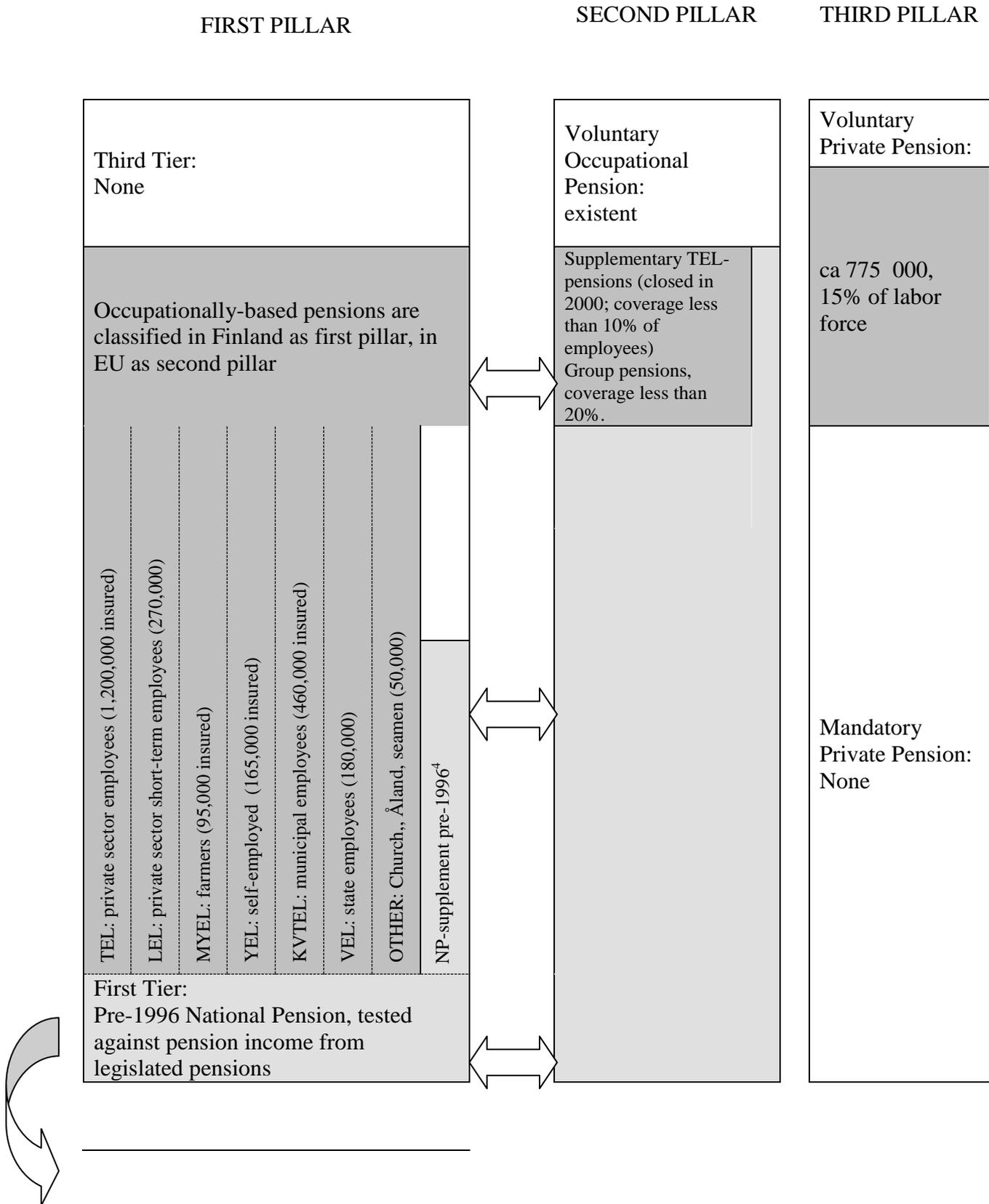
Table 3. Proportional Shares (%) of Different Pension Schemes of Total Pension Expenditure in Finland 1950–2010

Year	Pensions/GDP; %	National Pensions	Private Sector Pensions	State Pensions	Municipal Pensions	Voluntary Occupational
1950	2.1	28.6	.0	69.0	1.5	2.4
1960	4.9	69.2	.0	27.0	3.0	5.3
1970	8.3	56.9	11.5	22.4	8.2	5.0
1980	9.5	42.1	29.3	18.5	8.7	4.5
1990	11.0	32.4	39.2	16.9	10.0	4.1
2000	10.9	19.6	48.8	17.8	13.8	2.1
2010	12.9	11.1	53.1	16.4	15.0	2.1

Sources: KELA 2012: 42–43; 2001: 38–39; 1997:36; 1985: 28–29; 1976: 23. Due to some minor schemes being excluded the percentages do not add up to 100%.

In Figure 5, Finnish pensions are depicted “pillarized” following the European Union categorization and the Finnish interpretation of it. The first pillar includes both the national pension and all *legislated (mandatory)* employment-related pensions. As is evident on the basis of Figure 1, the Finnish employment pensions provide the equivalent of both basic (Tier one) and supplemental pensions (Tier Two), and are compulsory and universal (first pillar). The third pillar is rudimentary in Finland: instead of investing in individual pension policies, most of financial assets are invested in the housing sector.

Figure 5. Pillarization of the Finnish Pension System 2012.



⁴ For pensioners without occupational pensions

Post-1996 National Pension means-tested; replaces NP-amount and supplement; Post-2011 Guarantee pension is paid after pension-income testing.

Source: Kangas and Luna 2011.

2.5.3. Health insurance: late introduction and development of a dual system

The implementation of national health (sickness) insurance followed the traditional Finnish pattern. Since the 1890s, in almost every decade there had been SDP initiated attempts to implement a sickness act, but struggles between the SDP and the Agrarians delayed implementation until 1963 (Kangas 1991:167). The 1963 reform established perhaps the most universal scheme in Europe. The whole population was insured and daily allowance was paid even to those who had no monetary income, for example unpaid family workers, home-makers, students etc. In the beginning, the compensation level was 60 percent of the previous income. However there was a rather low ceiling that, due to rapid wage increases in the 1970s, demolished the whole idea of income-related insurance. In 1982, ceilings were abolished and income loss compensation came to be 80 percent for all income groups. The daily allowance was payable after a rather long waiting period of seven days. However, for employees the waiting period was and still is nullified by the mandatory employer sick-pay system that provides a full wage for a period varying from one month to three months depending on the labour market agreement.

Although the sickness insurance scheme came into force late in Finland, municipalities were under an obligation by the state to organize health care for their residents and cover costs from 1869 (Mattila 2006:21). The early obligation paved way for a division of labour between the central government (giving orders) and the municipalities who were constantly trying to find the means and resources to fulfill the obligations imposed by the state.

After the 1970 elections the Social Democrats set cost free-health care as a condition for their participation in the government (Mattila 2006:144). In 1971 the centre-left government prepared a bill on health care centres. The law came into force in 1972 and within an interim period of 10 years all municipalities offered free health care in their care centres. Due to their small size (in 1970 there were 515 municipalities and the mean size was less than 10,000 inhabitants, by 2013 there are 320 municipalities and the average size is about 16,000 inhabitants) the municipalities themselves do not have enough resources to properly organize health care for their residents. Therefore, there are various kinds of municipal co-organizations for running local and central hospitals and the state subsidizes economically weak municipalities. University hospitals are run by the state and they are responsible for special health care.

Already in the very beginning there were occupational elements included in the Finnish health care system and due to the late introduction of sickness insurance, industry-based sickness funds and employer-provided health care played a role in Finland. The introduction of sickness insurance in 1963 did not abolish employer-provided sickness benefits and health care. Following ideas on institutional inertia, health care organized by employers became

subject to subsidies from the sickness insurance scheme. In 1971 the employee and employer central organizations agreed upon occupational health care that began to expand and by 1975 almost a million employees were covered by the scheme.

In principle – and that was emphasized by the Social Democrats who were the main proponents of the health care centres – occupational health care was to be preventive care but gradually the employer-provided care has expanded to be a proper health care system and it has replaced the very idea of public health care centres. As a rule occupational health care is obtained from private providers, it is free of charge for the employee and access to special doctors is easy in contrast to public health care labeled by queues, waiting lists, lack of specialists and user fees that the municipalities began to collect in the wake of the economic crisis of the 1990s. Thus, Finnish health care is a dual system: a creamy line for the employed and a more watered-down public health care system for those outside the labour market. The dual system is partially responsible for large socio-economic health differences that are wider in Finland than in most other OECD countries.

2.5.4. Family policy: cash for care – a Finnish peculiarity

As in many other countries, in Finland family policy issues popped up on the political agenda in the 1930s as a response to declining fertility rates. After World War II the population issue became more acute and, in the context of labour market negotiations, the employer federation offered a kind of family wage for employees with children instead of a general wage increase (Bergholm 2003). The model was a full-fledged male bread-winner model, which, to some extent, satisfied representatives of wage earners who got the same rights that state employees had enjoyed since 1924. However, the Agrarians were dissatisfied and demanded that the system should be extended to cover all socio-economic groups. In 1948, the employer-driven system was replaced by a publicly financed, universal child allowance payable to the mother for each child under 16 years of age. According to a contemporary Finnish politician, the universal child allowance was like manna from heaven that fell to the earth where there was lack of everything else except children (Kuusi 1966:180).

The organization of child-care, aimed at reconciling work and family life, has been a contested issue and followed the left–right and urban–agrarian divide. On the left-wing agenda, heavily subsidized public day care institutions have been at the fore, whereas the bourgeois parties have demanded tax allowances and ‘home care’ allowance, i.e., a kind of ‘cash for care’. Child home care allowance was introduced through a variety of municipal experiments in the late 1960s. In municipalities there was a serious shortage of day care places, and municipalities calculated that it was cheaper to pay ‘cash for care’ than to establish day care institutions.

At the central government level the issue was highly contested (Hiilamo 2002). The SDP wanted to promote public day care and passed an Act on it in 1972. However, due to strong bourgeois demands, the national child home care allowance system was established in 1985. An allowance was payable to all parents or to nurses of children who were not placed in municipal day care. Financially, child home care allowance is a part of the municipal day care system, and Finland has a special combination of universal public day care, in which all children under school age have a subjective right to day care, i.e., full universalism and subsidized alternative care allowance, i.e., cash for care (Anttonen 1999). In the Finnish

political discourse the home care allowance is depicted as ‘freedom to choose’: families themselves know better than bureaucrats in Helsinki what is best for children (Hiilamo and Kangas 2009).

The allowance is popular and the majority of families with children use it. As a consequence, the take up rate of formal municipal care is by Nordic standards very low in Finland. Whereas by 2010 the Finnish take up rate among children aged one to five is about 45 percent, it is about 90 percent in Denmark, Norway and Sweden (Meagher and Szebehely 2012: 93). Needless to say, there are strong gendered labour market consequences. Home care is heavily concentrated on mothers (95 percent of home carers are mothers) and the labour force participation of mothers to children below three years of age is close to 50 percent in Finland compared to 80 percent in Sweden. However, the home care periods seem to be temporary: for mothers of children above the age of three, the Finnish female labour force participation rate is more than 80 percent which is one of the highest in the OECD hemisphere.

The present Jyrki Katainen’s ‘six pack’ coalition cabinet suggested that the cash for care period should be equally divided by the mother and father. If the father does not want to take his share, the family will lose that benefit period. There were three motivations behind the initiatives. The idea was presented simultaneously with the savings package intended to combat rising public debt. Thus, there were more or less explicit ideas of saving public money. Secondly, by shortening the care leave period available for the mother, the government tries to rise labour force participation rates among mothers with small children. Thirdly, there were hopes of making leave schemes more gender neutral. In the political debate the social democrats in particular have tried to play this gender equality card and it remains to be seen whether the card is good enough. Given the popularity of the home care allowance among working class women, the suggested reform may badly back-fire and hit the social-democrats in the next parliamentary elections in 2015.

2.5.4. Basic school – a guarantee for social mobility

The rapid structural change in economy demanded different qualifications as did the old agrarian society. The Finnish school system reacted to these demands by gradually expanding a nine-year obligatory education to all. Under the present day Finnish school system, pupils can, after nine years of basic schooling, choose either to go on to vocational education (three years) or to continue with more theoretically oriented high school (lukio, which is also three years). 82 percent of each cohort completes one of these two options, although there is a clear preference (50 vs. 32 percent) for lukio (Kivinen 2006:210). In principle it is possible to enter polytechnical colleges (all in all 29) or universities (21) via either one of these education channels; approximately 50 percent of pupils do. The basic principle in the educational system is to avoid dead ends, and it is possible to enter into higher education whatever the choice pupils have made on the lower levels of the educational ladder. All forms of education are free, i.e., there are neither admission fees for basic education nor higher education. In addition, a number of financial subsidies are available for those who continue their studies after basic school.

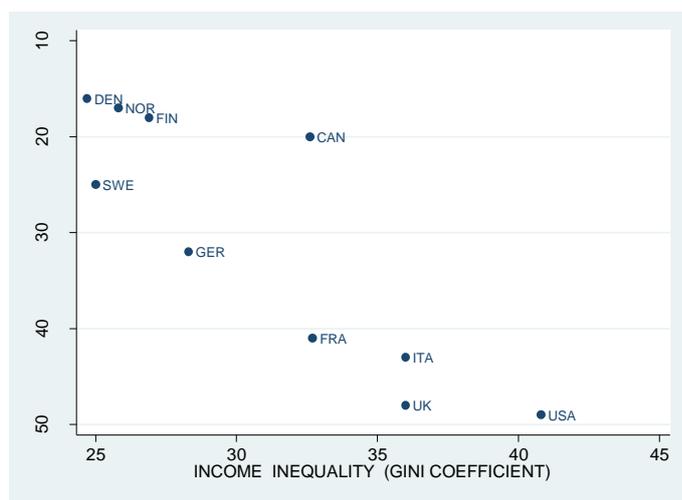
Various waves of PISA student performance studies indicate that the Finnish school system is effective. While the average results and the shares of top-performers are among the highest, the shares of under-performing pupils are among the lowest. Furthermore, although social

background plays its role in all countries, its impact in Finland has been smaller than in most other countries. Whereas the social gradient in Finland is 31 percent it is 36 percent in Norway and Denmark. Of the Nordic countries, the gradient is lowest in Iceland (27 percent) and highest in Sweden (44 percent). The Swedish gradient is at the same levels as the German and British ones. (OECD 2010: 34). Thus, one of the trade-marks of the Nordic model seems to be low social gradient in the achievement of educational merits, i.e., Nordic societies are open societies in that respect.

An alternative way to evaluate the openness of societies is to look at generational income mobility, i.e., the degree to which parents' levels of income determines their children's incomes. A strong correlation would indicate that societal institutions are not particularly open and that family background is a discriminating factor. The essential finding of studies in this area has been that children's incomes are correlated with the parents' incomes in all countries. Childhood background has a deciding influence everywhere, so none of the countries studied are completely open societies. However some are more so than others.

It appears that the Nordic countries are somewhat more open than most other countries (Figure 8). The intergenerational correlation between parents and children varies within the Nordic countries from .15 to .20, whereas in the U.S. the corresponding Figure is .40–.60. This result is attributed to the educational system: in the Nordic countries there are no tuitions for university students, both secondary and upper secondary education are free of charge, and there is a universal support system for students, which covers an important part of the living expenses (including rent). The state also guarantees study loans, which allows all students irrespective of family background to finance their studies. Thus, the Nordic educational system is geared towards promoting equal opportunity.

Figure 6. Intergenerational income mobility. Correlation between parents' and children's income.



Source: Hiilamo and Kangas 2013.

2.5.5. Summary of the development

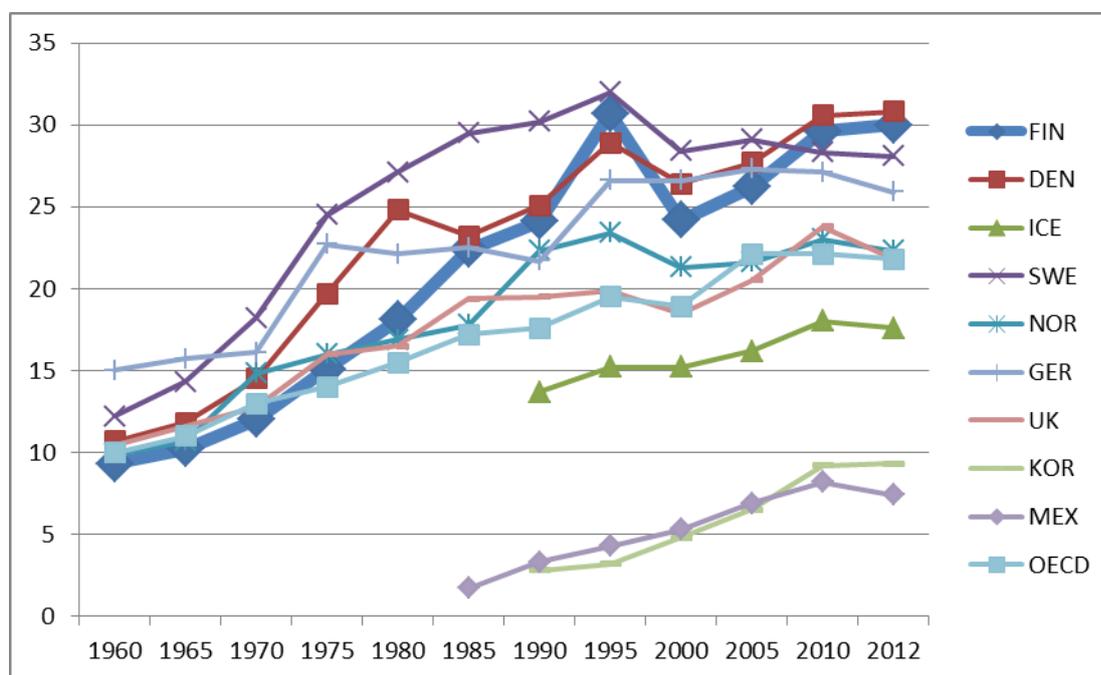
In comparison with other Nordic countries there are some special characteristics in the Finnish variant of the Nordic model. Changes in Finland have been late but rapid. The transformation of an agrarian society into an industrial one took one to two decades. The ‘surplus’ population in Northern and Eastern Finland moved either to Southern Finland or to Sweden (in 1961–1970 about 200,000 Finns emigrated to Sweden). The same late-but-rapid pattern is visible also in the construction of the welfare state in Finland.

As Pekka Kosonen (1998) has shown, the post-war political economy of the Finnish model was based on a one-sided production mode where highly export oriented wood-processing and paper industry was a pace-setter. Due to small domestic markets, the national economy was vulnerable to international economic cycles. At the ideational level, Keynesianism did not get such a hegemonic position as it got in the Swedish economic policy-making. Instead, economic policy in Finland was rather pro- than contra-cyclical and much effort was laid on the balance of the state budget, which fortified economic conjunctures: while during recessions public outlays were cut, during high conjunctures they were expanded (Pekkarinen and Vartiainen 1993: 135–155). Furthermore, increases in public outlays and social policy seem to be linked to political cycles. Increases have taken place prior to elections (Paloheimo, Wiber and Koiranen 1993; Kangas, Niemelä and Varjonen 2013). As a consequence, Finnish economic development after World War II has been labeled by periods of deep recessions with growing unemployment and economic up-swings with high wage increases and accelerating inflation.

