GROWING INEQUALITIES AND THEIR IMPACTS IN FINLAND

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Table of Contents

Executive Summary 1
Introduction 5
2. The Nature of Inequality and Its Development over Time 14
2.1 Has inequality grown? 14
2.1.1 Household income inequality 14
2.1.2 Wealth and debt inequality 22
2.1.3 Labour market inequality 28
2.1.4 Educational inequality 34
2.2 Whom has inequality affected? 38
2.3 Interdependence between the inequality components over time 43
2.4 Why has inequality grown? 44
2.5 Conclusion: The Finnish story of inequality drivers 46
3. The Social Impacts of Inequality 48
3.1 Introduction 48
3.2 Material deprivation 48
3.3 Cumulative disadvantage and multidimensional measures of poverty and social exclusion 51
3.4 Social cohesion 55
3.5 Changes in household composition, marriage and fertility 57
3.6 Health inequalities 64
3.7 Housing tenure and changes in the role of housing in the wealth distribution 69
3.8 Crime and punishment 73
3.9 Subjective measures of well-being: satisfaction and happiness 77
3.10 Intergenerational mobility 82
3.11 Conclusion: interdependence of inequality drivers and their social impacts 86
4. Political and Cultural Impacts 90
4.1 Introduction 90
4.2 Political and civic participation 90
4.3 Trust in others and in institutions 94
4.4 Political values and legitimacy 97
4.5 Values about social policy and welfare state 99
4.6 Conclusion: interdependence of inequality drivers and their cultural and political impacts ... 105
5. Effectiveness of Policies in Combating Inequality 108
5.1 Introduction 108

5.2 Finnish wage bargaining system 108
5.3 Taxation: debates and changes 110
5.4 Social expenditures 112
5.5 Education policies 115
5.6 Conclusion: Finnish policies and their success in combating inequality 117
References 122
Appendix 127

List of Figures

Figure 1.1 GDP growth rate (% annual change) and unemployment rate (% unemployed among those aged 15–64, yearly average) in Finland and EU 15 in 1989–2011. 8

Figure 2.1.1.1 Income inequality in Finland, 1966–2010. Gini coefficient of equivalised (OECD modified) income, %. 14

Figure 2.1.1.2 Effectiveness of income transfers[1] in reducing income inequality (decrease of Gini by inclusion of transfers received and paid by households) in Finland 1966–2010, %. 16

Figure 2.1.1.3 Trends in income shares by income deciles (equivalised disposable income) in Finland 1966–2010, %. 16

Figure 2.1.1.4 Changes in income shares (%-points) by different time periods in Finland. 17

Figure 2.1.1.5 Decomposition of gross income for total population and top 1 per cent. 17

Figure 2.1.1.6 Average tax rates (transfers paid/gross income) in 1987–2007. 18

Figure 2.1.1.7 Trends in at-risk-of-poverty rate (%) of total population and children (aged under 18) and at-risk-of-poverty threshold (equivalised € in 2010 currency) in Finland 1966–2010. 19

Figure 2.1.1.8 Trends in at-risk-of-poverty rate by household type in Finland 1995–2010 (%). 20

Figure 2.1.1.9 Sensitivity of at-risk-of-poverty rates to the threshold chosen: at-risk-of-poverty rates at 40%, 50%, 60% and 70% of national median equivalised income in 1990–2010 (%). 20

Figure 2.1.1.10 Relative median at-risk-of-poverty gap and at-risk-of-poverty rate in European countries, 2010, %. 21

Figure 2.1.2.1 Trends in average gross and net wealth of households in Finland, 1987–2009 (€ in 2009 currency). 22

Figure 2.1.2.2 Trends in composition of gross wealth in Finland, 1987–2009 (€ in 2009 currency). ... 23

Figure 2.1.2.3 Trends in financial assets in Finland, 1988–2009 (€ in 2009 currency). 23

Figure 2.1.2.4 Households' indebtedness rate in Finland 1975–2011 (%). 24

Figure 2.1.2.5 Changes in average debt by disposable income decile in 1987–1994, 1994–1998 and 1998–2009. (%). 24

Figure 2.1.2.6 Applications for arrangement of debts in 1997–2010. 25

Figure 2.1.2.7 Wealth inequality in Finland, 1994–2009. Gini coefficient, %. 26

Figure 2.1.2.8 Trends in average net wealth by disposable income decile, 1987–2009 (€ in 2009 currency). 27

Figure 2.1.2.9 Changes in average net wealth by disposable income decile in 1987–1994, 1994–1998 and 1998–2009. (%). 27

Figure 2.1.2.10 The composition of gross wealth by income decile in 1994 and 2009 (%). 28

Figure 2.1.3.1 Labour force participation, employment and unemployment (% of those aged 15–64), 1989–2011. 29

Figure 2.1.3.2 Unemployment rate (%) by age group, 1989–2011. 30

Figure 2.1.3.3 Households with a jobless reference person (%) and children aged 0–17 living in jobless households (%), 2003–2011. 30

Figure 2.1.3.4 At-risk-of-poverty rates (equivalised disposable income below 60% of median) by gender and employment status among working-age population, 1990–2010. 32

Figure 2.1.3.5 Share of wages and salaries (%) of gross income by income decile, 1990–2010. 32

Figure 2.1.3.6 Proportion (%) of employees aged 15–74 having a part-time contract, 1997–2011. ... 33

Figure 2.1.4.1 Distribution of education, as % of women and men aged 15 and over in 1970–2010.. 35

Figure 2.1.4.2 Those aged 17–24 not in education or training, as % of total population of same age, 1995–2009..... 36

Figure 2.1.4.3 Employment rate for working aged women by level of education 1997–2010, %..... 37

Figure 2.1.4.4 Employment rate for working aged men by level of education 1997–2010, %..... 37

Figure 2.2.1 Median equivalised disposable income (€ in 2010 currency) by income deciles, 1987–2010..... 39

Figure 2.2.2 Median equivalised disposable income (€ in 2010 currency) by household structure, 1990–2010..... 40

Figure 2.2.3 Median equivalised disposable income (€ in 2010 currency) by the age of household reference person, 1990–2010. 40

Figure 2.2.4 At-risk-of-poverty rates (equivalised disposable income below 60% of median) by gender and age, 1990–2010. 41

Figure 2.2.5 Median equivalised disposable income (€ in 2010 currency) by education of the household reference person, 1990–2010. 41

Figure 2.2.6 Median equivalised disposable income (€ in 2010 currency) by socio-economic status of the household reference person, 1990–2010..... 42

Figure 2.4.1 GDP annual real growth rate (%) and Gini coefficient of equivalised disposable income (%), 1981–2010. 45

Figure 3.2.1. The incidence of material deprivation according to different measures 1995–2010 (%). 49

Figure 3.2.2 Trends in EU 2020 indicators in Finland 2004–2010 (%)..... 50

Figure 3.2.3 Housing deprivation in Finland 2004–2010. 51

Figure 3.3.1 Receipt of social assistance in Finland 1990–2010 (persons per 1000 inhabitants)..... 54

Figure 3.4.1 Frequency of social contacts: how often meets friends, relatives or colleagues[1] 56

Figure 3.5.1 Household distribution (%) by family type and Gini coefficient of household disposable income in Finland, 1990–2010. 58

Figure 3.5.2 Proportion married by age group in 1990–2011..... 59

Figure 3.5.3. Divorce rate (per 1000 married women) by age 1990–2011.Source: Statistics Finland 2012..... 60

Figure 3.5.4. Mean age of women at childbirth, and at first marriages, and proportion of births outside marriage, 1970–2011. 61

Figure 3.5.5 Total fertility rate and GDP annual growth (%), 1970–2011. 62

Figure 3.5.6 Family composition by level of education among employed women and men aged 35–39 in 2000. 63

Figure 3.6.1 Life expectancy at age 35 by income quintiles and socio-economic status, women and men in 1988–2007. 65

Figure 3.6.2. Those reporting good or reasonably good health (%) by years of education in 1999–2010, women and men aged 15–64..... 67

Figure 3.6.3. Prevalence of daily smokers (%) in 1978–2010, men and women aged 25–64, and by years of education in 1999–2010, men and women aged 15–64. 67

Figure 3.6.4 Obesity (BMI ≥ 30 kg/m2) (%) in 1978–2010, women and men aged 25–64. 69

Figure 3.6.5 Proportion overweight (BMI ≥ 25 kg/m2) by years of education in 1999–2010, women and men aged 15–64. 69

Figure 3.7.1 The role of housing wealth in the wealth distribution, before debt, 1987–2009 (%). 70

Figure 3.7.2 Trend in prices of dwellings in real terms (index: 2000=100). 70

Figure 3.7.3 Changes in debt and net wealth in housing in Finland 1987–2009 (€ in 2009 currency). 71

Figure 3.7.4 Tenure type by household disposable income quintile in Finland 1985, 1995 and 2006 (%). 72

Figure 3.7.5 Changes in average housing wealth by age groups in Finland 1994–2009 (€ in 2009 currency). 72

Figure 3.7.6 Figure 3.7.6. Changes in average net housing wealth by disposable income decile in Finland 1988–2009 (€ in 2009 currency)..... 73

Figure 3.8.1 Poverty, inequality and crime in Finland, 1995–2011. 74

Figure 3.8.2 Property crime and inequality and crime in Finland, 1996–2011. 75

Figure 3.8.3 Correlation between inequality and violent crimes among municipalities in Finland, 2010. 75

Figure 3.8.4 Correlation between poverty and violent crimes among municipalities in Finland, 2010. 76

Figure 3.8.5 Subjective perception of crime in Finland, 1980–2009, % of population (15–74 years). . 76

Figure 3.9.1 Life-satisfaction[1], employment and health status in Finland 1981–2005, estimated marginal means (GLM). 80

Figure 4.2.1 Trade union density (% workforce unionized), 1970–2010. 93

Figure 4.2.2 Has done voluntary work in organizations or associations in last 12 months[1]..... 94

Figure 4.3.1 Trust in institutions in Finland 1981–2005[1] 95

Figure 4.3.2. Distrust in institutions in Finland 1981–2005 96

Figure 4.4.1 Respondents agreeing with the statement 'immigration is good for economy',2008[1]. ... 99

Figure 4.5.1 Welfare attitudes towards the responsibilities of government in Finland and Nordic countries. Scale: 0–10. 100

Figure 4.5.2 Public attitudes towards welfare state performance in Finland and Nordic countries. Proportion of those who agree or strongly agree that welfare benefits and services lead to a more equal society / prevent widespread poverty (%). 101

Figure 4.5.3 Public attitudes towards welfare services in Finland. Proportion of those who agree or strongly agree with the statement: Municipalities should rather increase than decrease the supply of public services in the future (%). 102

Figure 4.5.4 Public attitudes towards the welfare services and taxation. Proportion of those who agree or strongly agree with the statement: Compared to the supply and the level of municipal services the municipal tax-rate is at the decent level (%)..... 102

Figure 4.5.5 Public support for the different explanations of poverty. The proportion of population which agrees or strongly agrees with the statement (%). 103

Figure 4.5.6 The placement of Finnish political parties according to their pro-immigration and pro-redistribution attitudes 2008. 104

Figure 5.4.1 Public social expenditure by function as a share of GDP in 1980–2010, %. 113

Figure 5.4.2 Public social expenditure by function per capita (€ in 2010 currency) in 1980–2010, %. 113

Figure 5.4.3 Share of benefits in kind (services) of all social expenditures by function type (%) 1980–2010..... 114

Figure 5.4.4 Indexes of the real development of earnings, costs of living and some basic level social security allowances, 1985–2011 (1990=100)..... 115

List of Tables

Table 1.1 Indicators of the macroeconomic, population and social conditions in Finland, 1981–2011. 12

Table 2.1.3.1 Index of wage and salary earnings 2000=100 by employer sector and employee group, 2000–2011..... 33

Table 2.2.1 Indexes of the development of median equivalised disposable income by different characteristics of the households, 1990=100. 43

Table 3.2.1. Financial difficulties in meeting everyday expenses in Finland 1996–2009 (%). 50

Table 3.3.1 The association between social assistance recipiency and at-risk-of-poverty to financial difficulties in meeting everyday expenses in Finland 1996–2009 (%). 52

Table 3.3.2 Overlap between dimensions of poverty and social exclusion in 2005, %..... 52

Table 3.3.3 The proportional shares of component overlap of EU2020 poverty and social exclusion measures (%). 53

Table 3.3.4 Households according to duration of primary social assistance 1990–2010 (%). 54

Table 3.9.1 Happiness in Finland 1981–2005. 78

Table 3.9.2 Satisfaction with life in Finland 1981–2005..... 79

Table 3.9.3 Unstandardized regression coefficients for life-satisfaction in Finland 2002–2010 (ESS data). 81

Table 3.10.1 Absolute and vertical mobility of 35–39 year-old Finns in different cohorts..... 83

Table 3.10.2 Percentage of children with higher tertiary degree according to class origin. 84

Table 3.10.3 Participation in higher education of the 20 to 24-year-old cohort between 1980 and 1995 by parents' education (%). 85

Table 3.10.4 Intergenerational income mobility in Finland. Earnings quintile group transition matrices for fathers and sons and for fathers and daughters, corrected for age (excluding zeros). 85

Table 3.10.5 The association between financial difficulties in childhood and current consensual deprivation in 1995, 2000 and 2005. Poverty rates (%), odds rations and 95 % confidence intervals. 86

Table 4.2.1 Total electorate turn-up (%) in parliamentary elections 1979–2011. 90

Table 4.2.2 Electorate turn-up (%) in local (municipal) elections 1980–2008. 91

Table 4.2.3 Electorate turn-up (%) in European Parliament elections 1996–2009..... 92

Table 4.3.1 Trust in individuals in Finland 1981–2005 (% saying that 'most people can be trusted').. 97

Table 4.4.1 Votes cast (%) for political parties in Finnish parliamentary elections 1983–2011. 98

Table 5.2.1 Trade union density and union coverage rates in 1970–2010. 109

Table 5.3.1 Taxes and tax-like payments levied by the general government as a ratio of GDP (%) 1975–2011..... 111

Table 5.5.1 Expenditures on regular education divided by function (%), 1995–2010. 116

Appendix Table 1 Log table Finland: Changes in inequality and changes in social, cultural and political conditions. 127

Appendix Table 2 Indicators of the macroeconomic, population and social conditions in Finland, 1980–2011 128

Appendix Table 3 Social expenditure as a share of GDP by function 1980–2010, %. 129

Executive Summary

The development of the Finnish income inequality from the mid-1960s to 2010 can be distinguished into five periods. First, the era of welfare state expansion in the 1960s and the 1970s meant decreasing trend in income inequality for all income concepts (equivalised household factor income, gross income and disposable income). Second, from the mid-1970s to the economic recession of the early 1990s, factor income inequality slightly increased but due to income transfer system, gross and disposable income inequality remained constant. Third, the economic recession of the early 1990s accelerated the increase in factor income inequality but again, gross and disposable income inequality remained at the same level. Fourth, after the economic recession inequality measured by factor income has remained constant. However, the period between 1995 and 2000 meant dramatic increase both to gross and disposable income inequality. Finally, after the turn of the millennium the development of income inequality for all income concepts has been somewhat stable.