The problems caused by inflation were cured by successive devaluations of the Finnish markka. However, while the devaluation undeniably improved international competitiveness, on the other hand it enhanced inflation which in turn set demands for a new devaluation (Pekkarinen and Vartiainen 1993; Kiander 2001). From the 1930s to the 1990s Finland devalued its currency at least once a decade. In 1957 and 1967 devaluation rates were more than 30 percent, in 1977–78 the markka was devalued three times, five to eight percent at time. The 1982 devaluation was a response to Swedish devaluation. The last devaluation before joining to the European Union took place in 1991. Entering the EU abolished the possibility for solving problems of international competition by reducing the value of the currency which has created problems after the 2008 crisis.

One of the most commonly used measures of the quality of the welfare state is the share of social spending in relation to the GDP. In Figure 7 gross spending levels from 1960 to 2012 for a number of OECD countries are depicted. As can be seen, up to the late 1970s, the Finnish spending levels were close to the OECD average. Since then social spending in Finland has been higher than on average. This is partly due to improvements of social protection and the increase of welfare state clients (in the early 1990s, in particular) in Finland and due to a number of new low-spending OECD members countries that decrease the OECD mean. The deep Finnish economic recession in the early 1990s increased the Finnish spending level to one of the highest in the world. After the recession, spending in relation to the GDP decreased, but during the 2000s spending has been in constant increase mirroring the expansion of age-related spending.

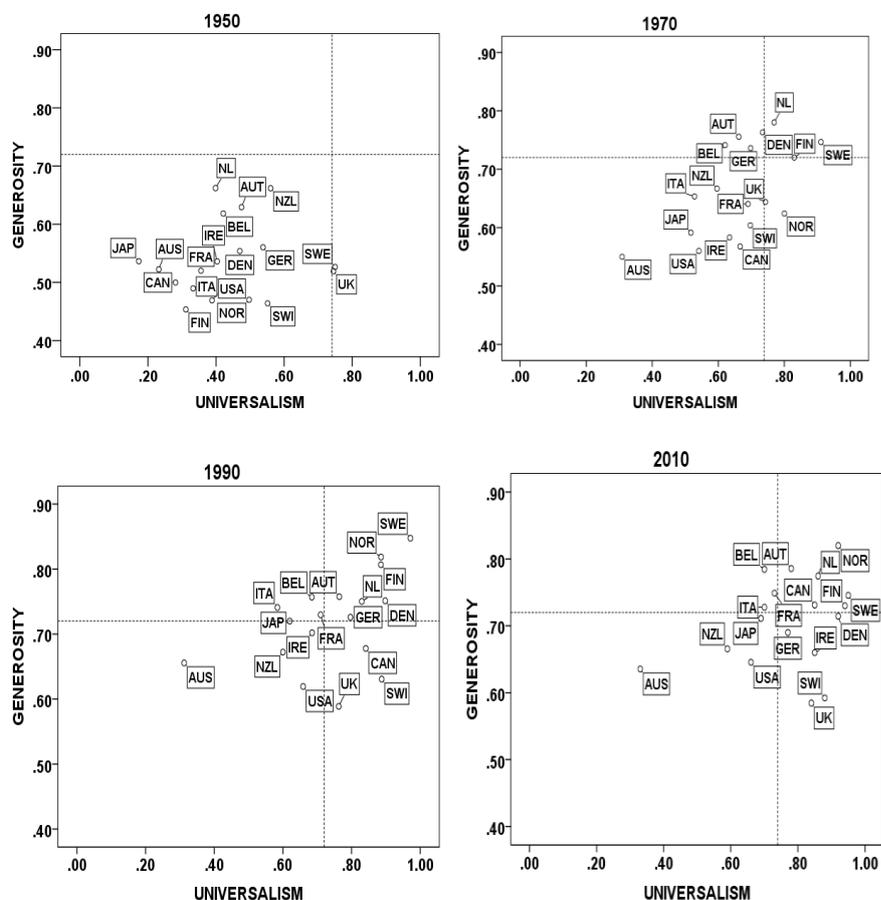
Figure 7. Public social spending as a percentage of GDP in the Nordic countries and some other OECD countries 1960–2012.



Source: OECD stats.oecde.org/Index.aspx?QueryId=4549.

Another way to summarize the development of the welfare state is to look at the compensations (generosity) paid from the main income maintenance programs and the coverage (universalism) of the schemes (see Figure 8). The dotted lines in the separate panels pertain to the mean generosity and universalism rates in 1990 as a reference. As can be seen, Finland in 1950 was the European laggard but in a couple of decades developed its welfare state close to the Scandinavian ones. The heyday of the model seems to have been in the late 1980s. Since then all the Nordic countries – with the exception of Norway – have been moving towards the OECD mean when it comes to the generosity of transfers and on the other hand some countries are passing by and some other countries coming closer to the Nordic cluster that seems to have maintained its universal character vis-à-vis other countries.

Figure 8. Generosity and universalism of social insurance in 18 OECD countries 1950, 1970, 1990 and 2010.



Source Kangas and Kvist 2013.

There has been a lot of debate over whom the credit for the universalism of Nordic social security belongs to. In Scandinavia, Social Democratic parties have often been credited for it. However, in Finland the question is more difficult. The Social Democrats have been in favor of (wide) workers' insurance, whereas the Agrarians, for obvious reasons, have always demanded that the rural population should also be covered. The communists and left-wing socialists grouped in the SKDL have traditionally wanted to exclude the well-offs from the coverage. Thus, on the basis of Finnish history it is difficult to credit the leftist parties for the universal character of Nordic social policy.

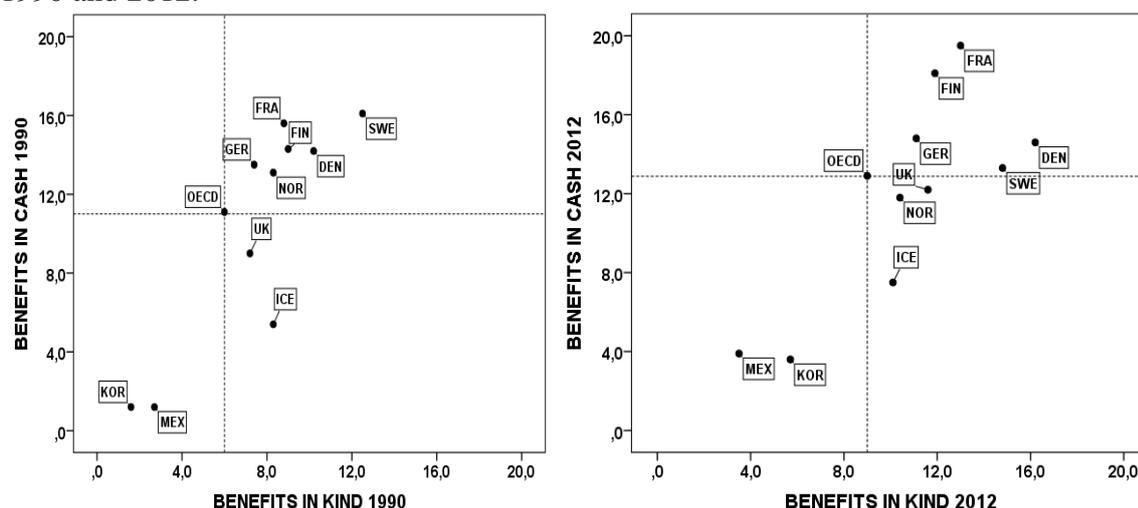
Is universalism then a merit of the Agrarians? Yes and no. The other Nordic countries ended up with systems of comprehensive coverage as well, even though their agrarian parties were not as politically influential as in Finland. It is thus probable that Finland, too, would have ended up with a Nordic level of universalism, even if the sickness insurance had initially been created in accordance with the early social democratic proposals. Precisely as shown by Peter Baldwin (1990), Nordic universalism was not achieved because of solidaristic sentiments among the working-class parties, but because the influential agrarian parties did not accept excluding their constituents from statutory benefits. Thus also here the driving force was not altruistic attitudes but self-interest. Thus, ironically enough, the Finnish version of universalism is more based on class-interests than on an altruistic world view.

3. REFORMS AND INSTITUTIONAL CHANGES SINCE 1990

3.1. *As the world was in 1990*

The Finnish welfare state was a late-comer in the Scandinavian context, and reached its Nordic neighbors in the late 1980 (Kangas and Palme 2005). Gradually, along the lines of the Nordic model, public authorities not only became responsible for providing extensive welfare services but also for promoting education, health and safety of the people. The idea was not only to guarantee minimum income for all and to some extent compensations for losses of income due to old age, invalidity, sickness, unemployment, child birth etc. but also to give comprehensive and high-quality public social services. Universal, tax-financed social services are from many points of view a corner stone in the Nordic model. One way to approach this issue is to break social spending down in social transfers and benefits in kind. The high share of benefits in kind may be regarded as a Nordic peculiarity. The issue is displayed in Figure 9.

Figure 9. Breakdown of social spending into benefits in cash and in kind (% of the GDP) in 1990 and 2012.



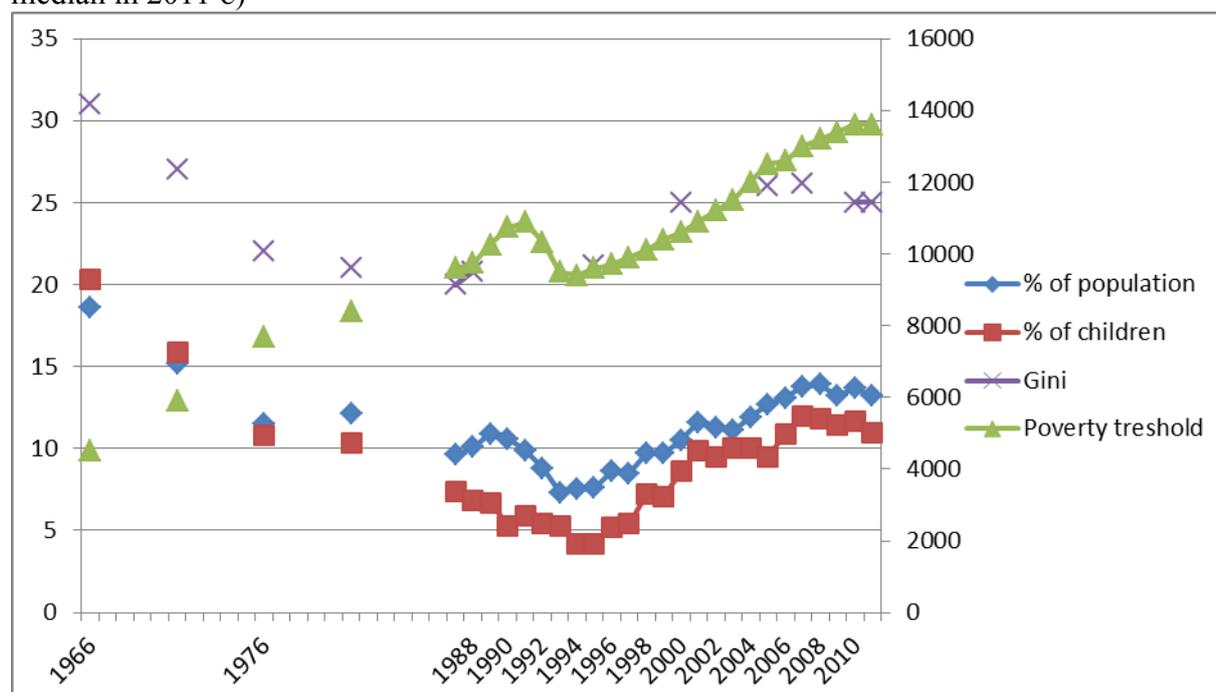
Source: OECD stats.oecd.org/Index.aspx?QueryId=4549.

With the exception of Iceland all the Nordic countries are both in 1990 and 2012 in the upper right-hand corner displaying high level of spending in both items. When it comes to changes that have taken place in two decades, while all countries have increases their spending on benefits in kind (services), spending in income transfers as a share of the GDP has diminished in Denmark, Norway and Sweden but substantially increased in France and Finland. As a consequence, Denmark, Sweden and Iceland spend more on services than in transfers. In Norway the shares are almost equal. Finland deviates from the Nordic pattern by spending more in transfers. Whereas the service-transfer share in 2012 was 0.7 in Finland and 0.9 in Norway, it was 1.1 in Denmark and Sweden and 1.3 in Iceland. In that comparison Finland is closer to the Central European transfer-heavy welfare states than her Nordic neighbors. In Germany the service-transfer ratio is 0.8 and in France 0.7.

In terms of outcomes the Finnish welfare state has done very well: poverty levels were low in all age categories, i.e., the traditional Rowntree (1901) poverty cycle was abolished and

income disparities were lower than in most other OECD countries. Whereas in 1966 Gini coefficient in Finland was 0.31, twenty years later it was as low as 0.20. The reduction of income disparities was mainly due to the expansion of the welfare state. Despite the expansion of social benefits the public budget was in good shape: the public debt was by international standards low and the tax burden moderately high.

Figure 10. Income inequality (Gini index), poverty levels and poverty threshold (60% of median in 2011 €)



Source: SVT: Tulonjakotilasto; http://tilastokeskus.fi/til/tjt/2011/02/tjt_2011_02_2013-03-20_tau_002_fi.html.

3.2. Economic development since 1990

The turn of the 1990s dramatically changed the landscape. The liberalization of the banking sector and financial markets in the 1980s created a bubble of credit economy. International lending increased and fuelled the economy – the level of investments increased up to 30 percent of the GDP in 1989 – easy access to housing loans exploded prices: towards the end of the 1980s the prices have more than doubled in five years (Korhonen 2011: 11–14). However, the stop was abrupt. Due to economic problems in important Western countries export to the West ran into severe difficulties. The collapse of the Soviet Union suddenly nullified export to the East that had corresponded to 15–20 percent of the total export volume. Tight fiscal policy attached to the politics of a strong currency increased interest rates and deteriorated competitiveness of Finnish export oriented enterprises. The development ended up in a situation called ‘the Great Depression’ (see Table 4).

Table 4. Economic indicators of the ‘Great Depression’ and the 2008 depression.

Year	Change of real GDP, %	Change in domestic demand, %	Change in export, %	Account Balance, % of GDP	Surplus of public budget, % of GDP	Public debt, % of GDP	Unemployment rate, %	Changes in employment rate, %	Changes in unit labour costs, %
1989	5.7	6.7	1.6	-5.0	6.0		3.1	3.1	6.2
1990	0.0	-1.2	1.2	-5.1	5.3	14.3	3.1	0.0	9.5
1991	-6.3	-8.4	-7.3	-5.4	-1.1	22.7	6.8	-5.1	7.0
1992	-3.3	-6.1	10.3	-4.7	-5.6	45.3	11.7	-7.1	-2.3
1993	-1.1	-5.8	16.7	-1.3	-7.3	56.0	16.0	-6.1	-4.5
1994	4.0	3.7	13.1	1.1	-5.7	58.0	16.6	-0.8	-2.1
1995	3.8	4.3	8.5	4.2	-6.1	65.3	15.4	2.2	2.4
1996	4.0	2.0	5.9	3.8	-3.4	66.2	14.6	1.4	0.3
1997	6.3	6.2	13.9	5.2	-1.3	64.7	12.7	2.0	-0.9
1998	5.3	5.4	9.2	5.2	1.7	61.2	11.4	2.4	1.9
1999	3.9	1.5	11.1	5.2	1.7	54.9	10.2	3.3	0.5
2000	5.3	3.7	17.3	7.7	7.0	52.4	9.8	2.3	

Source: OECD 2000; OECD 2005; OECD 2013; Kiander 2001: 31-37.

In the early phases of the ‘great depression’ the government and the Bank of Finland announced their strong commitment to the strong currency and rejected the possibility of devaluation. In order to combat the overheating of economy – the liberalization of financial markets had brought lots of credit-based money into the economy and there was ‘euphoric mania’ in investments and in the housing markets – the government carried out a revaluation of markka which was poison for the deteriorating international competitiveness (Kiander 2001: 22). In 1989 the economy took a turn for the worse. While the international low conjuncture in the West stopped export in the paper, metal and electronic sectors, the collapse of trade with the Soviet Union hit the textile industry, which virtually disappeared in the turmoil of the recession. The German Central Bank increased the interest rate which increased the costs of currency loans that had been taken out in the wake of the liberalization of financial markets earlier in the 1980s. Borrowed money turned out to be too expensive and also healthy enterprises ran into problems. Bankruptcy proceedings increased from the ‘normal’ level of 2,500 a year (in the 1980s) to over 7,000 in 1992 (Statistics Finland 2013: 575).

To defend the markka’s value the Bank of Finland increased interest rates which further fortified the downward spiral. In 1991 the revalued markka was tied to the ECU at a rate that afterwards appeared to be much too high and increased difficulties in the export sector. Export suddenly stopped, domestic consumption shrank, the economy began to squeeze and unemployment skyrocketed.

Attempts were made to achieve an ‘internal devaluation’, but the strongest metal and wood procession unions did not accept the agreement. Neither did the employers who regarded the measures as insufficient. Gradually pressures from the global actors became too strong and the markka had to be devalued in 1991 and in 1992 it was let float which weakened the value of the markka by 40 percent against the German mark and the US dollar. This time the record high unemployment kept harnessed the inflation that previously had been associated with economic growth enchanted by devaluations. While the inflation rate in 1990 had been close to eight percent and the unemployment rate three percent, the inflation rate in 1995 was close to zero and the unemployment rate hovered around 17 percent. The devaluation improved the profitability of the export sector but increases in export could not counterbalance the crisis in the domestic markets.

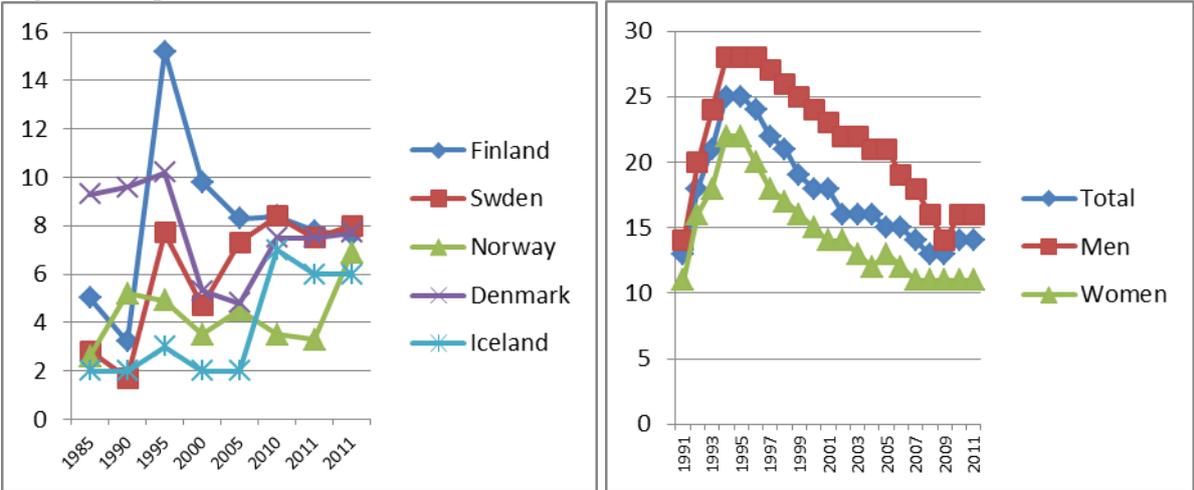
According to the tight fiscal and monetary policy doctrine pursued by the Bank of Finland and Prime Minister Esko Aho’s new Centre-Conservative cabinet the government should not counter-cyclically interfere by increasing consumption in the domestic markets – to some extent this was in line with traditional Finnish policy-making. It was supposed that rising unemployment would press wages down and hence restore international competitiveness and the markets would stabilize the situation.