Shifts in national economy are associated with development of inequality. Economic recession of the early 1990s meant increase in unemployment, and thus, a large proportion of households witnessed severe financial difficulties. However, in terms of income inequality and at-risk-of-poverty rates, the economic recession did not accelerate income inequality or income poverty immediately – largely because median income of all income groups decreased by the recession. Both income inequality and at-risk-of-poverty rate increased after the recession when national economy started to recover from the recession. In a similar vein, a minor economic downturn decreased income inequality between 2000 and 2003 followed by slight increase until the financial crises in 2008 when income inequality begun to decrease again.

The deep recession at the early 1990s decreased the proportion of those in at-risk-of-poverty in most population groups, notably so among the pensioners. The situation rapidly changed in the latter part of the 1990s when economic growth was extremely rapid. The rising tide did not lift all the boats in a same way and consequently a substantial number of people were lagging far behind. The upper-income groups enjoyed exceptionally rapid increases in their income, while income increases in the lowest deciles were negligible or in some cases, e.g., the unemployed, income stagnated for a decade or so at the 1990 level.

Hence, the main reason behind growing income inequality was the increase of income among high income groups, which was mainly driven by increase in capital income. At the same time, the redistributing role of taxes and benefits – especially taxes – was diminished. This was mainly due to

the dual-taxation system, i.e. differences in taxation between capital income and earnings. Increased importance of capital income is especially the Finnish speciality in rising income inequality. Compared to the era of welfare state expansion from the mid-1960s to 1990, the trend is totally opposite. During the period from mid-1960s to 1990, the lower income groups increased their average disposable income as well as income shares more than higher income groups. After the economic recession in early 1990s, only the richest income decile increased substantially its income share. Opening of the Finnish financial markets and introduction of new types of investment instruments since the late 1980s and early 1990s, combined with the ICT boom at the latter part of the 1990s, created totally different circumstances for business and financial markets than before. Consequently, the role of financial assets has increased in the wealth structure among the highest income decile. The net wealth inequality has also risen during the 2000s, and in absolute terms especially the highest income decile has increased its average net wealth. These factors together with dual-taxation reform in 1993 were behind the shift from earnings to capital income, which in turn, meant a diminishing redistributive role of income transfers.

The development led to increase in income inequality that was one of the fastest in the OECD hemisphere. Growing income inequality did not result in a flood of social and health problems in Finland. Interestingly enough, measures of consensual deprivation and subjective feelings of scarcity decreased. In addition, the majority of Finns are rather satisfied with their lives and their trust to each other as well as to institutions is at high level. These discrepancies have something to do with the relative and absolute measurements of poverty. While according to the Finnish statistics relative poverty increased from seven percent in 1990 to fourteen in 2010, absolute poverty (with the poverty line fixed at the 1990 level) diminished to less than four percent. Another explanation for differences between income poverty and material deprivation is that the relative median at-risk-of-poverty gap in Finland is the lowest in Europe which means that there is a large number of people concentrated around the median. Many people in Finland live just below the 60% income threshold. Consequently, this can mean that the social impacts in terms of more direct material deprivation or subjective measures of well-being do not necessarily follow the pattern which has been drawn based on the development of income inequality.

In the general level, growing inequality has not seemed to affect fertility levels or marriage and divorce rates, but they follow their own patterns related to preferences of family and household formation. Widening socio-economic differences in health are, however, a demonstration of the potential hampering effects of widening social stratification. Development of life expectancy (measured at the age of 35) of those with income in the lowest decile has stagnated since the 1980's while other groups have gained more years. However, growing socio-economic differences in health

are notoriously a Finnish problem. The problem is linked to a number of behavioral factors – how people eat, drink and smoke – and have access to health care. Importance of health is accentuated also if we instead of material living conditions look at subjective well-being. Already in the early 1980s there were substantial differences in mental well-being between the healthy and the sick, and by 2005 they were larger than they were two decades earlier. The same goes for differences between the unemployed and employed. In 2005, the unemployed were more dissatisfied with their lives than the unemployed in the 1980s. It seems that despite growing inequality, the average level of subjective well-being is high but the average conceals a worrying trend: there are more very happy but there also are more very unhappy citizens.

In terms of equal opportunities, Finland seems to be a rather open society. Intergenerational mobility in terms of occupation, income or education is cross-nationally high in Finland. Yet, there are also some trends which would suggest an opposite development. For instance, improving educational achievements is not a universal trend based on social background. There are also clear but constant participatory differences in higher education based on parents' educational background. Moreover, the relative significance of family background for poverty has increased after the mid-1990s.

The Finns want to maintain their welfare state and there is strong support for welfare policies. A lion's share of welfare services in Finland is run by individual municipalities. When the residents of municipalities are asked about the services, some 80 percent of them want to have the present level of service or even increase it. They also express their willingness to pay higher taxes to reach that target. Interestingly enough, the leaders of the very same municipalities are of the opinion that services must be cut down and taxes must be lower. Thus, in the Finnish political life there are two underpinning tensions. On the one hand, there is the socio-economic divide concerning who votes 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.

The strength of the Finnish policy-making has been that despite deep ideological differences, coalition cabinets have been able to seek compromises and solve difficult economic and political dilemmas. One could describe the Finnish political decision making that it is politics without politics; it is governance and muddling through. The method has been an effective device in difficult circumstances, but the price has been watering-down the very role of politics which in turn is mirrored in low voter turn-outs and political frustration that was partially channeled into support for True Finns representing pro-welfare state but anti-immigration attitudes.

Developments in the Gini coefficient of equivalised disposable household income as well as social, cultural and political factors are summarized in Appendix Table 1 (the log table).

Introduction

Finland has traditionally been an agrarian and poor Ulthima Thulean nation somewhere in the Northern outskirts of the world. Here comes the story of a country where social partners have been strong and political battles of welfare state have been fought between the Agrarians and the Social democrats. A story of a country where an agrarian society rapidly develops to an industrial one – first through wood processing, then from the 1990's focusing on mobile technology, transforming its industrial structure and simultaneously building a strong welfare state that since 1990's has faced serious retrenchment. The period of retrenchment since mid-1990s has also had its effects on increasing relative poverty rates and income inequality, and some of their potential consequences. The sunny side of the gloomy story is that the 1990 crisis showed that a universal and advanced welfare state was able to absorb macro-economic shocks and stabilize living conditions when needed. Despite skyrocketing unemployment and rising factor income differences, differences in disposable incomes and poverty did not change that dramatically. The welfare state passed the survival test caused by the deep recession and showed its ability to transform itself in a socially justifiable way.

Finland, situated around the Arctic Circle, did not offer especially lucrative possibilities for easy livelihood. Farmers, that up to the 1960s formed the biggest socio-economic group, had to fight against the nature. The older Finnish literature is a story of frost that destroyed the seed, story of hunger, suffering and premature death. In the beginning of the nineteenth century life expectancy at birth was about 40 years which was ten years less than e.g. in England and the United States. Finnish GDP per capita was one of the lowest in Europe, less than one half of that in England and in the United States (see e.g. Maddison 2003). "Poor is the country, and poor it will be!" stated a poet in the national hymn written in 1848. The situation was not made better by the severe Civil War that broke out in 1918 (Jussila et al. 1999). Two decades later the country found itself in a war against Soviet Union. Finland maintained its independency but the resettlement of the refugees (about 13% of the population) and rebuilding of the national infrastructure after the Second World War demanded huge social and economic sacrifices.

It is argued that the agrarian societies were poor but that they were rather equal in terms of income distribution and wealth accumulation. Poverty was equally shared. Furthermore, it is argued that shared experience of war enhanced mutual help and social solidarity. If wars create solidarity and

agrarian societies are equal, up to the 1960s Finland should have been one of the most equal societies in Europe. However, the idea of agrarian equality is more a myth than reality, and the probability of war casualties tend to be socio-economically very biased. In fact, at least in a Nordic comparison income inequalities in Finland have been large and not before the 1980s, Finland reached the low Scandinavian income inequality levels, and for a short period of time in the late 1980 and early 1990s income inequality and relative poverty was the lowest in the OECD hemisphere.

The devastation following the Second World War called for new inputs from all social actors in Finland. Key elements in the rebuilding process were expanding social policies, implementing extensive land reforms, modernizing the educational system and using social insurance funds as investment capital. The national (people's) pension scheme, established in 1937, serves as a good example. In a capital-poor country, the state deliberately used the new pension system to accumulate capital for investments. The scheme was fully funded, and after World War II the funds were used to electrify the country and to build roads and other basic infrastructure for industrial development. Later the employment related pension funds that began to accumulate in the early 1960s facilitated industrialization and promoted economic growth, which in turn enabled the expansion of social policies.

As a consequence of rapid economic growth, an extensive period of building up universal welfare pro-grams in Finland began in the 1960s (Alestalo & Kuhle, 1984; Alestalo & Uusitalo, 1986; Kuusi, 1964). It became the duty of the public authorities not only to provide extensive welfare services but also to promote the welfare, health and safety of the people. The idea was to provide comprehensive social services and income maintenance programmes in a standard and routine way that went beyond emergency aid (Flora & Heidenheimer 1981:23). The common conception was that the Nordic welfare state had provided a permanent solution for the problem of poverty. In the late 1980s income inequalities were the lowest in the industrialized world and poverty cycles following individual's life phases belonged to the past (LIS, 2010). In the Scandinavian context, Finland was a late-comer that reached its Nordic neighbours in the late 1980 (Kangas & Palme 2005). With only slight exaggeration, poverty was referred to as something that only homeless alcoholics could expect to encounter.

The development has not been stable and linear and without problems but characterized by a number of up- and down turns. In the 1970's, Finland faced the consequences of the first oil crisis, with a couple of zero-growth years and unemployment rates rising from the low one-two percent to five percent in 1975–1977. Since the late 1970's, the following decade showed a period of strong economic growth. However, in early 1990's the country was hit by a severe economic recession that later became known as the Great Depression (Kalela et al. 2001). Finland was hit most severely of the

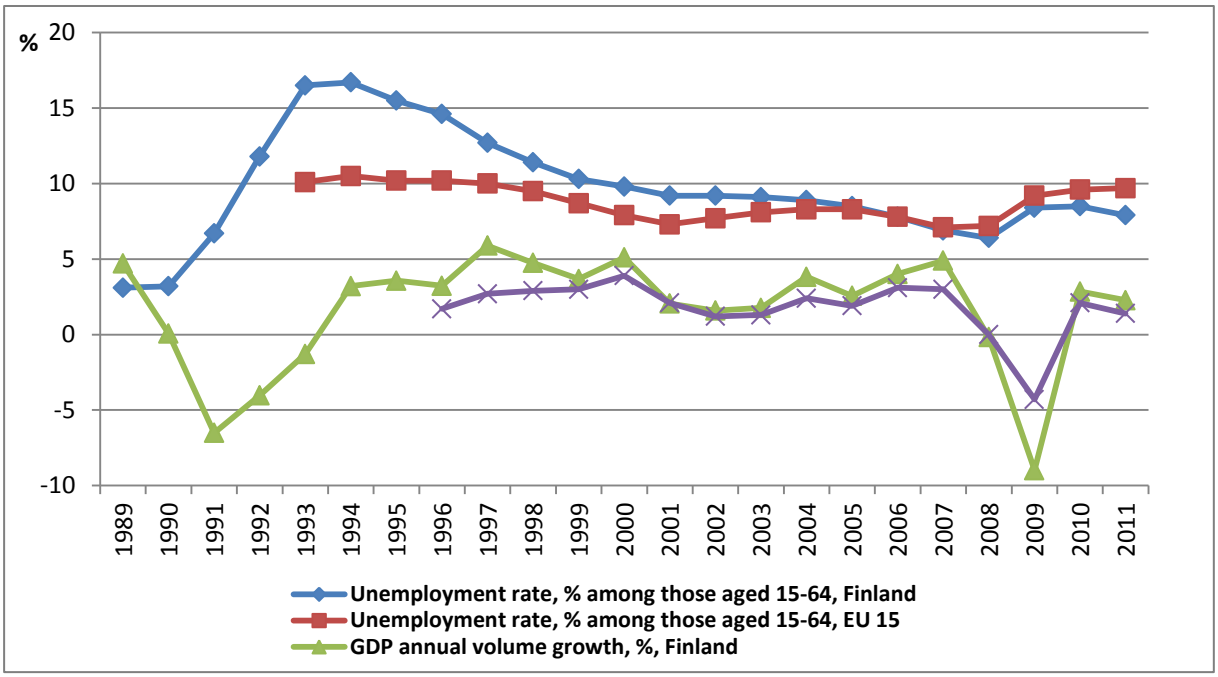
Nordic countries (Kautto 2001; Timonen 2003). Between 1991 and 1993, GDP declined by 13 percent and unemployment rose to almost 17 percent (Figure 1.1). As incomes fell and public expenditure rose, national and local government drifted into a financing crisis which triggered off tax increases and cuts in expenditure. These, in turn, represent the impact of the depression on social policy. The welfare state now faced a tremendous challenge: how could it continue to redeem during hard times the welfare promises given to their citizens during good times? The immediate answer to the public-sector financing problems comprised two stages: first, the expansion of public debt, followed by drastic reduction in expenditure. This led to an abrupt end of the golden years of the welfare state in Finland, where welfare state development had actually been slower than in other Nordic countries (Alestalo & Kuhle 1984; Flora & Heidenheimer 1981). Benefits were reduced and plans for expansion scrapped. In terms of income transfers, the relatively biggest cuts in public expenditure in Finland were in unemployment and family benefits (Heikkilä & Uusitalo 1997). In spite of cuts, growth of public debt continued quickly in Finland until 1993. However, only the growth rate of the debt was alarming, not its level: the Finnish public debt remained at about 60 per cent of national product, near the European average.