3.3. Changes in the labour market regime

Of the Nordic countries Finland was most severely affected by the global depression of the 1990s (see left-hand panel in Figure 11). Between 1991 and 1993, the GDP fell by 13 percent, demand for labour by squeezed by 20 percent (e.g. Pehkonen and Kangasharju, 2001) which skyrocketed unemployment from three to 17 percent. The long shadow of the recession is still noticeable in many areas of Finnish society. According to the hysteresis idea, unemployment was fast to expand and very slow to go down and it seems to be so that it has stabilized to a higher level than ever in the modern history of the country.

In the second half of the 1990s, the new booming economy, primarily based on the growth of the information and communication sector, with Nokia as a flagship, also meant a radical shift in the production structure. Logically, the recovery incorporated a fundamental shift in the labour market as well: the crisis shook up the structures of the labour markets and a serious imbalance rose vis-à-vis supply and the extensive changes in production structures and the demands of the labour force (Vartiainen 2011). Consequently, unemployment did not melt along with the growth of the economy, and the labour market faced tough long-term unemployment at one end and labour shortage at the other end. A national level policy-maker and researcher ironized over the situation in the conclusion of his study about active labour market policies: “The reserve army of the unemployed does not act as a very good reserve army any more” (Sihto 2001).

Figure 11. Unemployment rate (%) in the Nordic countries (left-hand panel) and the duration of terminated unemployment spells (in weeks) in Finland according to gender 1991-2011 (right-hand panel).



Source: NORDMOD data base.

The structural changes and consequent unemployment were not gender-neutral. Many traditional male-dominated branches and enterprises disappeared. Therefore, unemployment levels were higher among men than women and also unemployment spells were much longer among men than women (right-hand panel in Figure 11). Due to the structural transformation of the mode of production it was apparently easier for women to find jobs in the expanding service sector. The very same pattern is visible also in the post 2008 crisis.

The rising unemployment levels increased social spending (Figure 8 and Figure 16) that had been much lower than in Denmark and Sweden. The number of recipients of income maintenance programmes increased at such a pace that cuts in benefit levels could not prevent social spending and public expenditure from increasing. When GDP simultaneously fell, the share of social spending increased from 25 to 34 percent of the GDP in 1993. Consequently, the public debt that was close to zero in 1990 increased to 60 percent of the GDP towards the mid-1990s. As such the level of the debt was not the problem (compared to many other countries) but the rapid expansion scared the politicians and by welfare cuts and increases in income taxes (increases were close to 10 percentage points) the government tried to balance public finances and to improve the sustainability of the welfare state (see section 3.4.).

3.4. *EU membership*

In the midst of the deepest recession the government began negotiations on Finland's membership in the European Union. The Aho government submitted the membership application in spring 1992 and the negotiations began a year later together with Austria, Norway and Sweden. The agreement was signed at the Corfu summit in June 1994. The agreement was subject to a referendum held on 16 October 1994. Opinions on the membership followed political, educational and also to some extent class-based divisions. While the majority of voters of the National Coalition Party (89 percent), the Swedish People's Party (85 percent), the SDP (75 percent) and the Greens (55 percent) were in favour of the membership, supporters for the Centre Party (36 percent in favour), the Left Alliance (24 percent), the Rural Party (20 percent) and the Christian Democrats (10 percent) were skeptical. As many as 94 percent of farmers were against the membership. Opinions followed educational lines as well: 72 percent of those with a university degree and 46 percent with basic education voted in affirmative. In the referendum vote the turnout was 74 percent and the majority (56.9 percent) of the voters accepted the membership.

In parliamentary processes, the situation was delicate for the Centre Party whose party leader as a Prime Minister was agitating for the membership, whereas the voters for the party were strongly against it. In the final parliamentary vote, half of the Centre MPs and Left MPs cast their vote against the membership and the Christian Democrats left the Aho government in a protest against the decision they did not accept. From the beginning of 1995 Finland became a member of the EU and in 2002 Finland together with eleven other member states adopted the EU common currency, the euro.

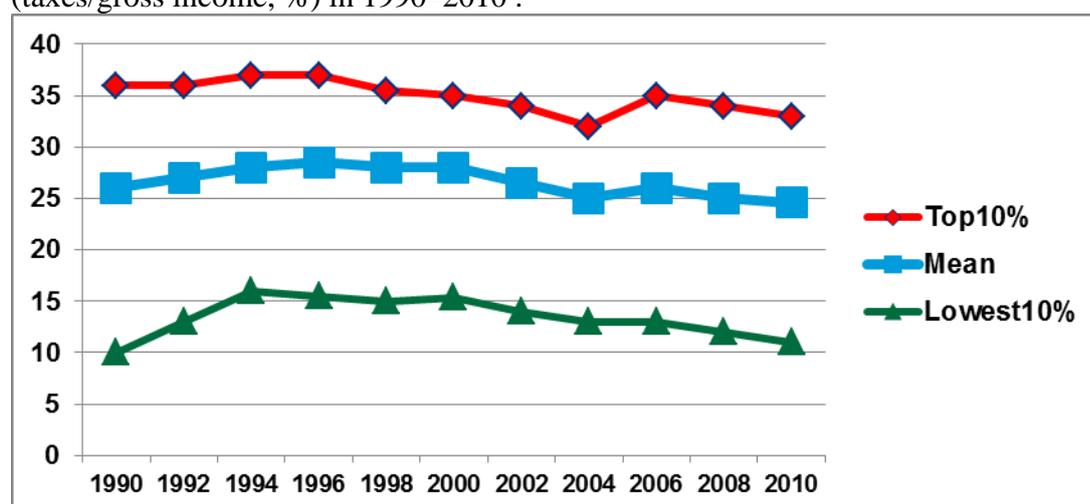
3.5. *"Tax reform of the decennium"*

Europeanization and globalization were also outspoken motives in the 'tax reform of the century' that was launched by the Centre-Right government. Previously both income from capital and work income were taxed at progressive rates. The reform that became effective in

the beginning of 1993 diverged labour income that remained progressively taxed and capital income that became subject to a flat 25 percent tax. In the parliamentary discussion the representatives of the government argued that in the global economy it was no longer possible to maintain progressivity in capital taxation and that the tax reform will first and foremost benefit the Finnish economy. References to similar reforms in Norway and Sweden were made. Left-wing parties in the opposition were critical against the reform that was argued to be Christmas for capital owners and the rich (HE 200 / 1992 VP; PTK 117-118/1992 vpPTK).

After the reform, the tax rate on capital income has been lower than the rate on work income, and the change has entailed an incentive to shift income towards capital income if possible. Thus, since then there has been a trend to shift work income into less-taxed capital income. Needless to say, since shifting possibilities are better at the top of income distribution, the progressivity of taxation has decreased which for its part has contributed to a lower redistributive effect of taxes and a widening of income disparities in Finland. Figure 13 shows that average tax rates of the highest income groups have decreased more than the average tax rate of the total population. The tax rate of the lowest income decile has remained constant.

Figure 12. Average tax rate and tax rates among the highest and lowest income deciles (taxes/gross income, %) in 1990–2010 .



Source: Tuomala 2009;

http://yle.fi/uutiset/suomalaisten_tuloerot_jatkavat_kasvuaan/6913473.

Since the mid-1990s all governments, regardless of their colour emphasized tax reliefs for payroll taxation, cuts in social benefits and harshening conditionality in order to create incentives particularly for low and middle-income households. Hence, taxation policy together with various kinds of activation measures expanded the difference between the employed and those outside of paid labour. The gap between the labour market insiders and outsiders significantly widened (for a more detailed analyses see Blomgren & al. 2012)

3.6. *Changes in social policy*

The dark economic prospects formed the background for subsequent social policy making and softened attitudes among the Finns when it came to accepting retrenchment measures that otherwise would have been hard to carry through, regardless of the colour of the government.

At the political level the Finnish development displays more ‘old politics’ than ‘new politics’ (cf. Pierson 1994). The general plan to muddle through the crisis was to cut a little off everything and to avoid bigger structural reforms. Instead of optimism and a belief in possibilities to improve social protection, persistent austerity became the mantra. In addition, since the economic recession, the key idea behind the social policy discourse was an active social policy which meant that the main aim for social policy was to create work incentives. Consequently, the nature of social protection moved from universalism towards conditionality, and the level of social benefits began to lag behind the average income increases.

3.6.1. Pension reforms since 1990

Bleak economic prospects also formed the background for the discussions on the sustainability of the pension system and a number of piecemeal changes were introduced in the wake of the recession. These changes include, first, the introduction of employee contributions and second, reforms in the public sector pension schemes which abolished separate “tenured civil servant” benefits. The third change was the abolition of universalism from the national pensions system. This was perhaps the biggest policy change in terms of basic principles because the reform meant a shift from citizenship-based to more employment-based social rights. Fourth, the change in pension-carrying income was the first move towards a more extensive reform where career income is the basis for benefits. These piecemeal reforms paved the way for the fifth set of more substantial pension reforms that took place in 2002 in private sector pensions, and in 2004 in public sector pensions.

In 1991 an extensive crisis income-policy package, including a partial transfer of employment-related pension contributions from employers to employees, was negotiated with the bourgeois coalition cabinet (1991–1995) led by the Centre Party leader Esko Aho. Given the exceptional crisis, the labour market actors accepted Aho’s emergency measures, so that the cabinet could present the parliament with a bill on employee contributions. According to the bill, the employees were to temporarily participate in the financing of their pensions with a contribution corresponding three percent of their wages. A year later, the law was made permanent, and the contribution was supposed to rise gradually. In 1992, the cabinet put forward bills on the harmonization of the public sector and private sector pensions. After the reform, the three biggest pension schemes (TEL, VEL and KVTL, see table 3), while occupationally segregated, came to offer precisely the same benefits: a work career of 40 years yielded 60 percent of income of two median of the four last years’ income (Kangas 2007).

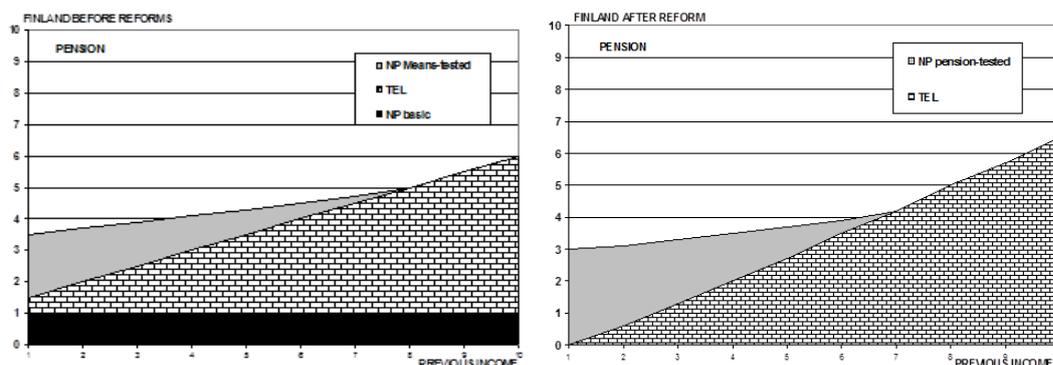
The successive SDP-National Coalition cabinet, the Rainbow coalition (1995–1999) continued with piecemeal reforms. The first step in the series of gradual changes was to lengthen the calculation period of pension-giving income to the mean for the last ten years of employment. The change was prepared through close negotiations between central trade unions and the parliament adopted the bill in 1995 (Kangas 2007). Thus, the parliament indirectly admitted that the social partners have ‘ownership rights’ to employment-related pensions, and that reforming them was a labour market issue rather than a political one.

In the previous Aho government, the Centre Party had argued fiercely for basic security and was reluctant to touch the national pensions. In contrast, the SDP dominated government declared that national pensions must be reformed as well. In that sense, the historical political

lines dating back to the 1950s were clearly visible, displaying more of the ‘old’ politics than the ‘new’. The 1995 reform abolished the universal basic national pension and the whole national pension became tested against income from the other legislated pensions (but not against occupational or individual pensions or against income from work or investments: see Figure 1). In that respect the Finnish reform was similar to the Swedish one: the old principle of universalism gave way to an income-relatedness that became the baseline for testing the need for national pensions (Figure 13).

National Pension benefits are payable to citizens at least 65 years old who have lived in Finland for at least 3 years after turning 16 or non-citizen residents living in Finland for at least 5 years before retirement. The residence qualifications were changed prior to the entering the EU. Previously the qualifying conditions were much milder: full pension was received after five years of residency. Benefits are tested against other pension income as displayed in the following Figure.

Figure 13. Schematic presentation of pension schemes in Finland before and after reforms in the 1990s / 2000s.



Source: Kangas, Lundberg and Ploug 2010.

To take further steps towards pension reform, the labour market partners formed a working group which had representation from all major trade unions and employer federations but no political representatives. After in-depth negotiations, the working group delivered its report to the central labour market organizations for approval in 2002. Although the basic form of the TEL pension structure was left intact, within the ‘unchanged’ facade almost everything had changed: the pensionable income is calculated on the basis of the entire working career between the ages of 18 and 69 years; the pension accumulation rate increases according to age (15 percent a year 18 to 55; 1.9 percent a year 53 to 62 and 4.5 percent 63 to 67 years of age) as an incentive for employees to stay longer at work (in particular the ‘super-accumulation’ of 4.5 percent was a carrot for that); target levels are abolished (pension can be e.g. 90 percent of life time income); and flexible retirement between 63 and 68 was introduced, as was a special formula adjusting pensions to increased life expectancy. The 2005 reform either abolished or changed early exit programs. Individual and unemployment pensions were abolished. The pension age in part-time pension programs was increased from 58 to 62 years of age.

Exactly as in the preceding reforms, the private TEL sector pensions paved the way for changing the public sector schemes later, and the 2002 labour market agreement included a

decision to also change the public sector schemes. The parliament accepted the new pension scheme for municipal and state employees in 2004, and it became effective at the beginning of 2005, after which the TEL, municipal and state pension schemes provide precisely the same benefits.

The administration of private sector pensions is a peculiarity in the Nordic context. The schemes are totally legislated and compulsory but they are run by private insurance companies and at least half of the members of the supervisory board and board of directors of those companies are nominated by the social partners (employees and employers have equal shares). The companies have collective responsibility: if one of the institutions goes bankrupt the remaining ones must cover the costs. The other pension schemes (VEL, KVTEL, MYEL and LEL) have their own institutions. The administration of the LEL follows the TEL's corporatist principles, whereas the employee's representation is less important in the other schemes.

In Jacob Hacker's (2009) terms, reforming the Finnish pension system follows the path of 'transformation': whereas old structures are seemingly maintained, the content of the system is changed (Kangas, Lundberg and Plough 2009). The Finnish history of reforms is also one of old politics in which the traditional interest organizations in bipartite negotiations – usually led by senior impartial pension experts – agree on reforms that the parliament then accepts with minor modifications. Compared to Paul Pierson's (1994) analysis of new politics, Finnish history does not support the idea that old politics was based on credit-seeking. The Agrarians never tried to claim credit for the TEL, but in contrast, they blamed the SDP for introducing what they saw as an unfair and undemocratic pension design. Correspondingly, the SDP never tried to possess national pensions and criticized the Agrarian/Centre Party for implementing a scheme that hollows out work incentives.

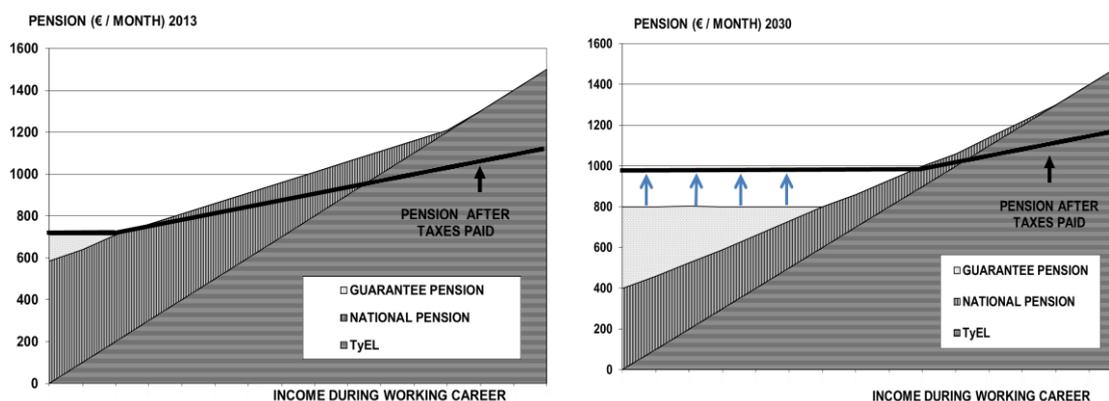
Previously employment-related pensions were totally financed by employer contributions but employee fees that were introduced during the 1990 crisis have gradually grown. In 2009 the social partners agreed upon a 'social income package' that included, among other things, that in 2011–2014 the TyEL contribution will be risen by 0.3 percentage points annually and the increase will be evenly divided between the employer and employee. By the 2013 the TyEL contribution rate is 23.3 percent whereof the employee fee is 5.15 percent for the employee younger than 53 years of age and 6.5 percent for the employee older than 53 years of age. The employer pays the rest. In the context of the 'social income package' the Centre-Right government abolished the employer contribution to the national pension (0.8 percent for private sector employees) and in 2010 the basic pension became completely tax-financed.

The level of national pensions relative to average income deteriorated from about 45 percent in the early 1980s to about 30 percent in 2010. Being a single person on national pension automatically meant falling below the poverty line. In order to improve the lot of the poorest pensioners a guarantee pension was introduced and it became effective in March 2010 – a month prior to parliamentary elections.

The guarantee pension (739 € a month in 2013) brought a flat rate element into the Finnish pension design (left-hand panel in Figure 14) that was planned to provide strong work incentives: every euro from employment was supposed to increase one's pension (see the right-hand panel in the previous Figure 14). At the moment it is not a big problem, but if increases in basic pensions are targeted at the guarantee pension as indicated in the right-hand

panel in Figure 14 (which is a very likely option given the ‘constant austerity’ discourse) the flat-rate element will increase in importance and hollow out the role of the national pension and decrease the legitimacy of employment-related TyEL pensions among low to middle-income groups that are paying their TyEL contributions but getting out only the tax-financed guarantee pension.

Figure 14. Structure of the Finnish pension design in 2013 and a hypothetical display of the 2030 design.