Measured as a change in gross national product, however, this depression was over fairly quickly, and by 1993, gross national product was again on permanent rise. The austerity measures prevented the public debt to skyrocket and when Finnish Markka in 1992 was left to freely 'float' it was de facto devaluated by 27 percent which was one of the most important factors to contribute in the rapid economic recovery -- something that is excluded from the toolbox of the crisis-stricken Southern European economies committed to Euro.

By the late 1990s, country's national product was on the highest level in its economic history, showing growth percentages among the highest in industrial countries. During the period from 1994 to 2000, the annual GDP growth rate varied between 3.2 and 5.9 per cent and was higher than, for example, in EU 15 countries on average (Figure 1.1). Recovery of the public sector economy, however, took considerably longer. The recession was followed by rapid economic growth but the tide did not lift all boats. Basic benefits were left to erode. Unemployment rate that had rapidly increased in 1991–1994 was much slower to decrease, and only in 2000 was the unemployment rate again below 10 per cent (see Figure 1.1). Unemployment persisted especially among single parents and those with low education. In a way, recession of the 1990's brought along a phenomenon of some people remaining more or less permanently excluded from the labour market. Whether the criterion is the absolute or the relative level of public debt or unemployment, the traces of depression extended into the 2000s. The Nordic welfare state project began to run out of steam. In

consequence, poverty re-emerged as a formidable social problem that was further aggravated by the onset of the global recession in 2008 (LIS 2012).

Figure 1.1 GDP growth rate (% annual change) and unemployment rate (% unemployed among those aged 15–64, yearly average) in Finland and EU 15 in 1989–2011.



Source: Statistics Finland (annual national accounts; labour force survey); Eurostat statistical database.

The period of good growth in the late 1990's ended in the bursting of the dot-com bubble in 2001. This was followed by a couple of years of slower growth, which then increased again before the world financial crisis in 2008–2009. Also Finland was hit by the crisis, and in 2009 GDP decreased relatively even more than in EU 15 countries on average. Unemployment rate, that in 2008 had reached a low point of 6.4 per cent after a slow decrease since the Great Depression of the 1990's, started rising again even though remained smaller than the EU 15 average (Figure 1.1). After 2010, a slow decline of the rate seems to have begun. The developmental patterns in the Finnish unemployment rates follow the hysteresis paradigm – after each peak of unemployment the unemployment levels has settled on an higher level than before the peak and only very slowly get down.

Table 1.1 shows some more detailed information about Finnish macroeconomic, population and social conditions from the 1981 to 2011 (full table for all years is 1980–2011 available in the appendix (Appendix Table 2). The share of public social expenditure of the GDP is among the highest in OECD countries (OECD 2011a). In 1980, the share was 19 per cent, but increased to as high as 34 per cent in

the recession year 1993. Since then it has come down to the level of 25–26 per cent, but the world financial crisis (with decreasing GDP but steady or increasing expenditure on social benefits and services; see also Chapter 5) lead to a new increase to over 30 per cent in 2009–2010. Employment rate of Finnish men was 69.8 per cent in 2011, which is close to the EU 27 average (70.1% according to Eurostat) but low in the Nordic comparison (Denmark and Sweden had male employment rates of 76% in 2011). However, employment rate of Finnish women (67.4% in 2011) has almost run close to that of men and is high in the European comparison (58.5% for EU 27) – although does not either reach the high levels of Sweden (71.8%) or Denmark (70.4%). High female labour force participation rate reflects the Finnish dual-earner model and also the development of a rather well-functioning and affordable public child-care service system.

Business fields have changed shift from agrarian through manufacturing industry followed by the rise of services and information technology. Table 1.1 shows the employed labour force by the proportion in each of the three main categories since 1989. The importance of the primary sector (agriculture, forestry, fishing, mining) has further decreased to less than five per cent of those employed. The share of manufacturing and construction has decreased from about a third to less than a fourth, and the service sector now accounts for almost three quarters of those employed.

Finnish population has been slowly increasing, with a steady yearly growth rate of about 0.2 to 0.5 per cent during the last 30 years. Total fertility rate is relatively high compared to the European average (1.59 in EU27 countries in 2009 according to Eurostat) and has been going rather up than down since the 1980's. Finland is one of the most rapidly ageing societies in Europe; the share of those aged 65 and over has increased from 12 per cent in early 1980s to 18 per cent in early 2010s. According to population projections of Statistics Finland, this proportion will rise to 26 per cent by the early 2030s. Concomitantly, the proportion of children aged 0–14 and those working aged (15–64) have been declining. Accordingly, the dependency ratio (the ratio of those aged 0–14 and 65+ relative to 100 persons aged 15–64) has increased from 47.2 in 1981 to 52.9 in 2011 and will further increase, posing difficult challenges to the public sector in the future.

Indicators of life expectancy among males and females as well as infant mortality rate tell a coherent story: population health has continuously improved. Life expectancy at birth among males has increased by more than five years among women and by more than seven years among men from 1980 to 2010. However, the gap between men and women is among the largest in Western Europe, mainly due to high male mortality due to cardiovascular diseases. Even though population health in general has improved, socio-economic differences in health are large and have not been significantly

reduced in the Nordic countries even in the golden period of the welfare states in the 1970s and 1980s (Lahelma & Lundberg 2009; Bambra 2011).

The Finnish society has slowly transformed from a relatively unified social-democratic welfare society with rather common interests and values towards more varied values. The proportion of those with foreign citizenships has until recently been very low. It was only 0.5 per cent in 1990, and has been rising slowly to the current 3.4 per cent. Voting activity in the parliamentary and municipal elections (each organized every four years) has steadily decreased. In the early 1980s, more than 40 per cent of the voters gave their vote to social-democratic or left-wing parties in the parliamentary elections – now that proportion is a bit more than one fourth (see Table 1.1). Recent municipal elections in October 2012 engaged only 58.2% of those entitled to vote. Parliamentary elections in 2011 and municipal elections in 2012 have also witnessed the rise of a new party, True Finns, who claim for traditional Finnish values and present themselves as a protest to the prevailing system. However, the right-wing coalition party has lately been the most supported party in the elections after a decades-long period of social-democratic rule. Support for right-wing values has also had its effects on the political preferences related to income distribution and development of social security, both having effects on income inequality in Finland.

An important shift in power balance has taken place also in the labour markets. Traditionally, the role of 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 sys-tem – based on mutual institutional trust – on the labor markets, but also in the construction of social policy programs. This kind of policy-making increased the legitimacy of the outcome, as well as the commitment to it among the social partners. During a decade or so 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 employers vis a 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 service economy with much lower degree of unionization. Needless to say, this kind of development attached to power constellations in politics and labour markets inevitably will change orientations in welfare policies.

Francis Fukuyama (1995, 7) argues that "… a nation's well-being, as well as its ability to compete, is conditioned by a single, pervasive cultural characteristic: the level of trust inherent in society." This means that the level of trust has consequences for economic performance as well as for individual

well-being. The story is very much the same when it comes to the various aspects of trust (Fridberg & Kangas 2008). Finland displays high degrees of trust in all dimensions. People have faith in the police, the legal system, the state and the tax-system. And consequently, the legitimacy of the public institutions, including the welfare state and the redistribution it performs, is rather high. Due to the economic crisis of the 1990s, trust in political decision-making and in various national institutions markedly diminished. By the end of the 2000s the magnitude of trust is about the same level as it was in the early 1980s. In the international debate on welfare there is currently a shift from money-based measures towards more subjective indicators of well-being. And consequently a vast number of studies now offer lots of material on subjective well-being: life-satisfaction and happiness. Despite economic hardships described above, the general level of life-satisfaction is still high among the Finns.

Table 1.1 Indicators of the macroeconomic, population and social conditions in Finland, 1981–2011.

Macroeconomic indicators	**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	30,43
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
Population indicators	**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	83,23
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	76,73
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
Social indicators	**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.

2. The Nature of Inequality and Its Development over Time

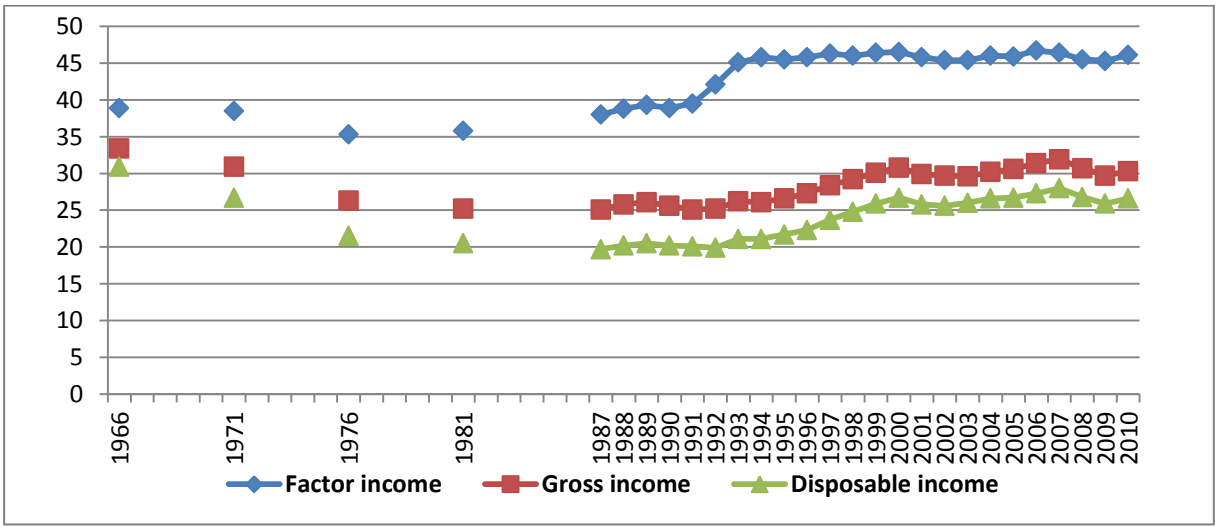
In this chapter we evaluate development in inequality since the early 1970s or 1980s approximately to the year 2010 depending on data availability. We show general patterns of household income inequality, wealth and debt inequality, labour market inequality and educational inequality, as well as discuss the interdependencies of these trends during the past decades. Reasons behind the developments are further discussed in chapter 5.

2.1 Has inequality grown?

2.1.1 Household income inequality

The development of the Finnish income inequality from the mid-1960s to 2010 can be distinguished into five periods. In Figure 2.1.1.1 we present Gini coefficients for different income concepts, all calculated from equivalised household incomes using the OECD modified equivalization scale (weight is 1 for the first adult, 0.5 for other persons aged 14 and over and 0.3 for children aged 0-13).

Figure 2.1.1.1 Income inequality in Finland, 1966–2010. Gini coefficient of equivalised (OECD modified) income, %.



Source: Income Distribution Statistics, Statistic Finland.