Pensions are not only means to guarantee income transfers to the elderly population but pension systems accumulate capital stock as well. Traditionally, the Finnish pension system has been heavily funded. While the first national pension of 1939 was a fully funded defined contribution scheme, the present day national pensions are tax-financed, defined contribution schemes and the employment-related pensions are partially funded. In fact, the legislated pension funds in Finland are (by now some 70 percent of the GDP) and have been huge in comparison to most other countries. In a capital poor country, pension funds have been used as source for investment capital. Whereas national pension funds were used to electrify and rebuild the basic infrastructure of the country after World War II, the TyEL funds were used to industrialize the country. Municipal pension funds were invested in housing production – which in turn helped the transformation from an agrarian society to an industrial and an urban one.

In the present-day situation where capital does not have any home country such national meta-projects seem to be no more possible. Now pension capital runs after the best possible profits without taking national meta-goals into consideration like previously. Investment activity is loosely regulated in legislation: “the funds must be invested safely and productively.” The Ministry of Social Affairs supervises the use of pension assets. In 2013 the allocation of funds were as follows: investments in interest-bearing instruments 45.3 percent, in shares and share-like instruments 43.9 percent and in real estate 10.8 percent ⁵.

⁵ <http://www.tela.fi/en/investments/prime105.aspx>

3.6.2. Changes in other income maintenance programs

Sickness benefits

In 1981, the coalition cabinet of the left-wing parties and the Centre Party (1979–1982) led by Mauno Koivisto (SDP) prepared a bill to transform the Sickness Insurance Act. The new taxable daily allowance – effective in 1982 – compensated 80 percent of earnings without benefit ceilings. However, already the following year, the earnings-relatedness was relaxed and a cut-off point was introduced: i.e., up to a certain income limit the compensation was 80 percent, but for earnings exceeding that limit only a 50-percent compensation was paid. In 1984 another cut-off point came into effect, above which the compensation would only be 30 percent. At the outset of the 1990s economic depression, there were thus two cut-off points and three compensation levels: 80, 50 and 30 percent. This was the situation in which Esko Aho's Centre-Right government (1991–1995) began to look for savings in the sickness insurance system in the midst of a deep economic crisis. In 1991 the government made its first cuts in sickness benefits. With the exception of minimum daily allowances, paid to those without previous work income, benefits were cut by five percentage points, which decreased the compensation levels to 75, 45 and 25 percent and one year later further cuts were carried through (to 70 and a half a year later to 65, 40 and 25 percent).

Against the background of what is said above, it is important to keep in mind that in Finland there is a mandatory employer provided sick-pay (100 percent of income) period that varies from one to three months depending on the collective agreement. In most cases the sick-pay compensates the very long waiting period of nine days. When it comes to the total costs of income transfers during illness, the employer provided sick-pay corresponds to 58 percent of all cash benefits (NOSOSCO 2011: 128).

Paavo Lipponen's (SDP) 'rainbow' cabinet (1995–1999) continued with savings policies. This time the minimum daily allowance was abolished. The motivation was that if there were no earnings, there was no reason to pay compensations either. The other side of the coin was that the compensation level of income earners was increased back to 70 percent, as it had been in 1992. Thus, the SDP led government punished labour market outsiders but rewarded the insiders which was criticized in the parliamentary discussions that accused the Lipponen government of moving Finland away from the Nordic welfare model towards a 'European model' where sufficient security was provided only to those insiders with permanent jobs. The universal minimum daily allowance was abolished in 1996 and replaced by a means-tested allowance.

However, due to problems arising from the coordinating of various social benefits, Lipponen's second government (1999–2003) had to restore the basic allowance. In 2001 the government proposed that people without earnings should have the right to receive a minimum daily allowance of approx. 10 euros per day once the sickness had lasted for 55 days. Thus the benefit would no longer be means-tested. The restored minimum daily allowance was not tied to the cost-of-living index either. The successive Centre-Right coalition (Vanhanen's second government 2007–2011) introduced further improvements in minimum allowances and all major basic benefits – including minimum sickness allowance – were tied to the national pension index, i.e., they will be automatically increased every year. The minimum allowance is now 24 € a day.

The story of sickness benefits summarizes the ‘grand narrative’ of Finnish social policy. The Social Democrats have been the strongest proponents of earnings-related benefits and the Agrarian League/Centre Party has defended minimum daily allowances. The other parties have balanced between these two policies. Also, the history of sickness benefits gives more support to old than new politics.

Unemployment protection

The Finnish unemployment protection system is a dual one comprising income-related benefits and ‘basic’ unemployment compensation. The latter benefit is paid for those unemployed who have no work history, have not been members of unemployment funds or their income-related benefit period has expired due to long-term unemployment. The benefit is paid out by the Social Insurance Institution (Kela).

Qualification for income-related benefits requires membership in one of the unemployment funds most often run by trade unions. Thus, the Finnish unemployment insurance is one of the rare Ghent systems, which is one important explanation for the high union density in the country. The number of union members has been close to two million. During the ‘Great Depression’ about 150,000 new members joined the funds. A new peak was in 2008 and 2009 when the funds got 20,000 new members. Interestingly enough, since then there has been a slight decrease in membership rates (the total number of fund members is 2.0 million; *Finanssivalvonta* 2012: 11). In two decades the number of funds has decreased from 71 in 1992 to 32 in 2011. In recent years the ‘independent’ General Unemployment Fund (Loimaa Fund) that is not linked to the labour movement has increased its membership (annual increase about 10,000, and with its members totaling more than 300,000 members it is the biggest fund) in particular among young employees.

The trends in the past few years merit some attention. The economic turbulence increased union density among women, but among men the trend was rather the opposite. However, the situation is different when it comes to the popularity of the independent fund: during the period of 2009–2012, the male membership rate in the Loimaa Fund rose close to ten percentage points, but among women there was a decline of five points. To interpret the situation as a sign of mistrust in trade unions among men is hardly misleading.

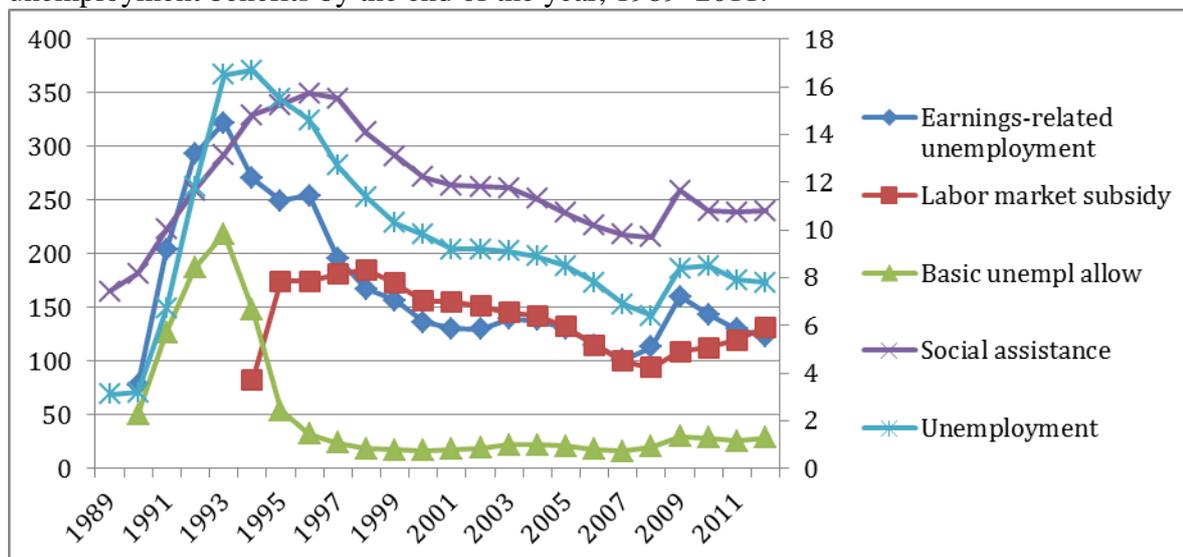
Finnish unemployment protection went through some changes during the 1990s. The insurance part was left more or less intact. However, the qualifying conditions were harshened. Previously the right to income-related benefit was established after 26 weeks membership and after 26 weeks work history. Now the corresponding requirements for employees are 34 weeks of membership, and 34 weeks employment during the reference period of 28 months. A self-employed person must have worked in 18 months during the last 48 months. The benefit is payable for 500 days. (*Finanssivalvonta* 2012: 6.) The benefit rate is in principle 60 percent of previous income without ceiling but when income exceeds a certain limit only a 20 percent compensation is payable for the exceeding part.

More changes took place in in the ‘basic security’ part of the unemployment protection system. Basic security in the case of unemployment is provided via two channels. First, basic unemployment allowance is paid for 500 days after a waiting period of 7 days to jobseekers (between 17 to 64 years of age) who reside in Finland. The amount is 32.46 € a day (in 2013)

plus additional supplements for children. A labour market subsidy is available after a five day waiting period for the unemployed that do not qualify for other forms of unemployment protection. The subsidy is payable for 180 days without means-test (up to 2011 it was tested against spouse's income), whereafter it becomes means-tested. The amounts are the same as in the basic allowance (Kela 2012: 365).

Needless to say, the expansion of unemployment is directly mirrored in the reciprocity of unemployment compensations. The closest ties are between unemployment and income-related benefits and with a delay of one or two years follow social assistance and basic unemployment compensations. When unemployment turns out to be long-lasting, the right to income-related benefits terminates and the claimant becomes a client of basic unemployment benefits – the level of which is often so low that the claimant is entitled to compensations from social assistance. By now the reciprocity of social assistance and basic unemployment benefits is clearly more common than reciprocity of income-related unemployment compensations (Figure 15).

Figure 15. Unemployment (% , right-hand axis) and the number of recipients of different unemployment benefits by the end of the year, 1989–2011.



Source: Kela 2012: 236.

As Figure 16 depicts, the number of people receiving social assistance has remained high in Finland and there seems to be a hysteresis phenomenon. After each shock the recipient rate stagnates at a higher level than before the crisis.

Social assistance

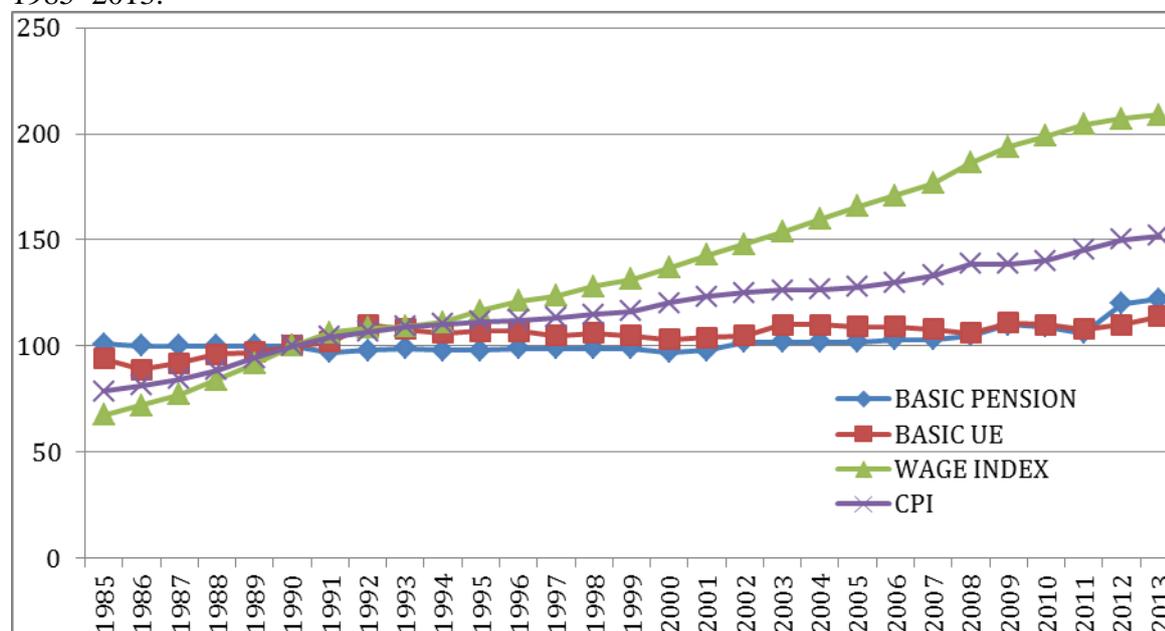
It has been a general belief that because of comprehensive social insurance programs the need for social assistance is limited in the Nordic countries. Furthermore, it is said that due to the generosity of the Nordic welfare state social assistance as well is generous: high benefits for a small group of claimants. Indeed, the level of social assistance in the North used to be high in comparison with other countries. However, during the past decade the replacement levels have been cut by more than 10 percentage points (Kuivalainen and Nelson 2012). This has mainly been due to the fact that index adjustments have not been properly made.

Not only has the relative level been cut, but the schemes have moved towards more conditionality – this is not only a Finnish phenomenon but applies to the other Nordic countries as well. In 1996, the Lipponen coalition introduced a possibility to cut the social assistance benefits by 20 percent if the claimant had without acceptable reasons refused to take an offered job or to participate in training or educational programs. In 1999 a similar possibility for benefits cuts was introduced for immigrants and refugees who refused to partake in integration programs. To increase the employability of the long-term unemployed and social assistance recipients a law on rehabilitative work was passed in 2001. Rehabilitative work became a condition of receiving the full benefit. In 2011 the full benefit was made conditional to participation in education for all under the age of 25 (Kuivalainen 2013: 32-33).

The motivation in these changes was to improve work incentives with sticks. Carrots were also applied. Since 2002 it has been possible to combine a certain amount of work income and full social assistance in order to eliminate the worst work disincentives of social assistance with this kind of in-work benefit.

Figure 16 summarizes the development of basic social benefits supposed to provide security against poverty. As can be seen, the levels of these benefits remained stagnant for almost two decades. At the same time, the cost of living increased by 50 and the earnings index by 100 percent. Not until the early 2010s some improvements were made in the minimum security programmes. The stagnation of basic social benefits partly explains the increase of poverty and income inequality that took place after the ‘Great Depression’.

Figure 16. Wage and consumer price indices and the level of basic social benefits in Finland 1985–2013.



The cuts are mirrored in the efficacy of social assistance, and consequently, poverty rates among the social assistance recipients have increased markedly – from less than 20% in the early 1990s close to 40% in the late 2000s (Kuivalainen and Nelson 2012: 81). However, this

is not only a Finnish problem but applies to the other Nordic countries as well. The joint effect of increasing unemployment and the decreasing adequacy of social assistance may result in increasing poverty rates.

3.6.3. Social services

Health care

In Finland municipalities have the responsibility for organizing health services – however, they do not necessarily produce them. Despite this the municipalities are the main producers of health services. However, the whole municipal sector and consequently the municipal health care systems are under heavy challenges and subject to major reforms. The most problematic issue is access to primary health care. To combat long queues and waiting lists, the government passed a law in 2005 creating a ‘care guarantee’. According to the law, the claimant must have access to a medical doctor within three days and to special treatment within three months (Mattila 2005:203). In principle it is up to the municipality to decide whether to obtain services from the public sector or from private providers, which may increase the role of non-governmental service delivery. This is an issue that divides the major parties in the Katainen (2011–) ‘six-pack’ coalition. Whereas the SDP is strongly against private actors and privatization of health care and is speaking in favor of stronger ‘basic’ municipalities that could take care of the public delivery of health care, the National Coalition is keen to open up the health sector to private competition.

After old age, sickness and health comprises the next biggest spending item corresponding to more than nine percent of the GDP. A lion’s share (about 80 percent) is spent on services and the rest on transfers⁶. Correspondingly about 70 percent of costs are covered from public funds, employers pay 22 and the remaining 8 percent is collected as contributions from the insured or user fees. The picture is very much the same if we look at the distribution of costs between different producers of health services: 80 percent of services are produced by the public providers, 17 percent by private enterprises and 3 percent by non-governmental organisations.⁷

The main aim of health care is to promote health. In this over-arching goal the Finnish welfare state has managed worse than the other Nordic states. About 70 percent of Finns (and Danes) rate their general health status as good. In the other Nordic countries the share is about ten percentage points higher. While 40 percent of Finns are suffering from some chronic illness, the corresponding share is about 30 percent in the other Nordic countries. Furthermore, 30 percent of Finns say their daily activities are hampered by reduced health. In Denmark the figure is about 30 percent and in Iceland, Norway and Sweden the share is below 20 percent.⁸

Not only is the self-rated health status in Finland worse than in the other Nordic countries but huge socio-economic differences in health are a problem. As stated above one Finnish peculiarity is the delivery of occupational health care that covers almost 90 percent of employees. The system provides good and free service for labour market insiders in contrast

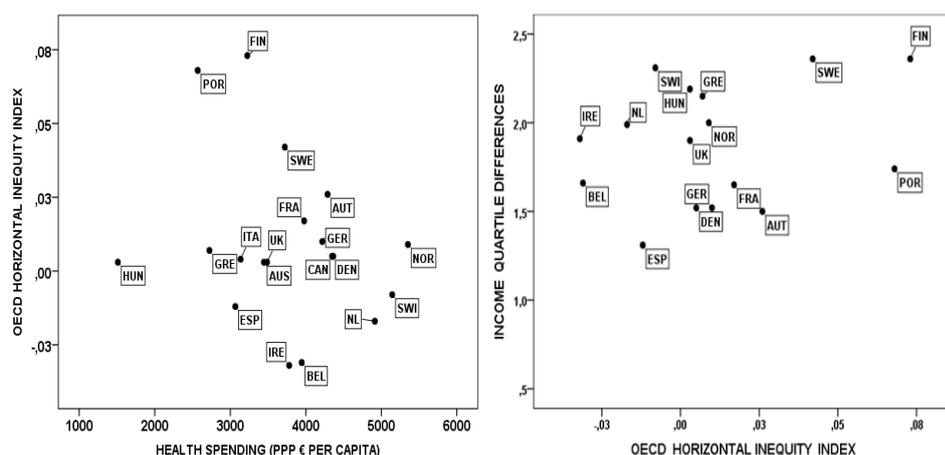
⁶ <http://www.oecd.org/els/health-systems/49105858.pdf>

⁷ THL (2011): http://www.thl.fi/fi_FI/web/fi/tilastot/aiheittain/yksityiset/yksityinen_palvelutuotanto

⁸ <http://nososco-da.nom-nos.dk/filer/publikationer/Utfordringer%20web%202013.pdf>

to outsiders who must rely on fee-for-service based health care centres with a varying level of expertise and length of queues. This structure is argued to contribute to unequal access to overall health care and consequently, the Finnish health care system is said to be one of the socio-economically most unequal ones in the OECD hemisphere if we rely on the OECD horizontal inequality index that measures access and utilization of health care when socio-economic differences in health are controlled for. The higher the index value, the more unequal the health care system. Figure 18 also depicts health care spending and perceived socio-economic differences in self-evaluated health status. As can be seen, the Finnish system is less generous in terms of Euros spent and indeed, the Finnish system seems to be more unequal than most of the other systems. Consequently, in a comparative perspective socio-economic differences are large and there is no trend towards diminishing health gaps. In the future, combatting these differences is one of the main challenges of the Finnish welfare state.