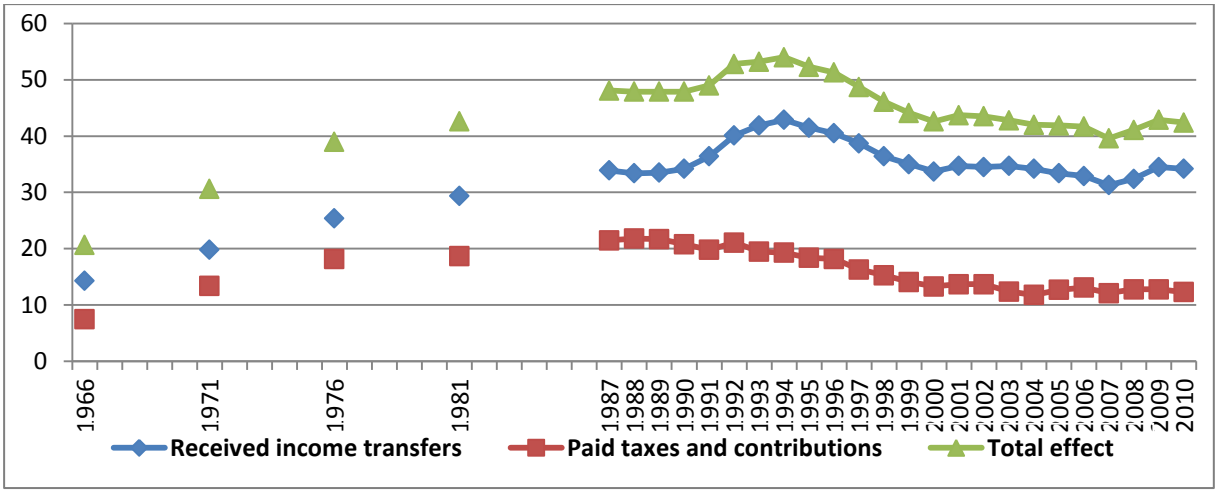
First, the era of welfare state expansion in the 1960s and the 1970s meant decreasing trend in income inequality for all income concepts. Second, from the mid-1970s to the economic recession of

the early 1990s factor income inequality slightly increased but due to income transfer system, gross and disposable income inequality remained constant. Third, the economic recession of the early 1990s accelerated the increase in factor income inequality but again, gross and disposable income inequality remained at the same level. Fourth, after the economic recession inequality measured by factor income has been remained constant. However, the period between 1995 and 2000 meant dramatic increase both to gross and disposable income inequality. Finally, after the turn of the millennium the development of income inequality for all income concepts has been somewhat stable. Yet we can see that the shifts in national economy are associated with gross and disposable income inequality. A minor economic downturn decreased income inequality between 2000 and 2003 followed by slight increase until the financial crises in 2008 when income inequality begun to decrease again (Figure 2.1.1.1). In comparison to most other European countries, Gini coefficient in 2010 (26.6) was still at a low level, although back in the 1980s it was extremely low compared to other countries (OECD 2011a).

Figure 2.1.1.2 shows the changes in the effectiveness of income transfers in reducing income inequality. As shown above the income inequality as measured by both gross and disposable income started to rise simultaneously when the economy started to recover in the mid-1990s. At the same time, however, increasing inequality in factor income was stopped. Because factor income inequality remained constant and at the same time the gross and disposable income inequality rose, redistributing role of government diminished. As Figure 2.1.1.2 indicates especially the role of taxes and contributions in reducing income inequality has diminished dramatically.

One of main reasons behind the rising income inequality from the mid-1990s is the increase of income among high income groups (see also Riihelä 2009). As Figures 2.1.1.3 and 2.1.1.4 indicate, income share of the highest income decile increased dramatically during the latter part of the 1990s. Compared to the era of welfare state expansion from the mid-1960s to 1990, the trend is totally opposite. During the period from mid-1960s to 1990 the lower income groups increased their average disposable income as well as income shares more than higher income groups. After the economic recession in early 1990s, only the richest income decile increased substantially its income share. Both figures also show that there is more turbulence in changes in income shares among the highest income decile compared to other deciles. For example, the global financial crisis in 2008 affected immediately income of the highest income decile.

Figure 2.1.1.2 Effectiveness of income transfers[1] in reducing income inequality (decrease of Gini by inclusion of transfers received and paid by households) in Finland 1966–2010, %.

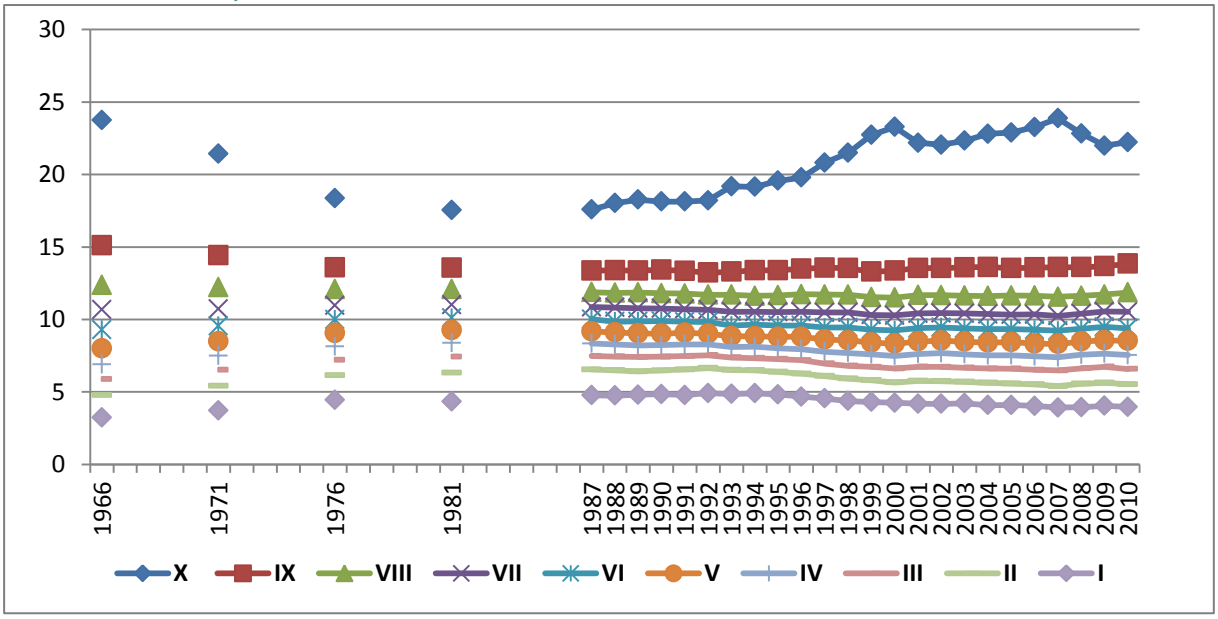


Source: Income Distribution Statistics, Statistic Finland.

[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.

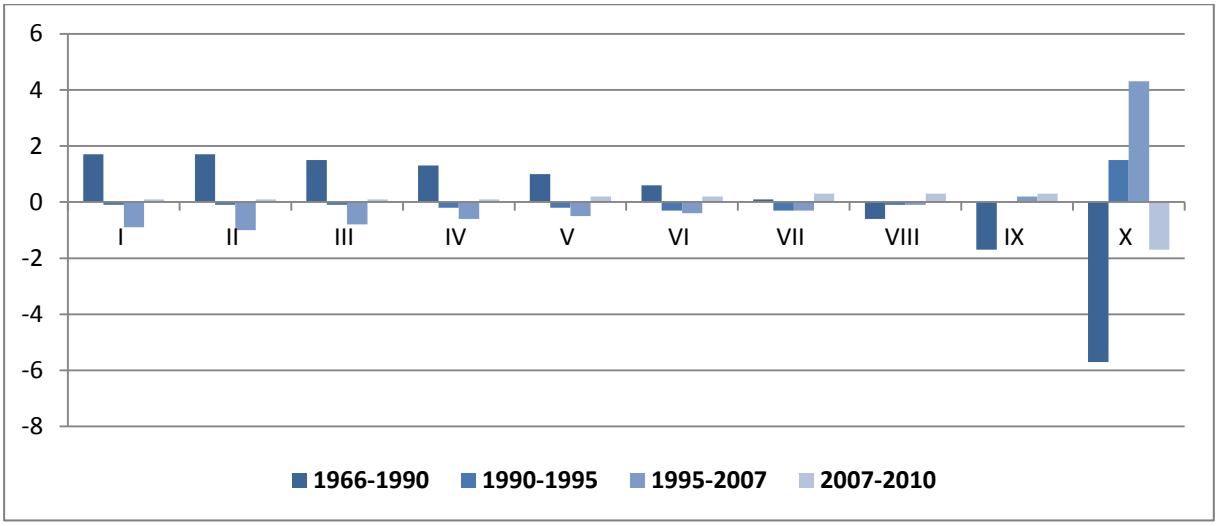
A large increase in the income share of the highest income decile is mainly driven by increase in capital income. The comparison between total population and top 1 per cent illustrates this difference (Figure 2.1.1.5). The decomposition of gross income among the top 1 per cent was totally different in 2007 than it was 20 years earlier. Among the top 1 per cent, the fraction of capital income increased from 14 % in 1990 to 62 % in 2007.

Figure 2.1.1.3 Trends in income shares by income deciles (equivalised disposable income) in Finland 1966–2010, %.



Source: Income Distribution Statistics, Statistic Finland.

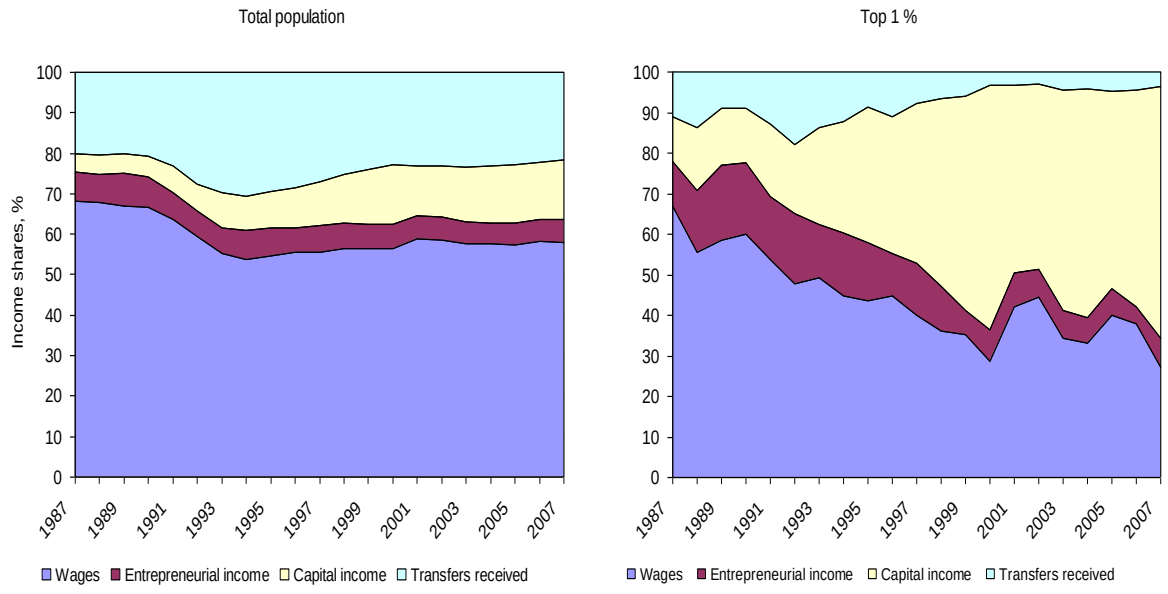
Figure 2.1.1.4 Changes in income shares (%-points) by different time periods in Finland.



Source: Income Distribution Statistics, Statistic Finland.

This change in decomposition of gross income with the Finnish dual tax system has increased income inequality. A major contributing change was the tax system reform in 1993, after which taxation of capital income was proportional (instead of previous progressive taxation), but taxation of labour income remained progressive. After this change, tax rate of capital income has been lower than tax rate of labour income, and the change has entailed an incentive to shift income towards capital income if possible. Thus, especially the top income earners have used financial and fiscal planning to shift their income towards capital income. Also, because capital income has concentrated to the top of income distribution, the general progressivity of taxation has decreased.

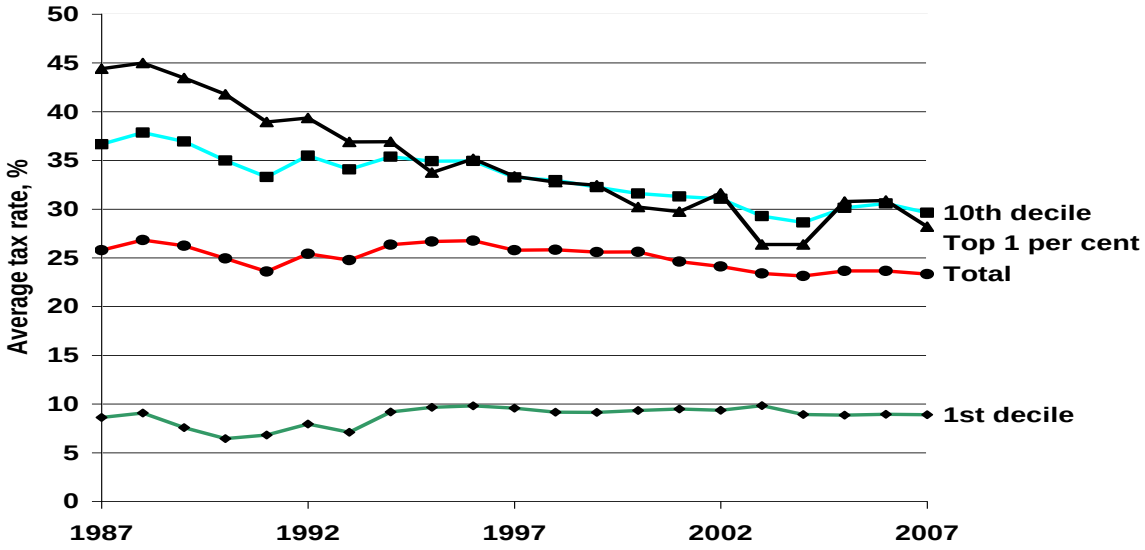
Figure 2.1.1.5 Decomposition of gross income for total population and top 1 per cent.



Source: Tuomala 2009.

As Figure 2.1.1.6 indicates average tax rates (transfers paid / gross income) of the highest income groups have decreased much more than the average tax rate of the total population. On the other hand, the tax rate of the lowest income decile has remained constant. These trends explain both increase in income inequality from the mid-1990s and the diminished role of taxes and contributions in reducing income inequality.

Figure 2.1.1.6 Average tax rates (transfers paid/gross income) in 1987–2007.