Figure 17. Connection between health care expenditure per person (adjusted for purchasing power) and the OECD horizontal inequity index and socio-economic differences in perceived health.

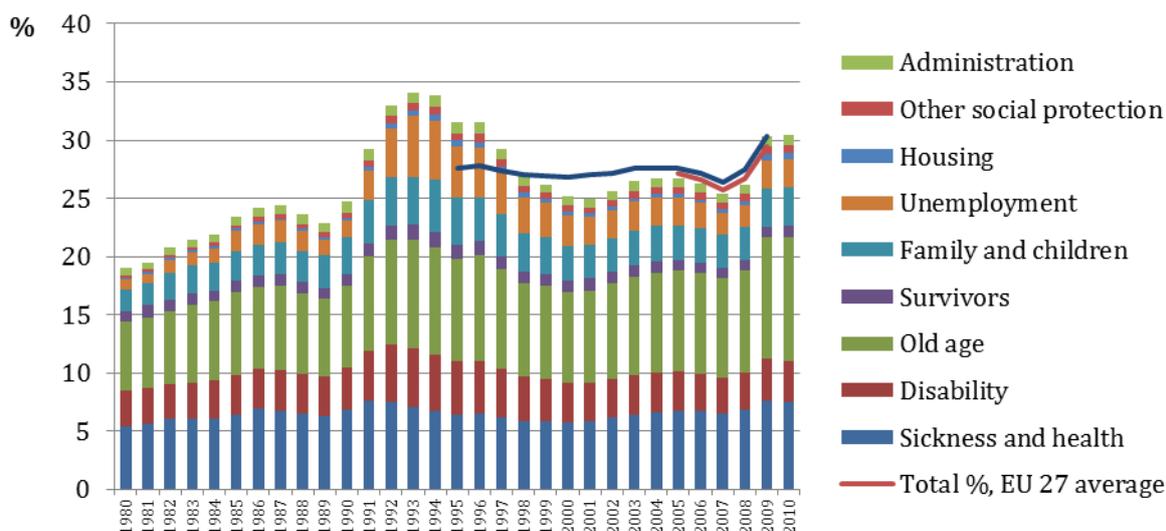


Source: Blomgren and Kangas 2013.

Social Spending by function

As can be seen in Figure 18 the area demanding most resources is the category *old age*. It includes both pensions and institutional care and home care services for the elderly, and alone constitutes more than a 10 percent share of the GDP, one third of all social expenditure. Also, its increase has been most prominent among the categories since 1980 (almost 5 percentage points). This growth is caused by the fact that both average pensions and the number of pensioners have increased. As the baby-boom generation ages, the number of persons entering pensions has increased rapidly. In 1980, there were about 610,000 recipients of old-age pension, by 1990 the number was just under 740,000, almost 870,000 by 2000, and more than one million in 2010. Exceptionally large index-linked increases were made to pensions at the beginning of 2009 due to a rapid rise in prices and wages. (Blomgren & al. 2013).

Figure 18. Public social expenditure by function as a share of GDP in 1980–2010, %.



Source: Blomgren & al. 2013.

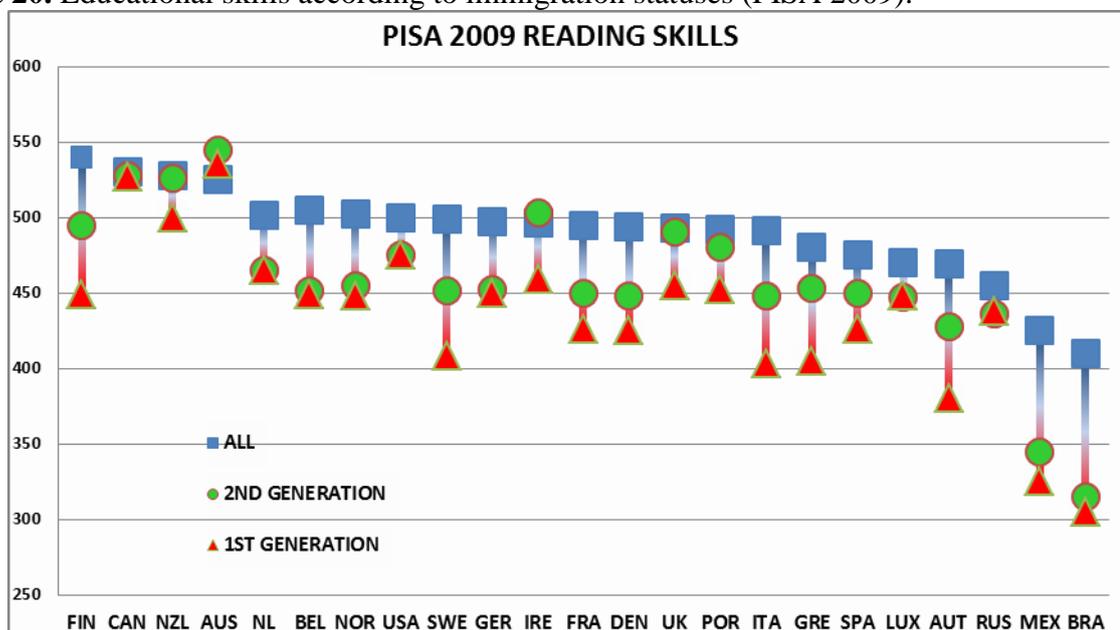
The relative shares of income transfers and benefits in kind vary by function. In sickness spending about 80 percent goes to services whose share has been almost constant since 1980. While spending on the elderly shows the same constant pattern, although at a much lower level (10 percent), there is much more variation in spending on services for the unemployed (close to 30 percent in 1980 to six percent in 1995 and then again up to 12 percent in 2010) and family and disability benefits (from 30 in 1995 to 50 percent in 2010; and 17 to 31 percent, respectively).

Child-care and Education

The Finnish day care system has a dual structure. On the one hand there is a public day care system that is universal: each child has a subjective right to municipal day care but on the other hand there is a cash-for-care system, i.e., home care allowance payable to parents who take care of their children by themselves without using municipal day care. As a result of this cash-for-care system, the proportion of children enrolled in day care is lower in Finland than in Denmark and Sweden, for example. In Finland about 50 percent of children aged 0–6 years are in day care institutions, whereas the corresponding numbers for Denmark and Sweden are close to 80 percent. Consequently, the labour market participation of mothers of small children varies considerably between these countries whereas there are virtually no differences in the employment rates of mothers with school age children (Haataja and Nyberg 2005:205).

there are young men who are either waiting to start their military service or have just finished it but have not yet found employment or been involved in education.

Figure 20. Educational skills according to immigration statuses (PISA 2009).



Another problem is how to guarantee equal educational possibilities for children with immigrant background. As such the results of immigrant children in Finland are excellent in absolute terms but the problem in Finland – as well in the other Nordic Countries – is that the gap between the natives and immigrants is too wide and make it difficult for immigrants to advance in the educational system or find proper employment. Finland has been quite closed a country when it comes to the share of immigrants but increased immigration will accentuate the problem depicted in Figure 20. In 1980 the share of immigrants was 0.3 percent of the population. In 2011 the share had increased to 3.5 per cent (Statistics Finland 2013: 116–117) which, however, is still a low number by European and Nordic standards. An additional problem immigrants face in Finland is difficulty finding a place in the labour market which leads to long-term dependency on social assistance (Tervola and Verho 2013) and consequently to high incidence of poverty. While the poverty rate among immigrants is 31 per cent in Finland, the numbers for Denmark, Sweden and the whole EU are significantly lower (27, 22 and 23 percent, respectively).¹⁰

¹⁰ http://www.inequalitywatch.eu/spip.php?article99&id_groupe=19&id_mot=84.

4. TRENDS IN RESULTS AND OUTCOMES

Previous sections have offered an overview of economic, political and social development in Finland after the ‘Great Depression’ of 1990. It was initially supposed that the global economic crisis of 2008 would not have severe detrimental effects on the Finnish economy. In 2008 Minister of Finance Jyrki Katainen (Coalition) announced in the parliamentary debate that the crisis did not concern Finland. However, as Prime Minister Jyrki Katainen (Coalition) has been bitterly obliged to learn, the crisis hit Finland severely. The aim of this section is to look at the various consequences of the 2008 crisis in Finland.

4.1. *Economic development*

There are many similarities between the 1990s and 2008 crises when it comes to causes and consequences. In both cases a global recession triggered problems in export industries but there were some differences in the magnitude of the shock. Decline in export was much deeper in 2009 than it was in 1991 (–21.3% vs. –7.3%). In both cases, there were also accumulating problems in the competitiveness of the export sector, current account and budget balances and consequently, in rising public debt. There are some differences as well. Whereas in the 1990s crisis domestic demand fell between 1990 and 1993, domestic demand rapidly recovered after the 2009 dive but it remains to be seen whether it will again go down for a number of years as in the early 1990s. The main difference is that while accelerating unemployment was an immediate consequence of the ‘Great Depression’, unemployment is still below ten percent in 2013. Table 5 gives a summary of some central features of the post-2008 crisis in Finland.

Table 5. Indicators of the 2008 global crisis.

Year	Change of real GDP, %	Change in domestic demand, %	Change in export, %	Account Balance, % of GDP	Surplus of public budget, % of GDP	Public debt, % of GDP	Unemployment rate, %	Changes in employment rate, %	Changes in unit labour costs, %
2007	5.3	5.0	8.2	4.1	5,3	41,4	6,9		
2008	0.3	0.6	5.8	2.6	4,3	40,3	6,4	1.6	6.8
2009	–8.5	–6.2	–21.3	1.8	–2,7	51,8	8,2	–2.9	8.2
2010	3.3	3.0	7.5	1.4	–2,8	57,9	8,4	–0.4	–1.6
2011	2.8	4.5	2.8	–1.6	–1,1	57,9	7,8	1.1	1.8
2012	–0.2	–1.7	–1.4	–1.9	–2,3	63,3	7,7	0.4	3.3
2013*	0	0.2	–1.0	–1.6	–2,3	66,2		–0.5	2.1
2014*	1.7	1.2			–1,8	69,9		0.1	

Source: OECD 2013. (*estimates)

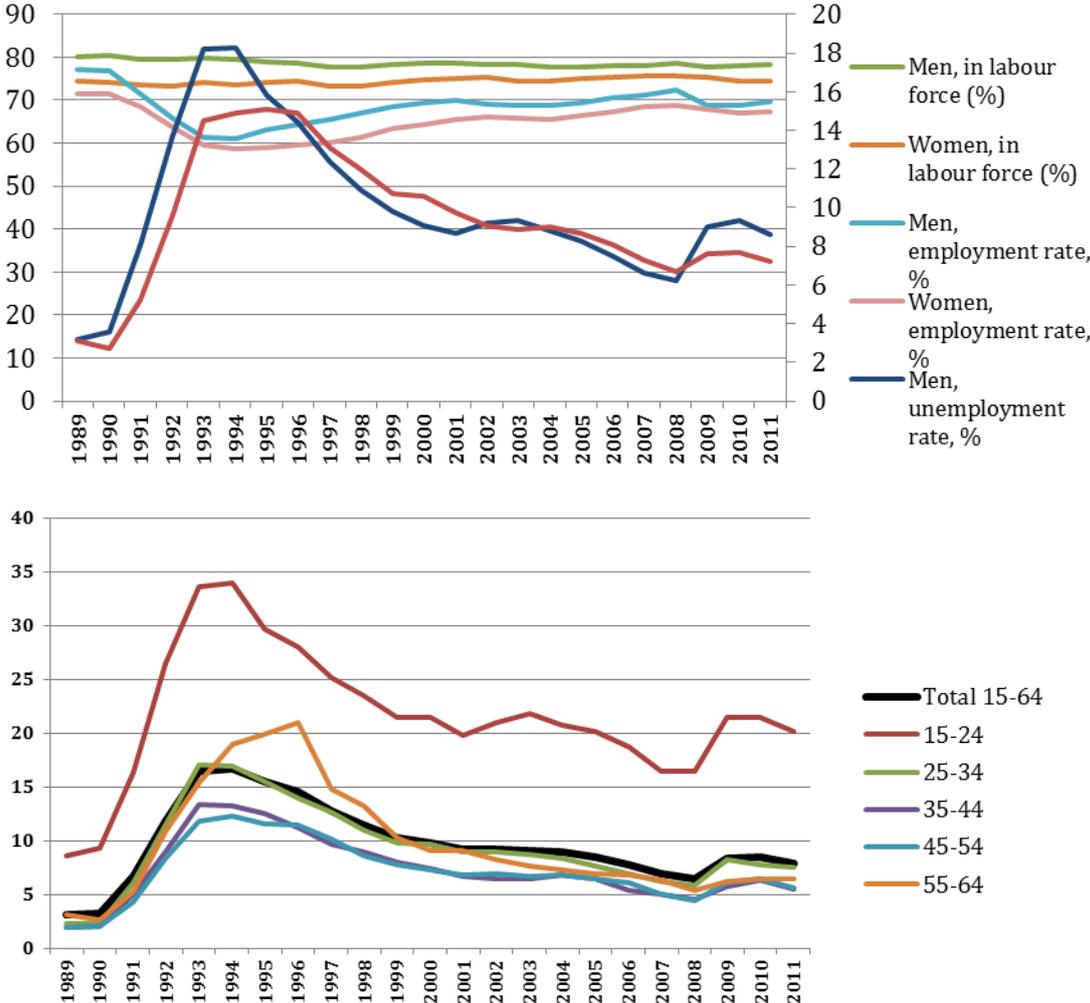
4.2. *Labour market and unemployment*

Unemployment is one indicator of the state of the labour market. The development of labour force participation and employment rates may tell different stories. Those stories are depicted in Figure 22. In the long run there has been a converging trend in employment rates between men and women and as indicated in the graph, economic crises tend to hit men more than women and, as shown in the lower-panel, young people are hit more than older employees who are in stronger positions in the labour markets. In contrast to the crisis in the 1990s, the post-2008 situation seems to much better for older employees.

Employment rates went down to 60 percent in the early 1990s whereafter they slowly increased to hover around the 70 percent level. The trend conceals an important shift in the demand for labour force. Whereas employment rates among those with higher educational qualifications have increased, a downward trend is seen among those with lower educational attainment. There is a growing educational gap. In 2010, the gap between those with higher and primary education was 43.5 percentage points among women and 41.9 percentage points among men (Blomgren & al. 2012).

The effects of the economic collapse of 2008 are hardly visible for females with secondary and higher education. Most severely hit by the downturn was the export industry where male employment dominates. This is can be observed in the fact that employment rates decreased among all males in 2009. However, the rates recovered during the following year for all others but those with just primary education.

Figure 21. Employment and labour force participation rates (left-hand axis) and unemployment (right-hand axis) according to age in Finland 1989–2011.



Source: Blomgren & al.

4.2.1. Decline of standard employment?

Debate on the decline of standard, open-end and full-time employment has been vivid when analyzing and discussing current trends in working life. The question has been of particular interest in Finland where structural changes have been very rapid and deep. As a wage-based society Finland is a latecomer – for a long time Finland was an agrarian wage-earner society, i.e., many small-holders and farmers got extra livelihood from seasonal employment in the forest sector – but the consolidation of wage labour has been very wide-ranging. The norm of normal employment became to cover both men and women, but the proportion of fixed-term contracts has been one of the highest in Europe.

Thus, the question is whether we treat Finland as an example of how the general trend towards fixed-term contracts is replacing standard employment? In many ways, the question is not easy to answer. First of all, the fundamental problem is simply the lack of reliable data. As Arne Kalleberg (2009) succinctly puts it, we usually start to measure phenomena only when they are defined as social problems. In the light of Kalleberg's observation it is very telling that the Finnish Labor Force Study (LFS) only started to systematically collect data about the type of labour contracts in 1997. Even in the light of these data the question about the trend towards fixed-term employment is by no means clearly answered.

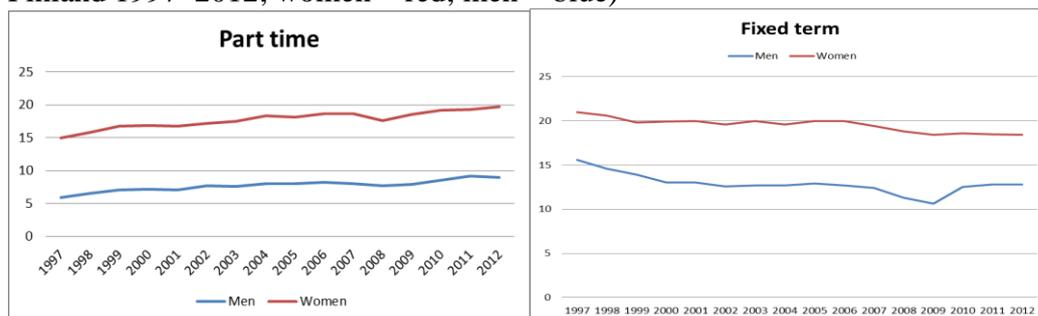
First, full-time open-end contracts are still the pre-dominant type of employment in Finland. Among men, the proportion of open-end contracts has steadily hovered over 80 percent. From 2007 to 2009 the proportion even rose by some percentage points but since 2008 it squeezed back to the levels of the late 1990s (in 2009 the share was the highest – 84 percent – for the whole period of 1997–2012 and in 2012 it reached the lowest level of 81 percent). Among women, the proportions are lower at all points in time, and the trend was in decline from 1997 to 2006 (from 70 to 66 percent) to increase to 69 percent in 2008 whereafter it again went down (67 percent in 2012) by the time. In absolute numbers the gender difference is reversed: while the decline of males in standard employment from 2008 to 2012 was 66,000, the number of female employees was 24,000. In absolute numbers the gender difference is reversed: while the decline of males in standard employment from 2008 to 2012 was 66,000, the number of female employees was 24,000.

4.2.2. Fixed-term and part-time employment

Not surprisingly, gender is an important determinant of fixed-term and part-time employment (Figure 23). Among women (the blue line) the proportion of fixed-term contracts changed from 22 percent in 1997 to 18 percent in 2012. The shares for men (the red line) are 16 (in 1997) and 10 percent (in 2009). In the wake of the global recession the share of fixed contract increased 13 percent in 2011. Another data source – the Quality of Working Life Survey – goes longer back in history than the LFS providing data for 1984, 1990, 1997, 2003 and 2008. According to these data, there was a rise in fixed-term employment during the period between 1984 and 1997. In 1984, the proportion of women with fixed-term contracts was 11 and men 9 percent. In 1997 the corresponding shares were 18 and 15 percent. From 1997 to 2008 the proportions have decreased. In sum, despite the two data sets give partially different testimonies, there is no clear-cut trend towards fixed-term employment in Finland.

The explanation for the female dominance in fixed-term employment is obvious: fixed-term employment is strongly concentrated in the public sector where the proportion of female employees in relation to men is high. The most common occupations among fixed-term employees are nurses and teachers. In the public sector flexibility is sought for by fixed-term contracts and in this respect the difference to the private sector is significant: utilizing fixed-term contracts has been the new mode for manufacturing to seek flexibility (Saloniemi & al. 2004; Virtanen & al. 2006).