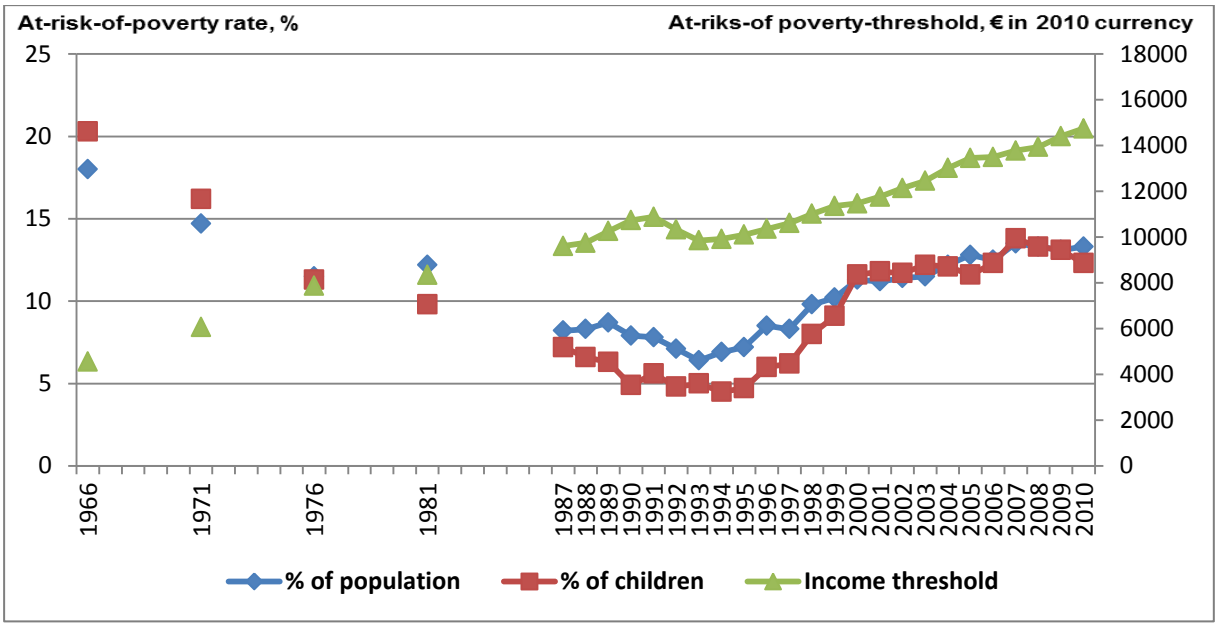
Source: Tuomala 2009.

Figure 2.1.1.7 shows the trend in at-risk-of-poverty rate for total population and children as well as at-risk-of-poverty threshold in Finland from mid-1960s to 2010. Following the terminology of EU's 2020 Poverty Reduction Targets, at-risk-of-poverty refers to the most widely-used Laeken indicator for the relative income poverty (see e.g. Atkinson et al. 2002). The measure distinguishes persons living in households with less than 60% of the national median equivalised disposable income. The equivalence scale used in the figure is so called modified OECD scale with the exception that children are defined as those aged 18 or less. The trend in at-risk-of-poverty has a pattern similar to what was demonstrated of income inequality above (see Figure 2.1.1.1). From mid-1960s to 1990 income poverty decreased from 18% to 8%. During the economic recession of the early 1990s, income threshold started to decrease and at-risk-of-poverty rate continued its decreasing trend. Despite the mass unemployment and severe economic difficulties of households, the relative income poverty was at the lowest level in history in 1993 – largely because median income of all income groups had decreased. Similarly with income inequality, the latter part of the 1990s witnessed a dramatic

increase in relative income poverty: from 1993 to 2001 at-risk-of-poverty rate increased from 6 % to 11 %. Again, similarly with changes in income inequality, the development of the relative income poverty has been more stable after the turn of the millennium. Yet the trend has been still increasing.

The development of at-risk-of-poverty rate for children follows the general pattern. However, increase in child poverty after the mid-1990s has been even more dramatic than increase in relative income poverty for total population. In 2008, the proportion of children below 60 % of the national median income was three times as high as it was in 1994. This refers to the fact that there have also been changes in population structure of at-risk-of-poverty. Figure 2.1.1.8 illustrates this change which emphasizes especially the worsening situation of lone parents in the income distribution.

Figure 2.1.1.7 Trends in at-risk-of-poverty rate (%) of total population and children (aged under 18) and at-risk-of-poverty threshold (equivalised € in 2010 currency) in Finland 1966–2010.

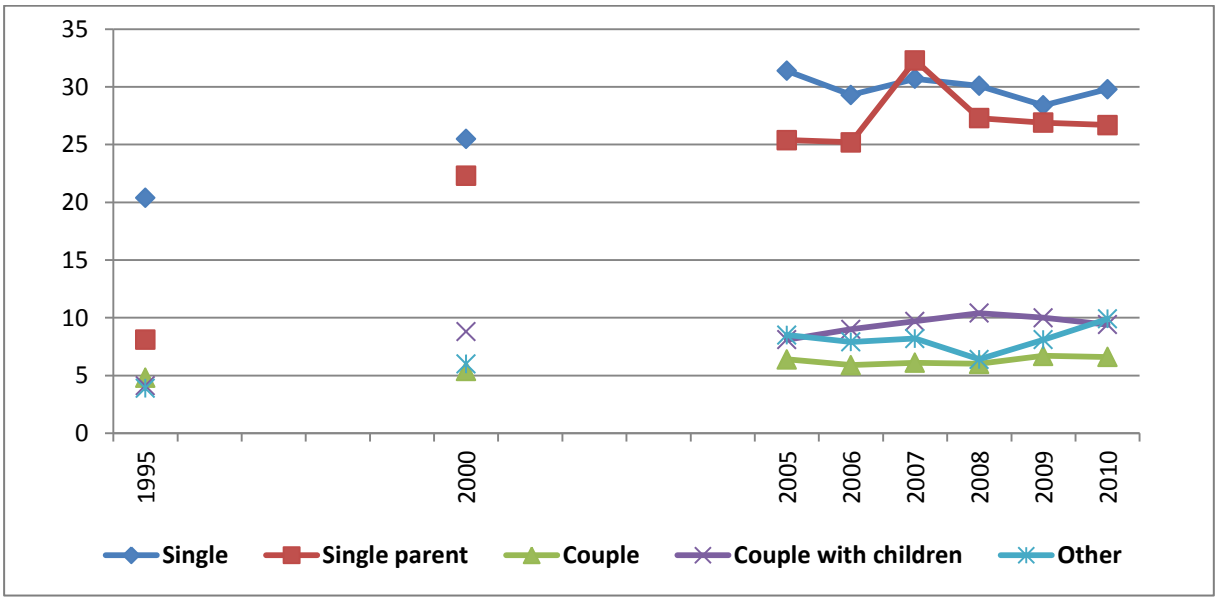


Source: Income Distribution Statistics, Statistic Finland.

It is well-known that at-risk-of-poverty figures are sensitive to the choice of income threshold. Cross-national comparisons have shown that the ranking of most countries does not change substantially if alternative thresholds are used instead of 60% of the national median income. However, earlier findings suggest that Finland is a deviant case in this respect. Finnish relative income poverty rate with 60% threshold is somewhere in the middle in European comparison. However, using the 50% threshold instead improves the ranking substantially: Finland's at-risk-of-poverty rate is one of the lowest in Europe. (Lelkes et al. 2009.) As shown in Figure 2.1.1.9, at-risk-of-poverty rates are much

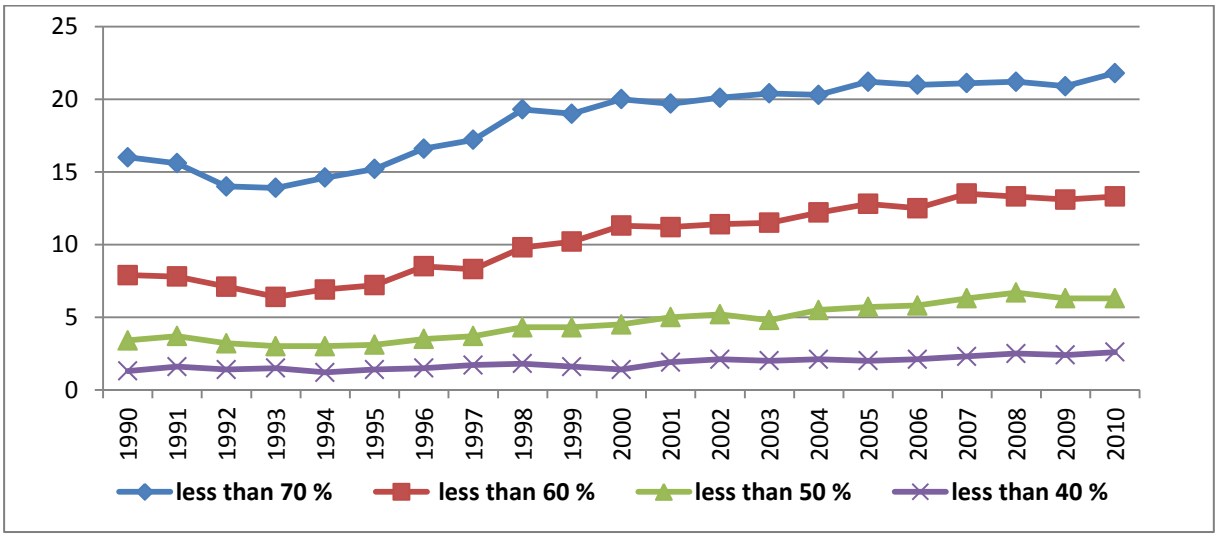
lower when the 50% or the 40% thresholds are used. Also increase in at-risk-poverty rate is considerably less dramatic with the 50% threshold and especially with the 40% threshold. Yet, poverty rate is still increasing independent of the poverty threshold used: during the period between 1990 and 2010 the proportion of people below the 50% and the 40% threshold is two-times higher in 2010 than 20 years before.

Figure 2.1.1.8 Trends in at-risk-of-poverty rate by household type in Finland 1995–2010 (%).



Source: Income Distribution Statistics, Statistics Finland.

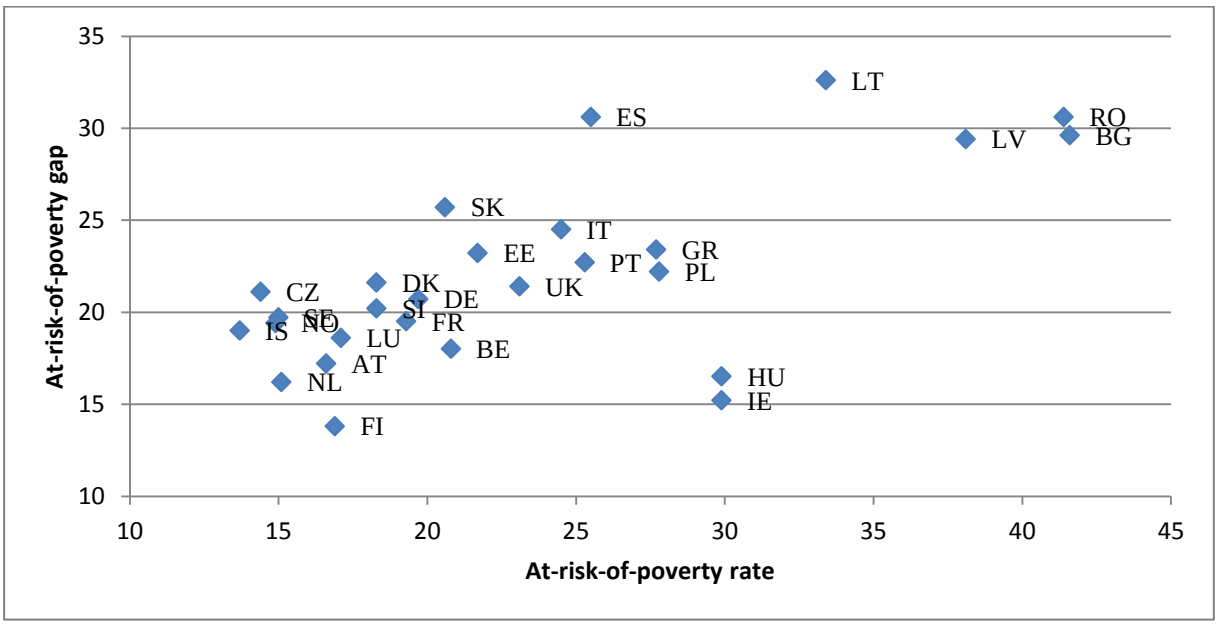
Figure 2.1.1.9 Sensitivity of at-risk-of-poverty rates to the threshold chosen: at-risk-of-poverty rates at 40%, 50%, 60% and 70% of national median equivalised income in 1990–2010 (%).



Source: Income Distribution Statistics, Statistic Finland.

Related to sensitivity figures discussed above, the at-risk-of-poverty rates do not indicate the extent to which the income of those concerned falls below the poverty line. The Laeken indicator for poverty gap, which is termed the "relative median at-risk-of-poverty gap", is the measure of the difference between the median income of those below the poverty threshold and the threshold itself. Thus, it indicates the scale of transfers which would be necessary to bring the incomes of the poor up to the poverty threshold level. Figure 2.1.1.10 shows the association between poverty gaps and at-risk-of-poverty rates in Europe. In general, the figure indicate that the greater is the proportion of people with income below the income threshold, the lower are the relative incomes of those with income below the threshold. Interestingly enough, however, Finland is to some extent an outlier in this respect. The poverty gap in Finland is the lowest in Europe (13.8 %). For example, countries such as Norway, Sweden and the Netherlands have lower levels of at-risk-of-poverty rates but their poverty gaps are much higher than in Finland. The result suggest with the results of the sensitivity analysis that the shape of income distribution is to some extent different than in many other western European countries: there is a large number of people concentrated around the median. Many people in Finland, for example those on social benefits, often live just below the 60% poverty line and would not need much additional income to rise above the line.

Figure 2.1.1.10 Relative median at-risk-of-poverty gap and at-risk-of-poverty rate in European countries, 2010, %.

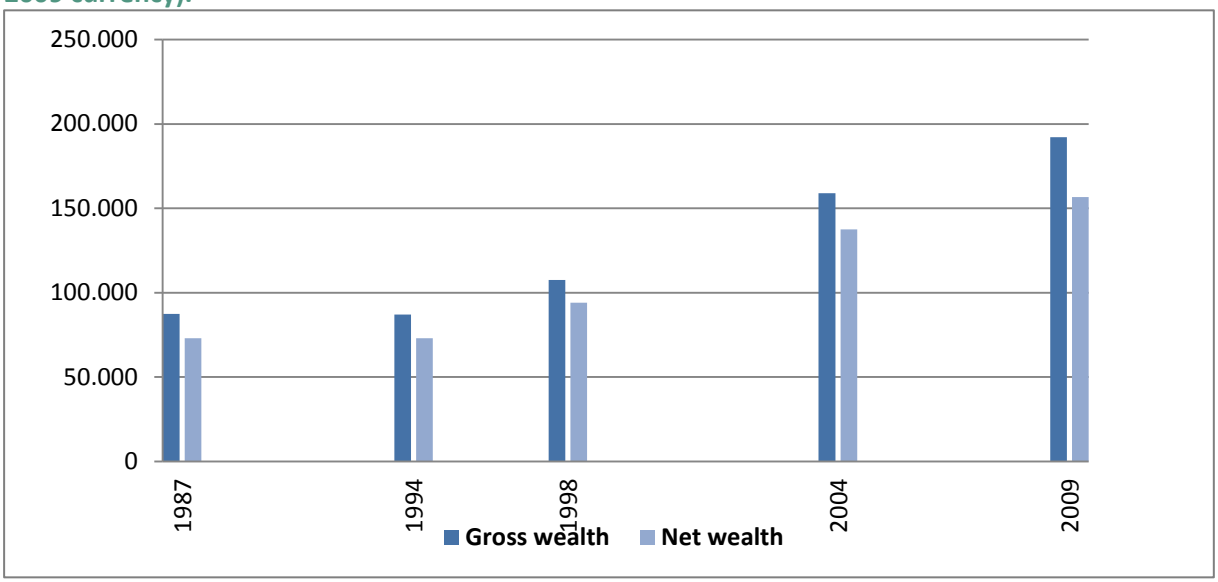


Source: EU-SILC 2010, Eurostat.

2.1.2 Wealth and debt inequality

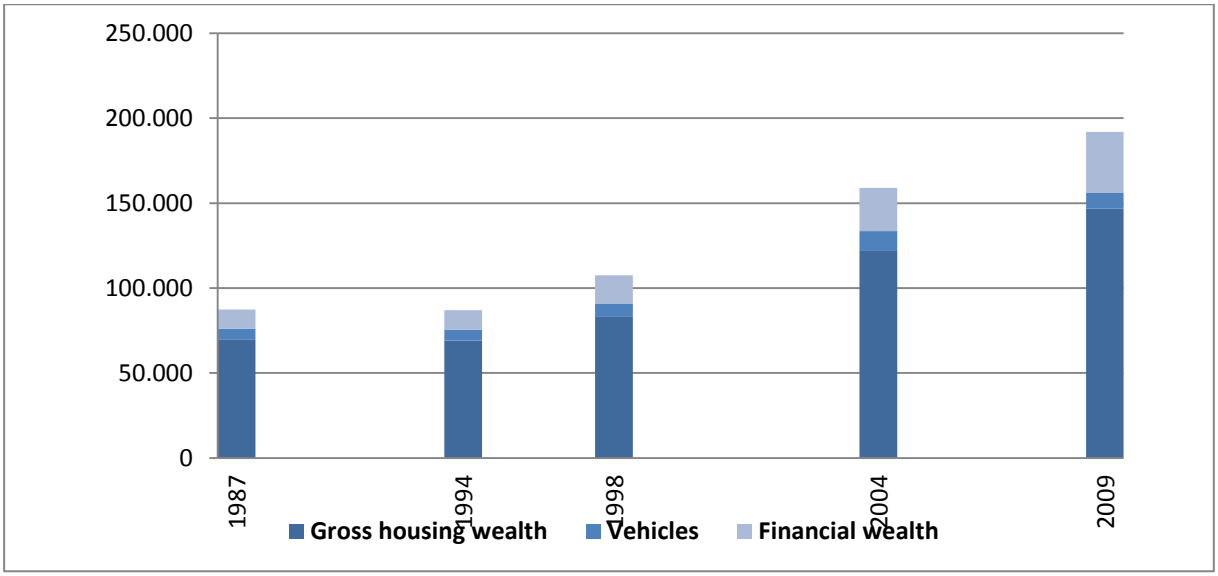
Households' wealth has witnessed a sharp increase since the mid-1990s (Figure 2.1.2.1). In 2009, the average gross wealth of households amounted to EUR 192 000 and net wealth was EUR 157 000 per household. During the period between 1994 and 2009, gross wealth increased in real terms by 121%, while net wealth increased by 115%. Despite the increase in households' wealth, the wealth structure has not changed that much (Figure 2.1.2.2). The role of housing is still important (see also Chapter 3.7 on housing): during the period of 1994–2009, the proportion of gross housing wealth decreased from 80% to 76%. However, the proportion of financial assets increased from 13% to 19%. The structure of financial assets has also changed remarkably because of the opening of the Finnish financial markets and introduction of new type of investment instruments since the late 1980s and early 1990s (Figure 2.1.2.3). While the role of deposits as well as bonds and debentures has decreased, shares and mutual funds have grown their importance as a form of financial assets.

Figure 2.1.2.1 Trends in average gross and net wealth of households in Finland, 1987–2009 (€ in 2009 currency).



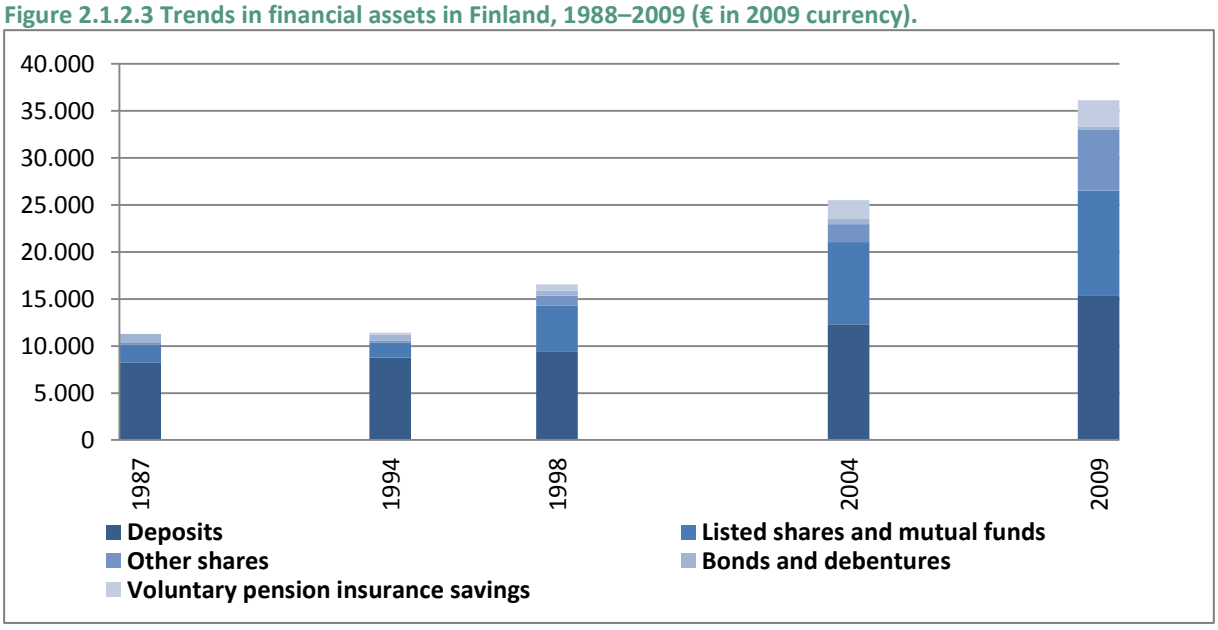
Source: Households' assets, Statistic Finland.

Figure 2.1.2.2 Trends in composition of gross wealth in Finland, 1987–2009 (€ in 2009 currency).



Source: Households' assets, Statistic Finland.

Figure 2.1.2.3 Trends in financial assets in Finland, 1988–2009 (€ in 2009 currency).

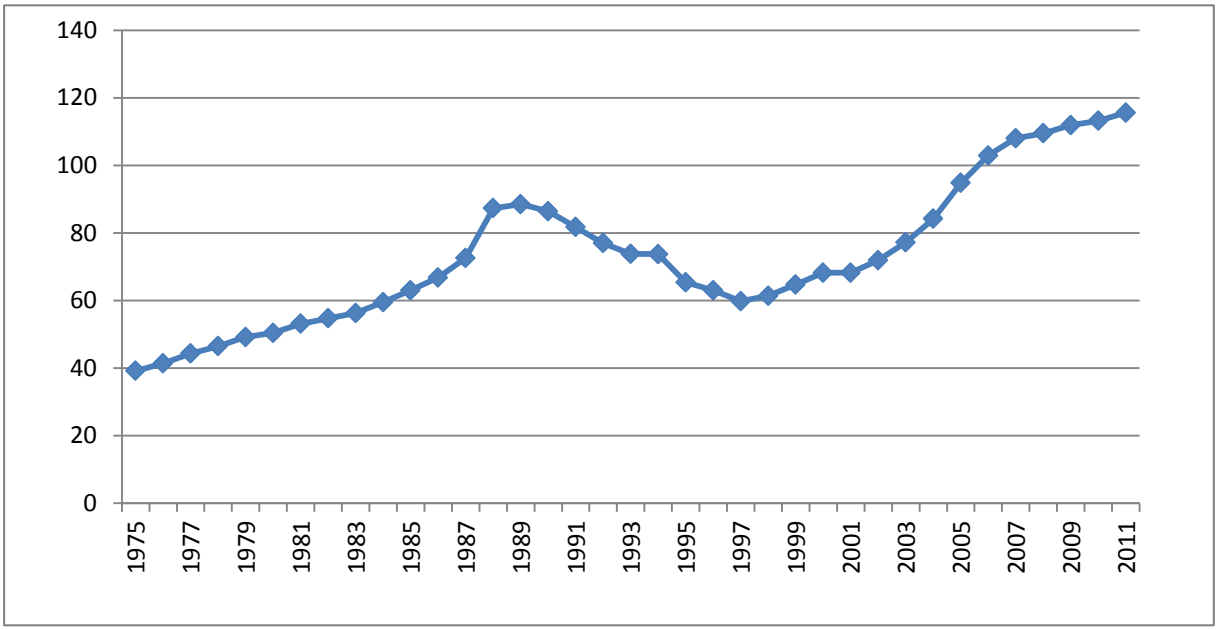


Source: Households' assets, Statistic Finland.

The widening difference between gross and net wealth during 2000s can be explained by the trend of indebtedness. As seen in Figure 2.1.2.4 households' indebtedness rate, which expresses the ratio between the credit stock and annual disposable income in accordance with financial accounts, has increased substantially since the mid-1990s and it was in 2011 higher than ever before. Figure 2.1.2.5 illustrates changes in average debt in different income levels. Especially, the period of 1998 to 2009 is totally different than before. The average debt increased by 165% and we can see that there is not

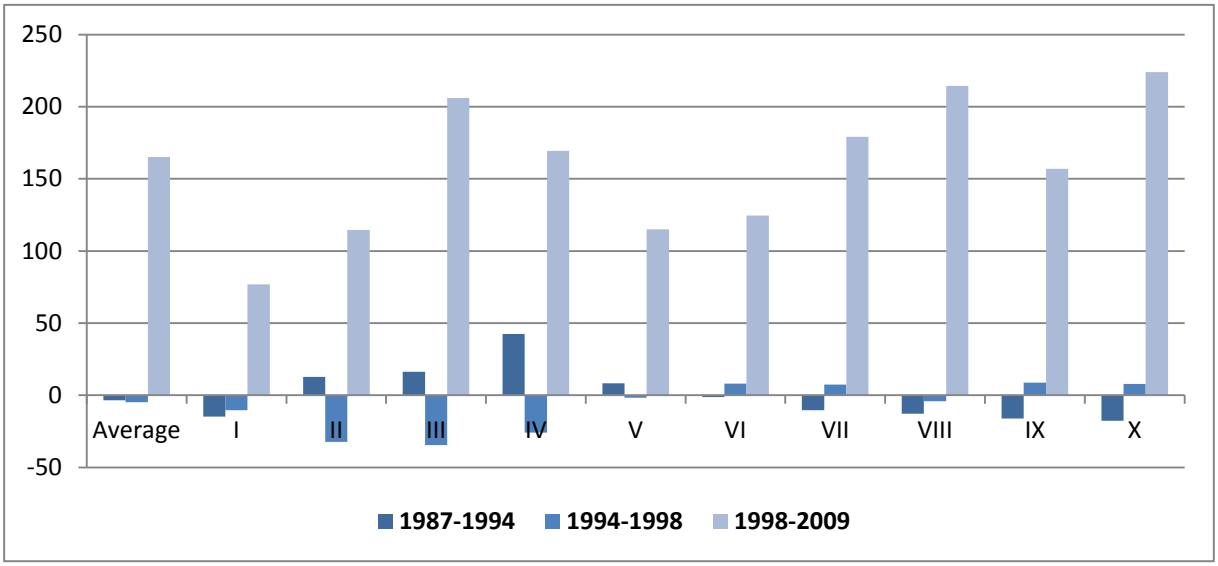
any straightforward relationship between the level of household disposable income and the level of average debt.