Figure 22. Proportion of fixed-term (left-hand side) and part-time (right-hand) employees in Finland 1997–2012; women = red; men = blue)



SOURCE: Stat.fi: http://pxweb2.stat.fi/database/StatFin/tym/tyti/tyti_fi.asp

In international research literature the correlation between working without an open-end contract and belonging to the secondary segments of the labour market has been confirmed (Kalleberg 2009). However, in Finland (Saloniemi & al. 2004) as in the other Nordic countries (e.g. Bergström and Storrie 2003) the picture is more complicated. In contrast to international evidence, the level of education of fixed-term employees is in Finland higher than that of employees with an open-end contract. Perceived job insecurity is much more common among fixed-term than open-end employees, but that still does not mean negative evaluations on the qualitative dimensions and future perspectives in one's own work. Despite job insecurity, fixed-term employment only seldom ends with unemployment. Regardless of the indisputable problems with fixed-term employment (Kauhanen 2002), in broad terms, the Finnish version of fixed-term employment perhaps resembles more a bridge than a trap (Kauhanen 2002; Nätti 1993; Saloniemi and Virtanen 2005, parallel results from Sweden Håkansson 2001). The tradition of collective bargaining protects the quality of working life of also those working on a fixed-term basis.

Contrary to fixed-term employment, there seems to be a clear trend towards part-time work that more than doubled between 1980 and 2012 (6.7 to 15.0 percent). As in all other countries, there is a strong gender difference in part-time work also in Finland: in 1997 5.9 percent of men were part-timers. In 2012, the share was 9.0 per cent. For women, the respective percentages were 15.0 and 19.7. Part-time employment is clearly more common in the private sector. In 2012, two out of three part-time employees worked in the private sector, mainly in the service sector. Unfortunately, these data do not show whether part-time work is voluntary or involuntary. For example, there are child-care benefits that compensate for small reductions in working time and thus part-time work may be a voluntary choice rather than a predicament.

Traditionally, working part time has been much more common in the other Nordic countries than in Finland. The difference does still exist, but the gap has substantially narrowed. In 2000, 21 percent of women worked part time in Sweden but only 14 percent in Finland. However, in 2013 the difference was only two percentage points.

4.3. Social consequences

As indicated earlier, a rapid ICT driven boom followed the Great Depression. However, the recovery did not help all. There are three problematic areas and groups of people. First, the unemployment rate that rapidly increased in 1991–1994 was slow to go down and then the 2008 recession hit and unemployment began to rise again. Second, unemployment tended to be highly selective: it was persistent among single parents and those with low education and those categories of people were in a danger to be permanently excluded from the labour market. As Figure 23 indicates, those in employment are well protected against poverty. In-work poverty rates in Finland are lowest among the European hemisphere. Those outside paid labour are facing a higher poverty risk than previously. Unemployed men in particular are in danger and the gap between unemployed men and women has grown.

Figure 23. Poverty rates (60% poverty line) of the employed and not employed in Finland 1990-2010.

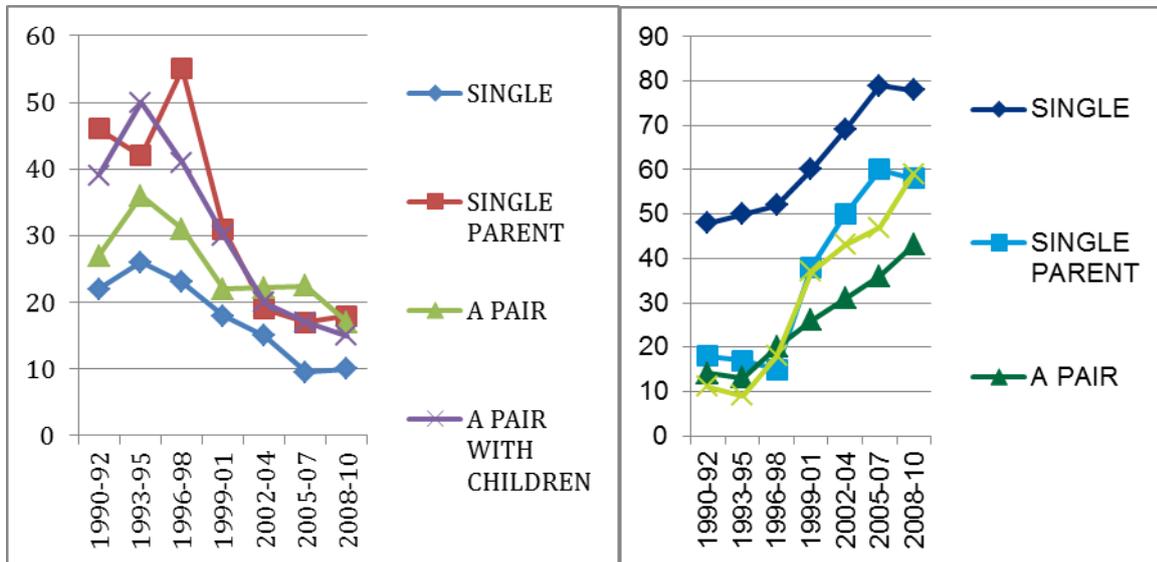


Source: Blomgren & al. 2013.

Third, since basic income transfer schemes were lagging behind, clients of those benefits were obliged to seek social assistance to make ends meet. Hence, the number of households receiving social assistance increased from 180,000 households in 1990 to 350,000 in 1996. Since then the number went down close to the initial 1990 level in 2008. In 2012 the number was up close to 250,000 households (THL 2013¹¹).

¹¹ http://www.julkari.fi/bitstream/handle/10024/103093/Tr03_13.pdf?sequence=3

Figure 24. Poverty reduction effect (left-hand panel) of social assistance scheme in different groups of clients and poverty rates among social assistance recipients (%; right-hand panel) 1990–2010.

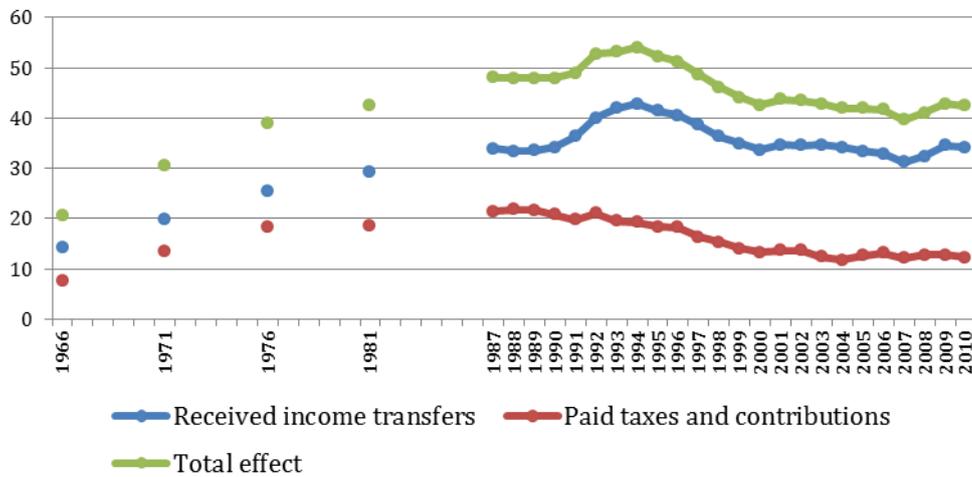


Source: Kuivalainen 2013: 66, 74.

At the same time the efficacy of social assistance to reduce poverty had decreased (left-hand panel in figure 24). As a consequence, poverty rates among social assistance recipients has skyrocketed and by now 80 percent of single recipients fall below the poverty line.

Not only has the poverty alleviation effect of last resort benefits declined but the same goes for the whole income transfer system at large (Figure 25). The relative importance of taxes in reducing income inequality has diminished dramatically. In the same time inequalities in gross income expanded in the wake of the economic boom. The interaction effect of these two parallel trends led to increases in disposable income inequalities and poverty rates as indicated above in Figure 24. In fact, the expansion of poverty and income inequality in Finland during the period of 1995 to 2000 was one of the largest in the OECD hemisphere (OECD 2010). However, it is good to keep in mind that by international standards income differences in Finland are still among the lowest.

Figure 25. Effectiveness of income transfers¹ in reducing income inequality (decrease of Gini by inclusion of transfers received and paid by households) in Finland 1966–2010, %.



Source: Blomgren & al. 2012.

¹ Received income transfers: change (%) in Gini when moving from factor income to gross income. Paid taxes and contributions: change (%) in Gini when moving from gross income to disposable income. Total: change (%) in Gini when moving from factor income to disposable income.

5. SPECIAL PROBLEMS, ECONOMIC AND POLITICAL CHALLENGES FOR THE NORDIC MODEL IN FINLAND

The 2008 crisis accentuated three creeping problems shadowing long-run economic development in Finland: the relative loss of competitiveness of Finnish industry, the structural transformation of industry and the greying of the population. These problems are interlinked, they affect each other and create a vicious cycle that will jeopardize the long-term sustainability of the welfare state. In 2008 the public debt was at a higher level than it was in 1990. Consequently, the possibilities to cure the present economic crisis by expanding the level of public debt – which by 2013 is already too close to the magical EU 60 percent level – are very small. In the years to come, the budget deficit and expanding indebtedness (Table 6) attached to the population aging will create severe problems.

Furthermore, important shifts in the relative balance of power between main political parties have taken place – as shown earlier in Figure 3. Political challenges are perhaps the most severe ones for the SDP and Left Alliance that – because of the tertiarization of economy – are losing their traditional voter base, i.e., the industrial working class. In the labour market, the balance of power has clearly turned in favor of the employers vis-à-vis employees.

5.1 *Relative loss of competitiveness*

One of the most frequently used conceptual devices in the Finnish policy discourse has been ‘the loss of competitiveness’. According to Pekka Kosonen (1988) the fear of the loosing competitiveness has been much more important motive in economic policy making in Finland than e.g., in Sweden. Furthermore, the Finnish understanding of competitiveness seems to be based more on low wage costs than on high quality and more expensive products.

The Finnish economic model has consisted of strong growth periods including high nominal wage increases and accelerating inflation. Problems caused by such policy-making were solved by continuous devaluations of Finnish markka (Kosonen 1998; Pekkarinen and Vartiainen 1993). When Finland joined the common currency euro in 2000, such a possibility was abolished and the traditional medicine for improving the wage competitiveness was lost.

Since the depression of the 1990s wage increases in Finland have been rapid. The wage and salary index doubled between 1990 and 2012 and there has been a ten percentage point increase also during the 2008–2012 period. As a consequence, the competitiveness of the Finnish economy has gradually deteriorated vis-à-vis Germany, the pace setter in the Euro Zone. Whereas from 2000 to 2010 wages and salaries in the Finnish industry increased by 65 percent and in total economy by 57 percent, the corresponding numbers for the German economy were 30 and 20 percent. The difference is much smaller if we look at the impact of wage increases upon unit labour costs. In Finland the impact was 10 percent in industry and 16 percent in total economy compared to seven and ten in Germany (Rantala 2013). These figures have been the pace-setter in the recent Finnish political debates and the government together with the labour market partners try to seek solutions how to combat too rapid wage increases.

However, the validity and reliability of these kind of competitiveness calculations are questioned from a number of view-points (see Haaparanta 2013; Sauramo 2013). First, the

time period chosen is crucial for results. In a longer run, say since the 1970s there are no major differences between Finland, Sweden and Germany, but if the perspective is in the 2000s, then Finland has lost its positions vis a vis Germany and Sweden during the crisis years of 2008 and 2009. But the critical question is whether the loss was due to too high wage increases in the export sector or due to collapse of two main brand of export: electronics and paper industry (see Figure 26). Thus, the reason for problems in competition had been on the one hand the economic recession in the most important export countries, and on the other hand the too narrow-sided Finnish export sector that is more vulnerable to economic cycles than the more diversified Swedish export sector (Haaparanta 2013: 9). The second critical remark pinpoints that wage levels in Finland are not especially high, and all the in the problems the electronic industry (read Nokia) faced were not at all caused by too high wages – perhaps excluding the sky-rocketing managerial salaries and remunerations.

The critics of the competitiveness discourse emphasize that a much more serious problem than too high wages is the very fact that the industrial base in Finland has been and still is too narrow, and the whole idea of competitiveness is based on too narrow and partially misleading indicators (see, e.g. Haaparanta 2013 and Sauramo 2013). However, in politics it often is more important how things seem to be than how things de facto are. Political framing matters. Therefore, the prevailing politically influential interpretation in Finland is as follows: increases in wages have been too high and productivity has not improved fast enough to compensate increases in wages causing a gradual deterioration of competitiveness which, in turn, in the context of global economic crises, has caused serious difficulties to the export sectors (Table 6).

The government and social partners act accordingly and they try to solve the dilemma. On the one hand there is a strong need for wide incomes policy agreements for a number of coming years to safeguard ‘reasonable’ wage increases to restore competitiveness. The Employers’ Federation, that already once or twice had buried the whole idea incomes policy (see Bergholm 2011), has gradually changed its rhetoric to be a luke-warm supporter of such a measure. However, there are opinions among the employers’ and employees’ organizations that sector-wise and even company-based negotiations might produce better results. When writing this, a nation-wide agreement covering more than 90 percent of unions has been signed. There seems to be a wide common understanding that during the coming years wage increases must be modest. It remains to be seen which kind of practical ramifications the crisis package will have and how effective medicine it is in combatting various economic problems the country is facing. What is evident is that the way out of the current crisis will situation may be more stony and difficult than the way out of competitiveness problems in the 1990s when the devaluation by 40 percent helped to solve the problem.

5.2 *Structural transformation of industry*

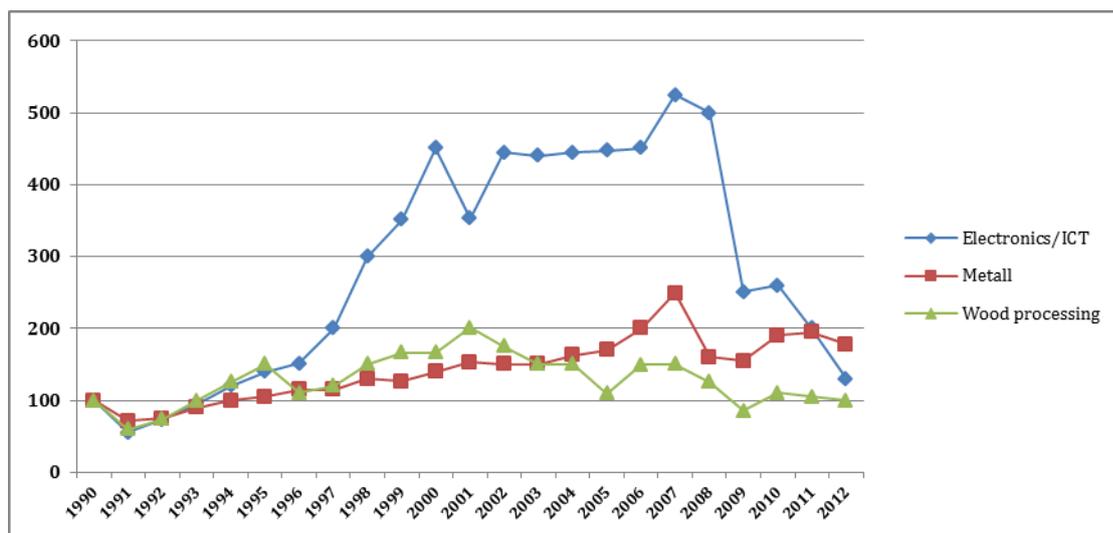
Solutions to the first challenge described above are in the hands of the labour market partners and national policy-makers. Coping with the structural transformation of industrial production is a harder issue and more difficult to solve. As shown afore in the historical overview of the political economy, the Finnish model has been one of small, one-sided open economy vulnerable to international economic cycles. The vulnerability has been a bigger problem in Finland than e.g. in Sweden. Whereas Swedish export has been based on multiple branches and enterprises, the Finnish export has been more dependent on one single branch – wood-

processing and the paper industry. The post 1990 boom, in turn, was very heavily built on the ICT industry.

The index-based Figure 26 demonstrates the superior role of the electronic industry as an engine in the process of recovery from the Great Depression. The Figure illustrates the (too) strong dependency on one sector – or in the worst case on one company. In the 1990s the sector was ICT and the company was Nokia. Due to global competition, ICT activities were located in cheap-labour countries and when Nokia failed in its innovations, the company ran into problems which had severe consequences in Finland as shown in Figure 26. A challenging structural problem is that sectors that used to be the backbone of the Finnish economy are gone. Neither wood-processing nor ICT will be back, at least not in the form they used to be in their heyday.

Politically the situation is difficult for the Social Democrats. A substantial share of voters of the SDP used to be employed in the sectors that are suffering from global competition and there are vociferous voices raised to subsidize branches and enterprises that are losing their market shares. The party faces a dilemma: to subsidize unproductive industry and try to please the core voters or to try to invest in new innovative branches at the cost of losing voters to True Finns.

Figure 26. Value added in Finnish industry (1990 = 100). ICT/electronics, metal and wood-processing industry 1990–2012 (1990 = 100).



Source: Stat.fi, http://pxweb2.stat.fi/database/StatFin/kan/vtp/vtp_fi.asp.

5.3. Greying population

When building up the welfare state the Finnish population structure was balanced. Younger generations outnumbered the older ones which contributed to financing pensions and other social transfers. However, the situation is rapidly changing. The post-WWII baby-boomers are

gradually moving out from the labour market and moving into pensions which will increase all age-related expenses¹².

The increase of the old-age dependency rate (pop 65+ /pop15–64; percent) will be steeper in Finland than in the other Nordic countries or in most other European countries. By 2010 the old-age dependency rate was 27 in Finland and the EU-27 average was 25 percent. It is calculated that the ratio in 2030 will be 43 in Finland and 38 percent in the EU-27 (Denmark 37, Iceland 32; Norway 33 and Sweden 37 percent). Needless to say, the increase of elderly population will create structural pressures on age-related social spending. The extra need for social spending is estimated to be about four percent of the GDP which means that the Finnish social expenditures that by now take some 30 percent of the GDP will be among the highest in the EU hemisphere. A small comfort is that most other countries are following the same track with 10 to 20 years delay – but that is only a very small comfort.

5.4. Sustainability deficit

In addition to the increasing old-age dependency ratio also factors linked to negative consequences of the afore-discussed economic problems (unemployment, low employment rates) and changes in tax-policies create imbalances in public budgets jeopardizing the sustainability of the welfare state. The European Commission has estimated the sustainability deficit for a number of EU countries. The sustainability deficit is calculated on the basis of the present benefit structure that is adapted to population trajectories up to 2050. The deficit is expressed in relation (%) to the GDP and it tells how much the public budget must be cut, or alternatively, how much taxes must be increased to keep public finances at a sustainable level. While the EU estimate for Finland is 6.2, the OECD average is 4.6 percent. The national estimates vary from the low 1.3 percent to the highest one (4.7 percent) calculated by the Ministry of Finance. According to the EU, the deficit for the EU-27 countries is about three percent. In the critical end of the measure are Luxembourg (deficit close to nine percent) and Belgium (about seven percent) and Finland. Denmark, Sweden and Germany perform much better (deficits two, three and one percent, respectively).