Figure 2.1.2.4 Households' indebtedness rate in Finland 1975–2011 (%).



Source: Annual national accounts, Statistic Finland.

Figure 2.1.2.5 Changes in average debt by disposable income decile in 1987–1994, 1994–1998 and 1998–2009. (%).

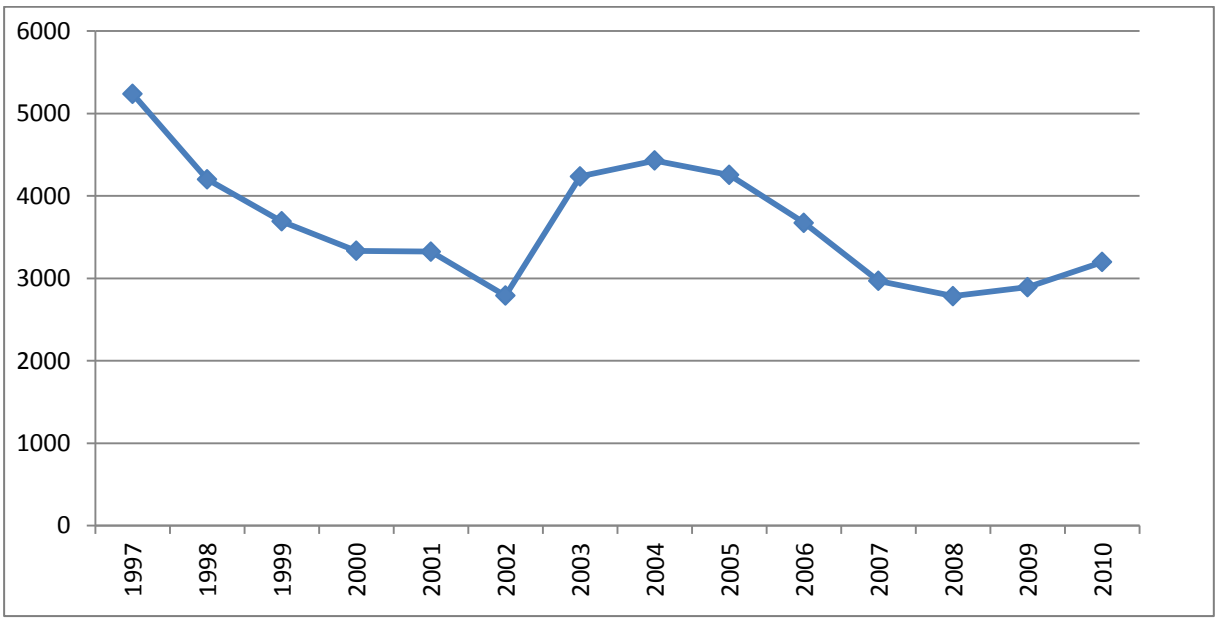


Source: Households' assets, Statistic Finland.

It is also interesting that households' indebtedness rate as well as average level of debt decreased during the economic recession of the early 1990s. The debt itself was not the problem behind the

severe financial difficulties of households, but it was raising interest rates which caused problems. As a consequence of economic recession, numerous households became subject to debt collection. To contain the problem with overdue housing loans and small business loans Act of private persons' debt restructuring was issued in 1993. Statistics Finland publishes statistics on cases concerning the restructuring of private debts handled and concluded by district courts. The restructuring of private debts gives insolvent persons the possibility to become discharged from some or all of their debts if they are for reasons other than temporary ones unable to make the repayments that fall due on their debts. Admittance of a private person into a debt restructuring scheme is decided by the court. The case originating from the early were processed before the end of 1990s (Figure 2.1.2.6). A minor downturn in the economy caused the number of cases to increase between 2002 and 2004. The economic collapse of 2008 and ensuing Euro crisis again brought in more applications for arrangements of debts.

Figure 2.1.2.6 Applications for arrangement of debts in 1997–2010.

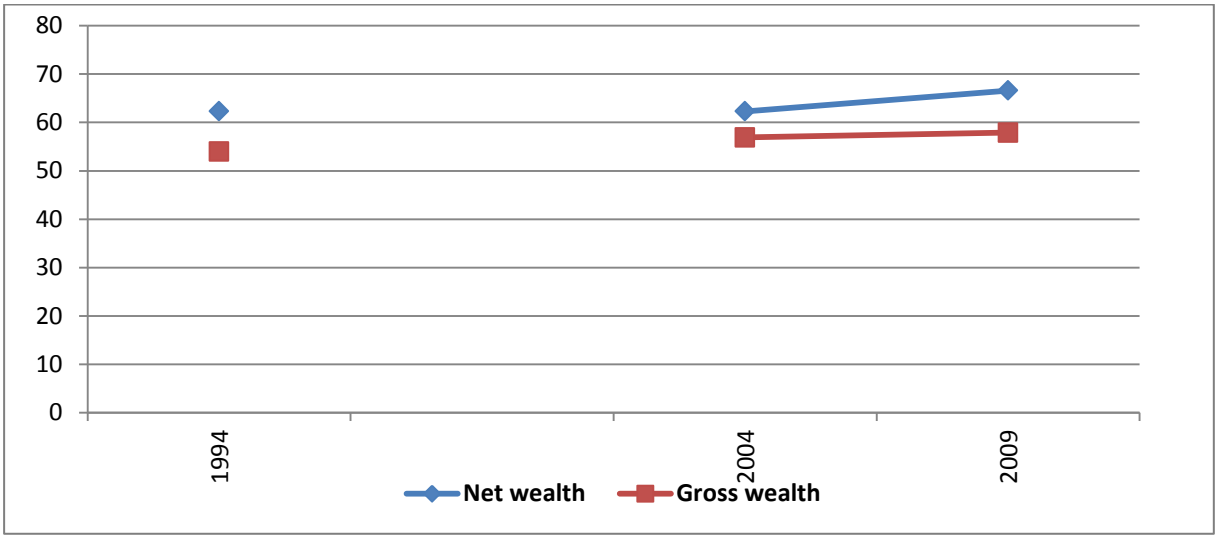


Source: Statistics on Justice and Crime, Statistic Finland.

Indebtedness is also reflected in the trend of relative differences in wealth. Figure 2.1.2.7 shows that the Gini coefficient for gross wealth increased during the period of 1994 to 2004 while the Gini coefficient for net wealth remained unchanged. On the other, during the period of 2004 to 2009 gross wealth inequality has remained unchanged but the coefficient for net wealth went up by approximately four percentage points to 67%. Totally there is an increase for both gross and net

wealth inequality since the mid-1990s. The Gini coefficient has increased from 54% to 58% for gross wealth and 62% to 67% for net wealth.

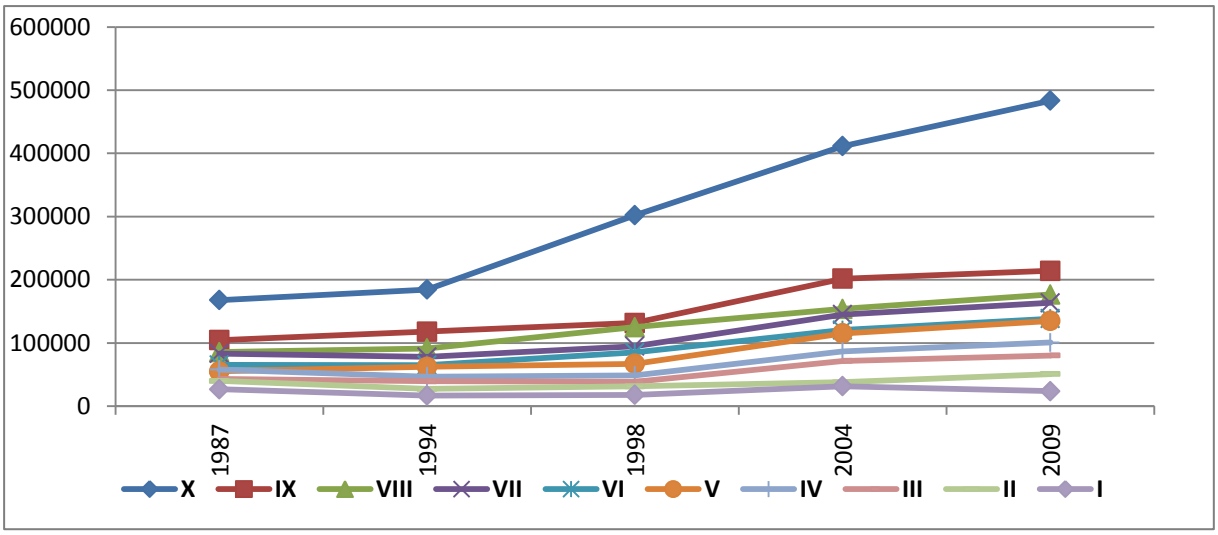
Figure 2.1.2.7 Wealth inequality in Finland, 1994–2009. Gini coefficient, %.



Source: Households' assets, Statistic Finland.

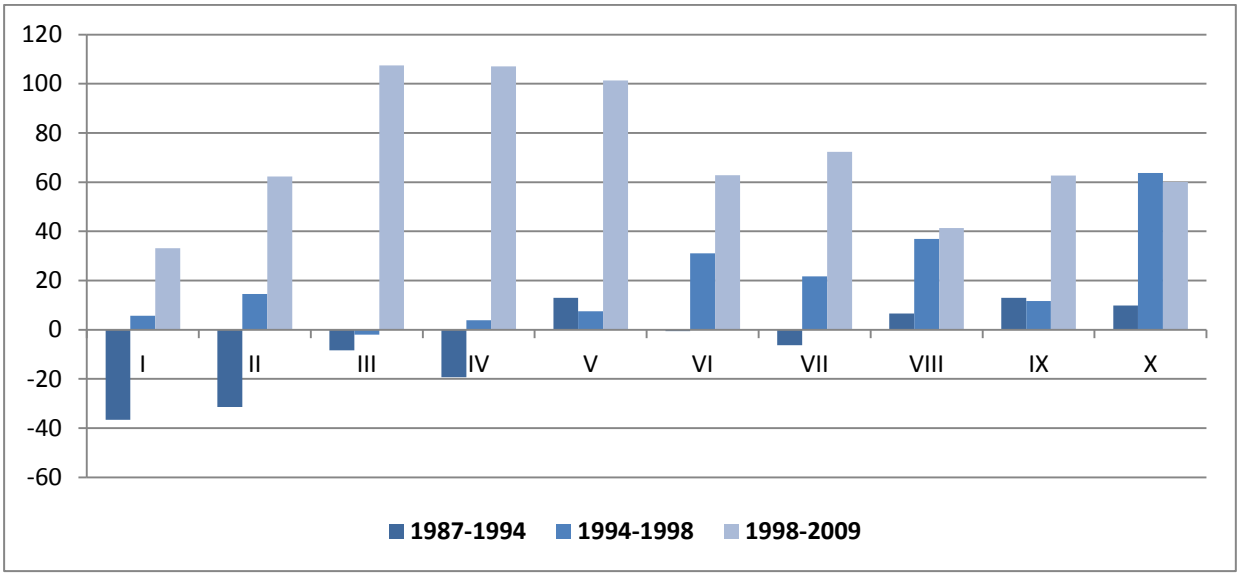
Figures 2.1.2.8 and 2.1.2.9 illustrate the changes in net wealth by disposable income deciles. In absolute terms, especially the highest income decile has increased its average net wealth. Relative to a given decile's previous wealth level, the level of net wealth decreased in lower income deciles during the early 1990s. All income deciles started to increase their net wealth after the economic recession of the early 1990s. Especially the period of 1998 to 2009 shows substantially increase in net wealth regardless of income levels. Relatively, the level of net wealth increased more in those income deciles which are at the middle of the income distribution.

Figure 2.1.2.8 Trends in average net wealth by disposable income decile, 1987–2009 (€ in 2009 currency).



Source: Households' assets, Statistic Finland.

Figure 2.1.2.9 Changes in average net wealth by disposable income decile in 1987–1994, 1994–1998 and 1998–2009. (%).

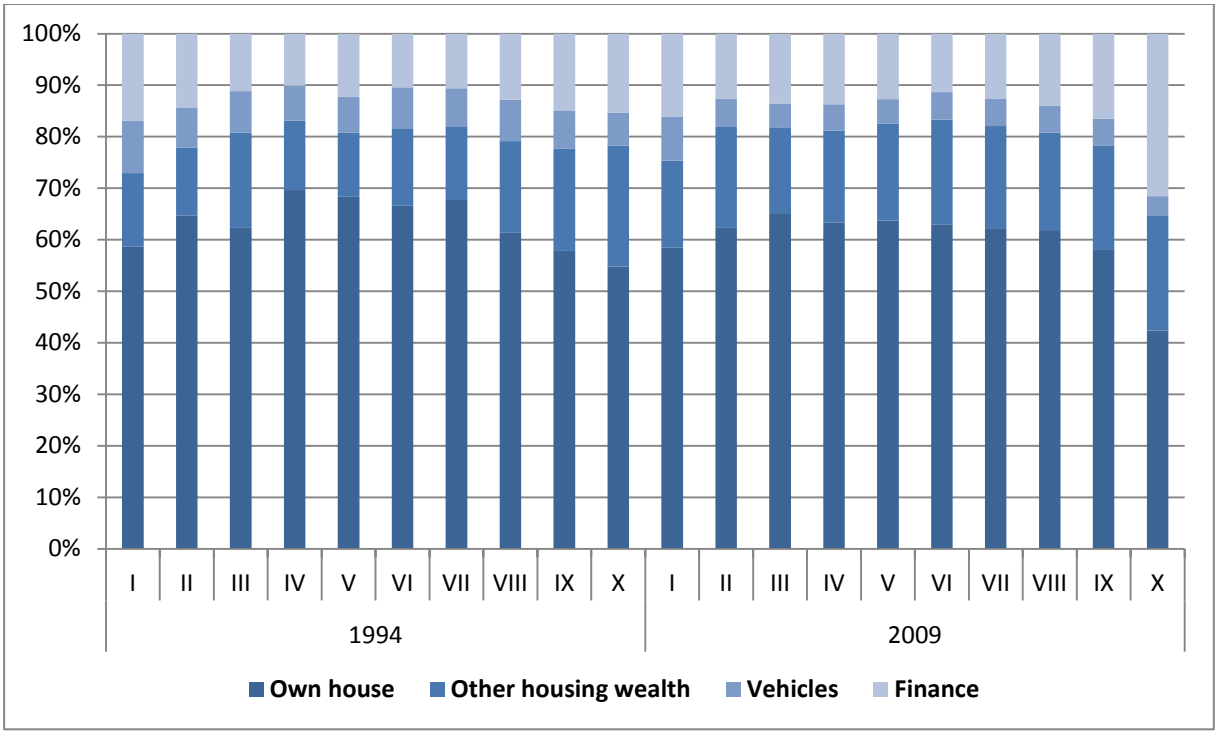


Source: Households' assets, Statistic Finland.