An alternative, and complementary way of conceptualizing the severity and causes of the deficit is to look at life cycle deficit. Whereas in our active age we contribute to the economy and create surplus, during the periods of economic inactivity we consume that surplus. The most prominent deficit phases are childhood and old-age when we are unable to participate in labour. Also periods of sickness, unemployment and other inactivity spells contribute to the life-cycle deficit. In Figure 27 (left-hand panel) the life cycle deficit is related to the average income in a country. As can be seen, the life cycle deficit is larger in Finland than in Sweden. This is mainly due to later exit from the labour market of the elderly Swedes. However, these differences between these two countries have diminished. The labour force participation rate

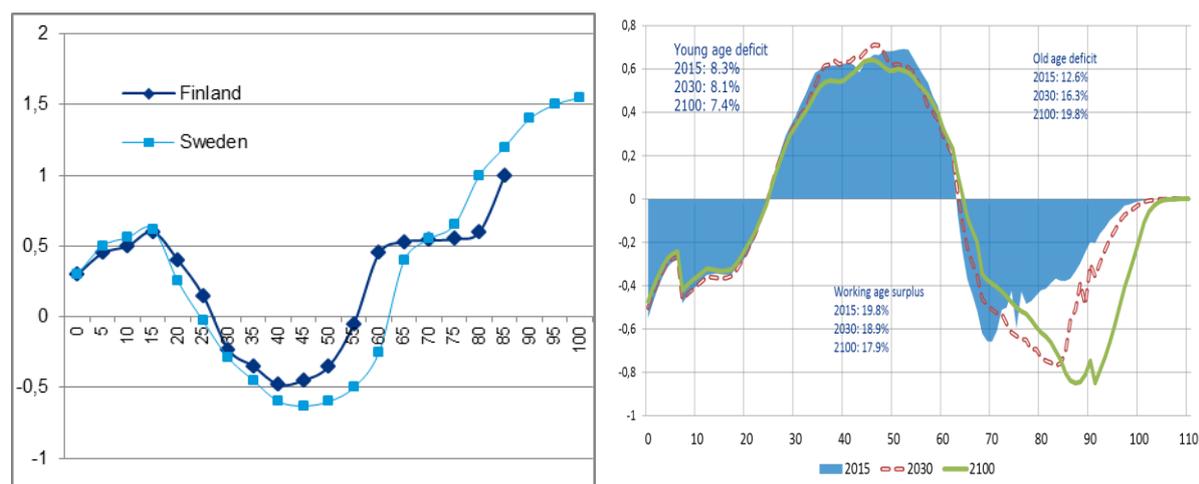
¹² An excellent review of the present and future challenges for the Finnish welfare state and pension system is available in “Suomen eläkejärjestelmän sopeutuminen eliniän pitenemiseen: eläkekysymysten asiantuntijatryöryhmän raportti” available at http://www.etk.fi/fi/gateway/PTARGS_0_2712_459_440_3034_43/http%3B/content.etk.fi%3B7087/publishedcontent/publish/etkfi/fi/julkaisut/tutkimusjulkaisut/erillisjulkaisut/suomen_elakejarjestelman_sopeutuminen_elinian_kasvuun_7.pdf.

of those aged 55–64 in 2000 was 42 percent in Finland and 65 percent in Sweden. In 2012 the corresponding shares were 58 and 73, respectively.¹³

The right-hand panel is a mirror image of the Finnish situation and shows surpluses produced in the active period of the individual's life. (Due to different assumptions there are some discrepancies between the left and right-hand panels.) The graph illustrates how the surplus will shrink and the diminishing childhood-related deficit is not enough to compensate for the old-age related expansion of the deficit. Thus, there is a long-term sustainability deficit in the Finnish welfare state but the question is how big it is and what can be done to combat it.

One of the most crucial devices in Finland to combat sustainability deficits is to increase labour force participation rates to the level of the Western neighbors, or, even better, the Icelandic levels. It is calculated that a one-year increase in an average work career would decrease the macro-economic sustainability deficit by 0.7 percentage points. Lengthening of work careers is a function of earlier entry into and later exit from the labour market.

Figure 27. Life cycle deficit in Finland and Sweden and labour participation rates (%) of the elderly (55–64 years of age) population in Finland and in some other OECD countries 2000–2012.



Source: Lindh (2012): 265; Vaittinen and Vanne (2013).

There are also some other possibilities to squeeze the deficit. If productivity in the national economy and in public services could be increased annually by 0.25 percentage points, the deficit would shrink by 0.3 and 0.7 percentage points, respectively. Of course, there are a bundle of nastier measures available as well: benefit cuts, targeting transfers and services, increasing fees for services. The level and structure of taxation offers some possibilities to fortify public revenues. Higher employment rates will automatically increase tax bases without changes in tax rates. As shown earlier, tax rates on capital income have been reduced which has resulted in transforming work income into lighter-taxed capital income which, in turn, has diminished tax revenues. Increases in value added taxes (the level of which is 24 percent in 2013) would yield considerable amounts of revenues but since the tax is proportional, not progressive, it is regarded to be regressive and punishing low-income

¹³ http://stats.oecd.org/Index.aspx?DatasetCode=LFS_SEXAGE_I_R

groups. Therefore, increases in value added taxes are difficult for the left-wing parties to accept given the tax reductions in the upper end of the income ladder.

In his research project *Growth to the limits* Peter Flora (1984) anticipated that the welfare state had grown to its limits. Whereas in many countries the welfare state is expanding (social services, in particular, are developing in Southern and Central Europe) the Nordic countries display a downward trend in spending as a percentage of GDP¹⁴ since the 1980s. The same goes for gross tax rates that used to be very high in Scandinavia. Although the Finnish tax rate has been somewhat lower than in her Scandinavian neighbours it has increased rapidly and reached the Scandinavian high levels. While the average gross tax rate in Finland was 36 percent in 1980, ten years later it has grown to 42 percent of the GDP. The overall tax rates reached their culmination (about 50 percent in Denmark and Sweden; 47 percent in Finland and 45 percent in Norway; cf. the OECD average 36 percent) by 2000 and since then the rates have gone down by ca. five percentage points. Interestingly enough, in Finland the share of five percentage points is about the same as the highest estimates for the sustainability deficit. However – as exemplified above in the Finnish context – given the greying population and increasing age-based expenditure there are pressures to increase taxes. The problem is that the global tax competition may circumvent possibilities to increase taxes, at least on capital.

Also the shifts in political power limit tax increases, and if taxes are used to finance responses to the growing needs, most probably the incidence of taxes will be shifted. While the socialist parties have traditionally supported progressive taxation, the bourgeois parties have favoured flat-rate and consumption taxes. The non-socialist tax policies may result in increases of consumption taxes combined with higher user fees on various social services. This development would eat up redistributive effects of taxation and thereby increase income inequalities. When it comes to income transfers the generosity and universalism may be the target of austerity measures. In many transfer schemes we will see increased conditionality – which is linked to the growing efforts to streamline income transfer schemes to make them more employment friendly – which again, is more from the non-socialist political dictionary than from the traditional social democratic vocabulary.

5.5. *Changing public-private mix as a challenge for the Nordic welfare state model*

The trade mark of the Nordic welfare state model has been the dominant role of the public sector in the delivery of social services and social transfers. In principle Finland follows the Nordic pattern but there are some deviations and new tendencies that are gradually changing the model.

In the other Nordic countries collective and individual pension policies play a much more important role than in Finland. As shown in Table 3, the importance of collectively contracted pension policies is marginal in Finland. They cover about 20 percent of the employees and comprise about two percent of pension expenditure. Neither are individual policies of importance. There are less than 800 000 pension policy subscribers and contracting new policies is highly dependent on tax incentives either enhancing or inhibiting eagerness among new subscribers. By now, the tax incentives are not especially favourable and, consequently,

¹⁴ http://stats.oecd.org/Index.aspx?datasetcode=SOX_AGG

the number of new pension policies annually taken has markedly diminished. The main form the Finns save for their old age is house ownership.

In Finland, as discussed above, health care is dual: whereas public health care centres are taking responsibility for those that are outside the labour market, occupational health care is the main care provider for the employed population. The employer can rely on public or private provider when organizing health care for employees. Given the problems in public health care centres employers usually utilize a private provider – the bigger the employer, the more likely it will choose a big multinational health care company. Thus, there is a substantial degree of occupational / social segregation in the Finnish health care and a growing role of multinational care providers.

Furthermore, the Finns are voting by their wallets against the problems in health care. By now almost one million of Finns, i.e., about 20 percent of the population have obtained private health insurance that complements the public one. The private insurance guarantees faster access to care – in private hospitals – and also in some cases improves the compensation level for the loss of income. A vast majority (46 percent) of all individual insurance policies (totalling to 930 000 in 2012) are subscribed by parents for their children, 38 percent are taken by individual adults and 16 percent are subscribed by enterprises for their employees¹⁵. The most rapid expansion is taking place in enterprise-contracted policies, which fortifies the dualization between labour market insiders and outsiders.

Private providers have increased their shares also in social services. While in 1990 about 90 percent of the personnel was employed in public services, the share by now is less than 70 percent. The fastest expansion has taken place in for-profit institutions. In 1990 they were almost non-existent. By now they employ 15 percent of the total social service sector employees (Karsio and Anttonen 2013: 107). Marketisation has been most rapid in elderly care. The expansion of private alternatives has not only eaten up public services but also the previously strong third sector, i.e., non-profit providers, has been replaced by for-profit actors. This is partially due to (too) strict adoption of EU-regulation: previously the Finland's Slot Machine Association (RAY) could subsidize the third sector, but due to prevailing interpretation the EU will not accept such 'market distortions' and consequently the third sector is losing grounds and bigger market-oriented enterprises are taking the floor (Karsio and Anttonen 2013: 118). In fact, the largest actors in Finland and Sweden are private for-profit multinational corporations (Meagher and Szhebely 2013: 250). As a rule, those corporations are based in various tax heavens.

The question of privatisation has been very cumbersome for the left-wing parties that categorically have adopted negative attitude against all forms of privatisation: in the leftist parlance the good public sector is contrasted against the bad private sector. On the other side of the political spectrum, private alternatives are depicted as more effective, cheaper and more user-friendly than services produced by the public sector. However, empirical evidence does not give unanimous support to either of the view-points (Meagher and Szhebely 2013). When it comes to the leftist approach, the problem is that the black and white discourse is too simple-minded and does not correspond to the factual development in social services. Firstly, the line between public and private is not that black and white as the left argues. There are lots of grey zones between those two poles, e.g., in many cases different forms of vouchers may

¹⁵ www.fkl.fi/tilastot/Sivut/2012.aspx

enhance the growth of small-scale local enterprises and self-employment increasing employment rates and combatting the expansion of multinationals. Secondly, given the gloomy economic perspectives, municipalities – that have the main responsibility for the delivery of social services – will seek solutions to ease the growing financial burden of the local sector. Different forms of public-private partnerships will offer promising possibilities for that (Poikolainen and Silvola 2013). At the local level decision makers are more pragmatic than ideological and eager to find practical solutions to balance the municipal budget. Thirdly, if users are compelled to pay more and more user-fees for public services the natural follow-up question will be why to stay in public waiting lists, why not pay for private services that are available here and now. Fourthly, the question is not any more whether the role of private providers will expand in the delivery of social services. The crucial question is how, on what terms and which kind of actors will be acting in the service markets. Finally, we have to rethink the previous ('social democratic') concept of universalism. Growing diversity – in terms of ethnic backgrounds, religions, socio-economic classification, family formations, lifestyles, employment etc. – challenges the traditional way to conceptualize universalism in social services. As shown by Anttonen & al. (2012) given the growing diversity in our societies, diversity-blind universal programs may lead to unequal outcomes. Future services must take into account differentiated needs, possibility for choices, autonomy and participation of services users.

5.6. Political challenges

As indicated earlier in Figure 3 in section 2.3., support for the left-wing parties has substantially declined and according to recent opinion polls the SDP and Left Alliance would get together as many votes as the poll-leading Centre Party or True Finns. Polls are polls and parliamentary seats are not distributed on the basis of poll results, but nevertheless the left-wing parties suffer from a number of problems. The transformation of the economic structure hollows out the traditional voter basis for socialist parties, i.e., the share of the working class. Furthermore, during the economic crises the traditional message of bourgeois parties preaching against the 'too big' welfare state gets more support and the left is more or less toothless in this process. The political left is no more an agenda-setter, but rather a defender of the status quo.

In sum, important shifts in the political power balance have taken place in favour of right-wing policies favoring the well-off strata and employers. Needless to say, these shifts will have ramifications for the character of welfare policies implemented in the country. The support for policy ideals aiming at smaller income inequality and equal social conditions are evaporating.

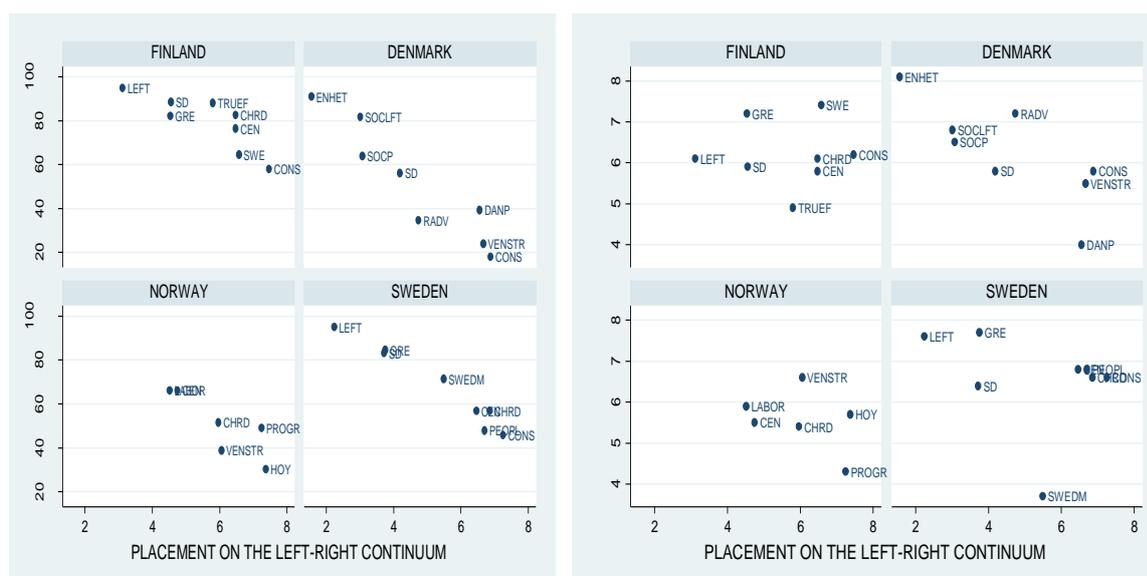
Political values and legitimacy of the welfare state

Finnish policy making is based on practical compromises and grand coalitions. The strength of this kind of policy-making has been that despite deep ideological differences, coalition cabinets have been able to seek consensus and solve difficult economic and political dilemmas. One could describe Finnish political decision making as politics without politics; it is governance and muddling through. The method has been an effective device in hard times

but the flip side of the coin has been the watering-down the very role of politics, which in turn is mirrored in low voter turnouts and political frustration that has partially been channeled into support for the True Finns who represent pro-distribution but anti-immigration attitudes. The True Finns collect their votes from working-class suburbs, the countryside and mostly from people hit by the great depression and cuts in the welfare state. In a way the True Finns are “a voice of the forgotten people”.

There are three themes (of course, in addition to the notorious fear of the loss of competitiveness) that direct Finnish policy making: the fate of the welfare state, immigration and the EU/globalization. Attitudes on these issues are linked to constituencies of different parties. Whereas the core constituency for the Coalition Party is the upper middle class, business people and employers, the constituency of True Finns and traditionally also of the socialist parties are / have been blue-collar workers and low-income earners who regard globalization and immigration as a threat to their own employment possibilities, which explains their skeptical attitudes on immigration (cf. Rueda 2007).

Figure 28. Opinions on income distribution and immigration in Europe and opinions in the Nordic countries according to political affiliation (source: European Social Survey a pooled data-set for 2002-2010)¹⁶.



(The explanation for the Finnish party abbreviations is as follows: ‘CONS’ refer to the National Coalition; ‘LEFT’ to the Left Alliance, SWE to the Swedish People’s Party, GRE to Greens, SD to the Social Democrats, ‘CEN’ to the Center Party, and ‘CHRD’ to the Christian Democrats.)

The afore-mentioned issues are described in Figure 28 where Finland is placed in the Scandinavian context (data for Iceland is missing). The left-hand panel depicts party-wise averages for two issues that traditionally have divided political parties in Finland and elsewhere: attitudes on redistribution and self-evaluated placement in the left-right scale. Attitudes on redistribution mirror a more fundamental dimension on the role of the state vis a vis an individual. To put it more technically, the y-axis presents the share (%) of those respondents who agree with the European Social Survey statement ‘Government should

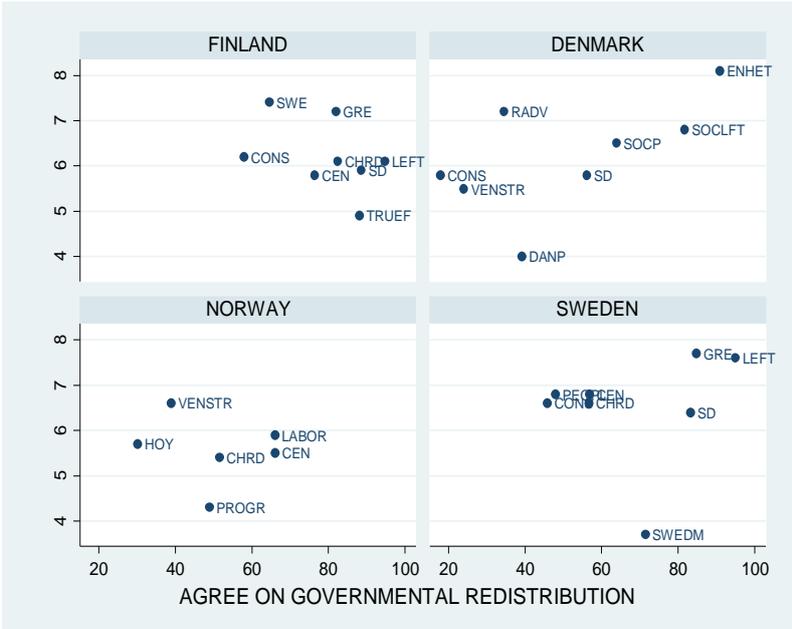
¹⁶ <http://www.europeansocialsurvey.org/>

diminish income differences”. The x-axis depicts party averages for the voters’ for the Nordic parties in the self-rated left-right continuum (0 very left-wing; 10 = very right-wing). As can be seen the Finns place themselves politically more to the right than the Scandinavians do but simultaneously the Finns demand more redistribution than do the Scandinavians. What is interesting is that the True Finns (TRUEF) seem to lean more to the left than to the right, and when it comes to income distribution they are as eager as the social democrats to demand smaller income differences. On that aspect the True Finns deviate from the other Nordic populist parties being more a left-wing redistributational party. However, it is good to remember that the policy profile of True Finns favors redistribution among the native population and their concept of social solidarity is strongly conditional in-group solidarity.

The y-axis in the right-hand panel depicts an additive index running from the low value 3 (immigrants are no good at all for the country) to the highest value of 12 (immigrants very good for the country). The horizontal axis is the same as in the right hand panel, i.e., a self-rated left-right placement. In Finland the Greens and the voters for the Swedish People’s Part have more positive views on immigrants than the voters for the other parties have. Not surprisingly, the True Finns have the most negative attitudes in Finland. However, their attitudes seem to be somewhat more lenient than attitudes among the Sweden Democrats (‘SWEDM’), Norwegian Progress Party (‘PROG’) or the Danish People’s Party (DANP). While in Denmark, Norway and Sweden there is a correlation between being a leftist and having a positive view on immigrants, in Finland such a correlation is missing.

As can be seen in Figure 29, which displays the relationship between attitudes on immigrants and redistribution, in Finland the correlation in party profiles is negative ($r = -.44$; i.e., the more redistribution is demanded, the less positive view on immigrants).

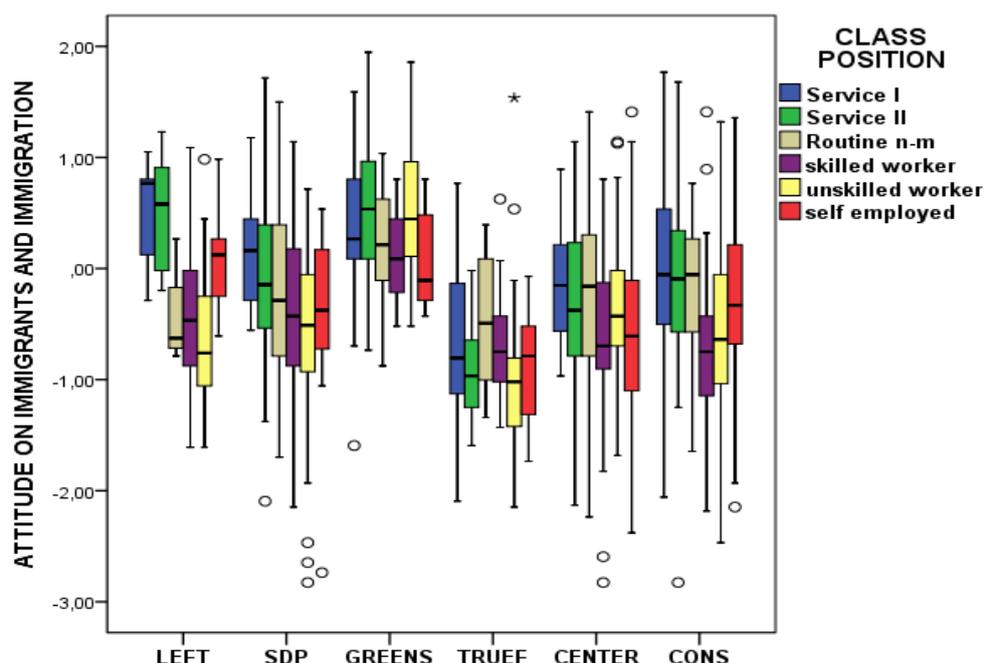
Figure 29. Attitudes on immigrants and redistribution opinions in the Nordic countries according to political affiliation (source: European Social Survey a pooled data-set for 2002-2010).



Given the high acceptance of redistribution and increasing support for the right-wing parties in Finland, there seems to be a dilemma. There is strong support for welfare policies but the pendulum has turned in favour of National Coalition who traditionally has been the most vociferous critics of the Nordic welfare state model. One plausible explanation to this may be the socio-economically biased electorate turn-out. The well-off citizens vote and, as a rule, they vote for the National Coalition. Indeed, according to the European Social Survey, non-voting in Finland has a strong socio-economic gradient. High-income earners, the well-educated and higher and upper-middle class people vote more frequently than poorer, less educated, the unemployed and those in lower socio-economic positions. For example, among the employed, the non-voting ratio is about 15 percent, whereas in 2002, 29 percent of the unemployed said that they did not vote. In 2010, the share of non-voters among the unemployed was as high as 43 percent. The trend among those who have economic difficulties to cope on their present income is very much the same as among the unemployed (European Social Survey). This means that the ‘will of the people’ expressed in elections is strongly biased in favour of the better-offs in the Finnish society.

Why then are the other layers of society not eager to use their political rights? One reason may be linked to the aforementioned consensual way of political decision making. Cabinets based on grand coalitions including both the Coalition Party, the SDP and Left Alliance blur differences between parties and increase frustration among the electorate: since there are no changes in the content of policy-making, what is the point of voting? Thus, in Finnish political life there are two underpinning tensions. On the one hand, there is the socio-economic divide between who votes for whom and who does not vote at all. On the other hand there is a deep discrepancy in opinions between the ruling political elite and a vast number of frustrated voters, which discrepancy has benefitted the True Finns.

Figure 30. Attitudes on immigration according to class-position and party affiliation in Finland 2002–2010 (European Social Survey).



There is an additional plague for the left-wing parties. When the traditional voter-base is evaporating due to the shrinking working class, parties are seeking voters from other social strata. Social Democrats, for example, get their votes more and more from the middle-classes and this creates a problem. Whereas social democratic white-collar workers (service I and II) are pro-immigration¹⁷ and pro modern values (are progressive in gender equality, gender-neutral marriages etc.), the working-class voting for the SDP tends to be more conservative and traditional as shown by the box boxes¹⁸ in Figure 30. In fact, differences in opinion between progressive service-class voters and more traditional working-class voters are the biggest among the Social Democrats and the Left Alliance voters. The National Coalition Party (‘CONS’) is in a much better position: it gets its votes from the white-collar strata and needs not balance between opinions. In fact, opinions among the three most important groups of voters (service I and II and routine non-manual) seem to be very similar.

The balance-seeking of the SDP hollows out support among the working class that is seduced by the call of the True Finns. In fact, the SDP is the second choice for the True Finns voters and about 30 percent of SDP voters have the True Finns as their second choice (Rahkonen 2011). To some extent the Social Democrats and the True Finns are fishing in the same waters and for the time being, the latter party seems to be better equipped for those waters than the Social Democrats.

The dilemma for the Finnish SDP and the Left Alliance is that they have lost the agenda-setting role that they used to have in Finnish politics. The social democratic Forssa program from 1903 gave a vision of a better society and motivated the working-class movement. In the present-day situation the movement seems to share the same dilemma as Alice had in Wonderland (Carroll [1865]). “Would you tell me, please, which way I ought to go from here?” asked Alice from Cheshire cat. “That depends a good deal on where you want to get to,” said the cat.

¹⁷ The y-axis represents standardized, z-score values for questions whether immigrants are good for the country and whether more immigrants should be allowed to move into the country.

¹⁸ The box-plots display medians and distributions of observations around the median values indicated by the vertical line inside the box. The interpretation of the box-plot presentation is as follows: the upper boundary of the box represents the 75th percentile and the lower boundary pertains to the 25th percentile of cases. The minimum and maximum cases that are not outliers – i.e. not further than 1.5 times the box length from the upper or lower box boundary – are indicated by small horizontal lines in “whiskers”. Dots outside these short horizontal lines indicate a deviant case.

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Appendix Table I. Social Indicators 1981-2011 in Finland.

<i>Macroeconomic indicators</i>	1981	1983	1985	1987	1989	1991	1993	1995	1997	1999	2001	2003	2005	2007	2009	2011
GDP per capita at current prices, €	7 831	9 701	11 691	13 497	16 979	16 997	16 563	18 807	20 892	23 680	26 848	27 917	30 009	34 003	32 276	35 150
GDP volume annual growth (%)	0,9	2,4	2,9	3,2	4,7	-6,5	-1,3	3,6	5,9	3,7	2,1	1,8	2,6	4,9	-9,0	2,3
Social expenditure as a share of GDP (%)	19,5	21,5	23,4	24,4	23,0	29,2	34,2	31,5	29,1	26,2	24,9	26,6	26,7	25,4	30,4	30,4 ³
Unemployment rate (% among those aged 15-64)					3,1	6,7	16,5	15,5	12,7	10,3	9,2	9,1	8,5	6,9	8,4	7,9
Employment rate, females aged 15-64					71,5	68,4	59,6	59,1	60,3	63,5	65,4	65,7	66,5	68,5	67,9	67,4
Employment rate, males aged 15-64					77,0	71,5	61,5	63,1	65,4	68,4	70,0	68,9	69,5	71,3	68,8	69,8
% of employed working in the primary sector (agriculture, forestry, fishing, mining) ¹					9,3	8,9	8,9	8,1	7,1	6,3	5,9	5,4	5,1	4,7	4,9	4,5
% of employed working in the manufacturing and construction sector ¹					30,3	28,7	26,5	27,3	27,4	27,8	26,3	25,4	25,0	24,9	23,7	22,7
% of employed working in the service sector ¹					60,4	62,4	64,6	64,5	65,5	65,9	67,8	69,1	69,9	70,3	71,4	72,8
<i>Population indicators</i>	1981	1983	1985	1987	1989	1991	1993	1995	1997	1999	2001	2003	2005	2007	2009	2011
Population, millions	4,812	4,870	4,911	4,939	4,974	5,029	5,078	5,117	5,147	5,171	5,195	5,220	5,256	5,300	5,351	5,401
% aged 0-14	19,9	19,5	19,4	19,3	19,3	19,2	19,1	19,0	18,7	18,2	17,9	17,6	17,3	16,9	16,6	16,5
% aged 15-64	67,9	68,1	68,0	67,8	67,4	67,2	67,0	66,7	66,7	66,9	66,9	66,8	66,7	66,6	66,4	65,4
% aged 65+	12,2	12,4	12,6	12,9	13,3	13,6	13,9	14,3	14,6	14,8	15,2	15,6	16,0	16,5	17,0	18,1
Dependency ratio ²	47,2	46,9	47,0	47,6	48,5	48,8	49,3	49,9	49,9	49,4	49,5	49,7	49,8	50,1	50,6	52,9
Total fertility rate	1,65	1,74	1,64	1,59	1,71	1,80	1,81	1,81	1,75	1,73	1,73	1,76	1,80	1,83	1,86	1,83
Life expectancy at birth, females	78,1	78,3	78,5	78,7	78,9	79,3	79,5	80,2	80,5	81,0	81,5	81,8	82,3	82,9	83,1	83,2 ³
Life expectancy at birth, males	69,6	70,2	70,1	70,7	70,9	71,3	72,1	72,8	73,4	73,7	74,6	75,1	75,5	75,8	76,5	76,7 ³
Infant mortality rate, ‰	6,5	6,2	6,3	6,2	6,0	5,9	4,4	3,9	3,9	3,6	3,2	3,1	3,0	2,7	2,6	2,4
<i>Social indicators</i>	1981	1983	1985	1987	1989	1991	1993	1995	1997	1999	2001	2003	2005	2007	2009	2011
Voting activity in parliamentary elections		75,7		72,1		68,4		68,6		65,3		66,7		65,0		67,4
% votes to social-democratic or left-wing parties in the parliamentary elections		40,2		33,5		32,2		39,5		33,8		34,4		30,2		27,2
% one-person households			28,2	29,4	31,1	32,4	33,8	35,2	36,0	36,9	37,9	38,8	39,7	40,4	40,7	41,2
% with higher education			15,4	16,4	17,2	18,5	19,7	20,9	22,1	23,0	23,8	24,6	25,4	26,2	27,3	27,8 ³
% with foreign nationality						0,7	1,1	1,3	1,6	1,7	1,9	2,0	2,2	2,5	2,9	3,4

¹ Time series 1980-1999 and 2000-2011 are not totally comparable because of changes in classifications.

² The ratio of those aged 0-14 and those aged 65 and over to 100 people aged 15-64.

³ Figure for year 2010.

Sources: Statistics Finland: annual national accounts; labour force survey (time series available from 1989 onwards); population statistics; deaths; elections; educational statistics. Institute for Health and Welfare: Social Protection Expenditure and Financing 2010.

Appendix Table II. Index of wage and salary earnings 2000=100 by employer sector and employee group, 2000–2011.

	2000	2002	2004	2006	2008	2010	2011
All sectors, all employees	100,0	108,2	116,8	125,1	136,4	145,5	149,5
Monthly paid employees	100,0	108,3	117,2	125,8	137,4	147,0	151,2
Hourly paid employees	100,0	108,1	115,6	122,8	133,4	141,0	144,2
Central government, all employees ¹	100,0	109,3	118,6	127,1	141,1	153,5	158,9
Municipalities, all employees	100,0	106,8	115,1	123,5	135,1	144,6	149,0
Monthly paid employees	100,0	106,8	115,1	123,6	135,2	144,8	149,2
Hourly paid employees	100,0	106,6	114,3	121,7	130,4	137,4	141,2
Private, all employees	100,0	108,6	117,1	125,4	136,4	145,2	148,9
Monthly paid employees	100,0	108,8	118,0	126,7	138,1	147,3	151,4
Hourly paid employees	100,0	108,2	115,6	122,9	133,5	141,1	144,2
Non-profit, all employees ²	100,0	107,1	115,3	123,4	133,4	142,5	146,1

¹ All are monthly paid.

² Available only for all employees.

Source: Statistics Finland, StatFin database (wages).

Finland Appendix Table III: The Composition of Governments in Finland 1945-2004

Prime Minister	Time	Term (days)	Party Structure	Seats
Paasikivi III (Prog/lib)	17.04.1945-26.03.1946	344	Lib, SFP, Agr, SDP, SKDL	171
Pekkala (SKDL)	26.03.1946-29.07.1948	857	SKDL, SFP, Agr, SDP	162
Fagerholm (SDP)	29.07.1948-17.03.1950	597	SDP	54
Kekkonen (AGR)	17.03.1950-17.01.1951	307	Agr, Lib, SFP	75
Kekkonen II (AGR)	17.01.1951-20.09.1951	247	Agr, Lib, SFP, SDP	129
Kekkonen III (AGR)	20.09.1951-09.07.1953	659	Agr, SFP, SDP	119
Kekkonen IV (AGR)	09.07.1953-17.11.1953	132	Agr, SFP	66
Tuomioja	17.11.1953-05.05.1954	170	-	Caretaker
Törnngren (FFP)	05.05.1954-20.10.1954	169	SFP, Agr, SDP	120
Kekkonen V (AGR)	20.10.1954-03.03.1956	501	Agr, SDP	107
Fagerholm II (SDP)	03.03.1956-27.05.1957	451	SDP, Lib, SFP, Agr	133
Sukselainen (AGR)	27.05.1957-29.11.1957	187	Agr, Lib, SFP	79
von Fieandt	29.11.1957-26.04.1958	149	-	Caretaker
Kuuskoski	26.04.1958-29.08.1958	126	-	Caretaker
Fagerholm III (SDP)	29.08.1958-13.01.1959	138	SDP, Cons, Lib, SFP, Agr	147
Sukselainen II (AGR)	13.01.1959-14.07.1961	914	Agr	48
Miettunen (AGR)	14.07.1961-13.04.1962	274	Agr	48
Karjalainen (AGR)	13.4.1962-18.12.1963	615	Agr, Cons, Lib, SFP	112
Lehto	18.12.1963-12.09.1964	270	-	Caretaker
Virolainen (AGR)	12.09.1964-27.05.1966	623	Agr, Cons, Lib, SFP	112
Paasio (SDP)	27.05.1966-22.03.1968	666	SDP, Cen, TPSL, SKDL	145
Koivisto (SDP)	22.03.1968-14.05.1970	784	SDP, SFP, Cen, TPSL, SKDL	164
Aura	14.05.1970-15.07.1970	63	-	Caretaker
Karjalainen II (CENT)	15.07.1970-29.10.1971	472	Cen, Lib, SFP, SDP, SKDL	144
Aura II	29.10.1971-23.02.1972	118	-	Caretaker
Paasio II (SDP)	23.02.1972-04.09.1972	195	SDP	55
Sorsa (SDP)	04.09.1972-13.06.1975	1,013	SDP, Lib, SFP, Cen	108
Liinamaa	13.6.1975-30.11.1975	171	-	Caretaker
Miettunen II (CENT)	30.11.1975-29.09.1976	305	Cen, Lib, SFP, SDP, SKDL	152
Miettunen III (CENT)	29.09.1976-15.05.1977	229	Cen, Lib, SFP	58
Sorsa II (SDP)	15.05.1977-26.05.1979	742	SDP, Lib, SFP, Cen, SKDL	142
Koivisto II (SDP)	26.05.1979-19.02.1982	1,001	SDP, SFP, Cen, SKDL	133
Sorsa III (SDP)	19.02.1982-06.05.1983	442	SDP, SFP, Cen, SKDL	133
Sorsa IV (SDP)	06.05.1983-30.04.1987	1,456	SDP, SFP, Cen, SMP	123
Holkeri (CON)	30.04.1987-26.04.1991	1,458	Cons, SFP, SMP, SDP	130
Aho (CENT)	26.04.1991-13.04.1995	1,449	Cen, Cons, SFP, KD	115
Lipponen (SDP)	13.04.1995-15.04.1999	1,464	SDP, Cons, SFP, Greens, Left	145
Lipponen II (SDP)	15.04.1999-17.04.2003	1,464	SDP, Cons, SFP, Greens, Left	140
Jäätteenmäki (KESK)	17.04.2003-24.06.2003	69	Cen, SDP, SFP	116
Vanhanen (KESK)	24.06.2003-19.4.2007	1395	Cen, SDP, SFP	116
Vanhanen II (KESK)	19.4.2007-22.6.2010	1158	Cen, Con, SFP, Greens	126
Kiviniemi (KESK)	22.6.2010-22.6.2011	365	Cen, Con, SFP, Greens	126
Katainen (CON)	22.6.2011-	?	Con, SDP, SFP, CD, Greens,	125

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Source: Kangas (2009); www.hallitus.fi/vn (assessed 22. July 2013)

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The project's URL is <http://www.fafo.no/nordmod2030/index.html>

Published and forthcoming publications

It is initially planned 13 sub-reports before the main report is to be presented at the SAMAK Congress in November 2014. The various reports are as follows:

- Sub-report 1: The Nordic models' pillars (published)
- Sub-report 2: Nordic population changes (published)
- Sub-paper 1: Nordic tax policy (published)
- Sub-report 3: Changes in external conditions (published)
- Sub-report 4: Country Study of Iceland
- Sub-report 5: Country Study of Norway (published)
- Sub-report 6: Country Study of Finland
- Sub-report 7: Country Study of Denmark
- Sub-report 8: Country Study of Sweden
- Sub-report 9: Decent work– the future of the collective agreement
- Sub-report 10: The welfare model (multiple papers)
- Sub-report 11: Inclusion and integration challenges
- Sub-report 12: Creating for sharing – Nordic innovation and industrial policy
- Sub-report 13: Democracy and participation
- Main report

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Historical making, present and future challenges for the Nordic welfare state model in Finland

The Nordic countries share many common traits. Their small, open economies, generous welfare states, and highly organized labour markets have given rise to the notion of a distinct Nordic model. NordMod2030 is a Nordic research project, assigned to identify and discuss the main challenges these countries will have to cope with towards 2030. The purpose is to contribute to the knowledge basis for further development and renewal of the Nordic models. The main report from the project will be delivered in November 2014. In the meanwhile the project will publish a number of country studies and thematic, comparative reports which will be subject to discussion at a series of open seminars.



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