Despite the changes in the level of wealth, the composition of gross wealth in different income groups have remained rather unchanged (Figure 2.1.2.10). There seems to be an inverted U-relationship between the level of household disposable income and the role of housing in wealth structure. The importance of housing is bigger at the middle of the income distribution than in the lowest or the highest income deciles. Only exception here is the change in wealth structure of the highest income decile in which the role of financial assets have increased substantially. Besides the

level of income and wealth, the composition of wealth varies depending on such factors as age and stage of life. Accumulating wealth takes time and for example in 2009, households of those aged 55 to 64 years had the greatest average wealth, while those aged 25 or under showed the lowest figure. Because the role of housing wealth is crucial in the wealth distribution, more detailed analysis regarding wealth differences between age groups is provided in Chapter 3.7.

Figure 2.1.2.10 The composition of gross wealth by income decile in 1994 and 2009 (%).



Source: Household's assets, Statistic Finland.

Pensions included in the statistics of household's assets above (e.g. Figure 2.1.2.3) include only voluntary pension insurance savings. Thus, their role in wealth distribution is rather small. Maunu (2010) has, however, examined the effect of pensions on the distribution of wealth with register information on earned pension rights. By calculating the discounted value of the stream of future pension benefits, the study shows that adding pension wealth does not change the shape of the wealth distribution. In regard to wealth inequality, analyses show that wealth distribution with pensions is more even than the distribution without, for the whole sample, inequality is reduced by 17 percentage points when pension are added.

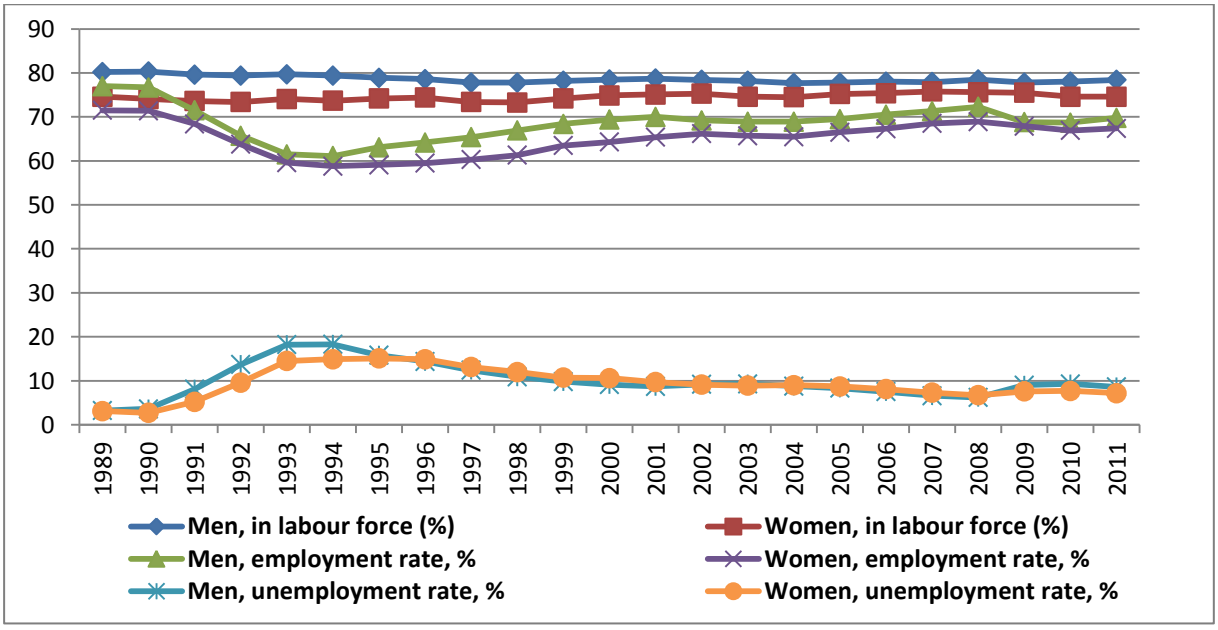
2.1.3 Labour market inequality

Employment and unemployment have been among the major drivers of inequality in Finland since the recession of the 1990's. First, figure 2.1.3.1 shows trends in the employment rate and

unemployment rate and the total percentage of those working-aged in the labour force. The total labour force participation rate has remained rather stable since the early 1990s. The welfare state in Finland has certainly helped women to enter into the labor market. However, the gender relations are perhaps not that equal, since women are predominantly working in the welfare sector which leads to high degree of occupational segregation by gender. The occupational segregation has effects upon gender equality: women may be stacked in low-paid public sector occupations and their representation in the high-pay occupations may be lower than in countries with smaller public sectors.

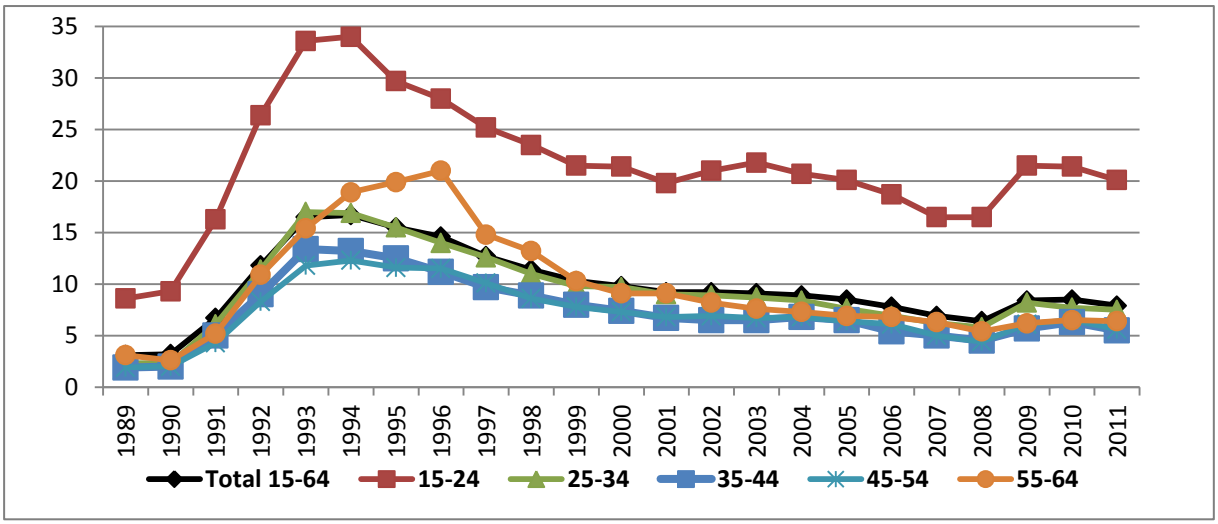
After the peak of the 1990s' recession, the unemployment rate has declined very slowly, and in 2010, it was on average 8.5%. However, large differences in unemployment rate can be seen across age groups (Figure 2.1.3.2). Youth unemployment rate seems to be especially high; on the other hand the figures are partially arbitrary since most of the unemployed young people in these statistics are actually students, but are also simultaneously seeking for work and are thus defined as unemployed according to the rules of the labour force survey. The peak in unemployment among those aged 55–64 after the recession of the 1990s was caused by legislative reasons: for many years there were incentives for both employers and older employees to encourage older workers to slowly move away from the labour market to retirement through a special unemployment pathway.

Figure 2.1.3.1 Labour force participation, employment and unemployment (% of those aged 15–64), 1989–2011.



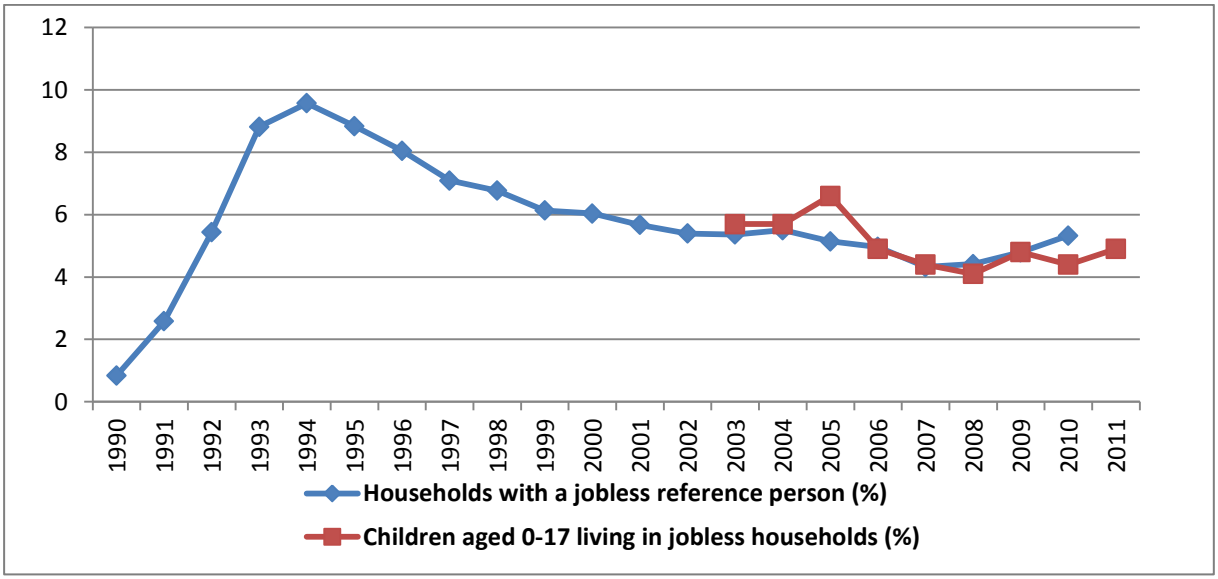
Source: Statistics Finland, labour force survey.

Figure 2.1.3.2 Unemployment rate (%) by age group, 1989–2011.



Source: Statistics Finland, labour force survey.

Figure 2.1.3.3 Households with a jobless reference person (%) and children aged 0–17 living in jobless households (%), 2003–2011.



Sources: Statistics Finland, income distribution statistics; Eurostat.

Figure 2.1.3.3 further shows the proportion of those households where the household reference person[1] was unemployed, as well as the percentage of children living in jobless households. At the household level, unemployment is naturally less prevalent than at the individual level.

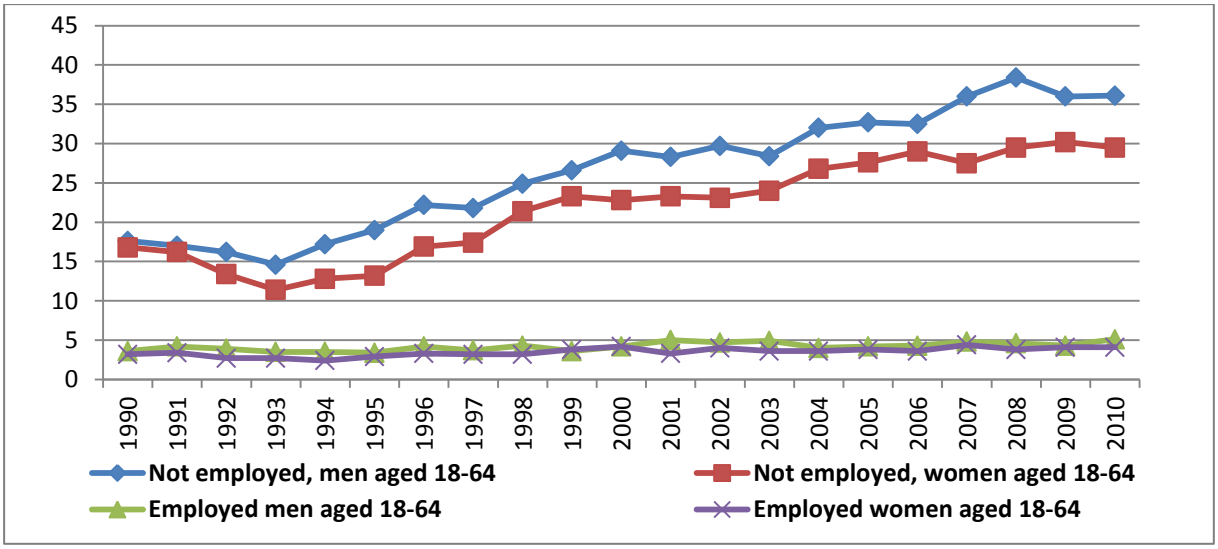
[1] In the income distribution statistics, the person with the highest personal income is chosen as the household's reference person. In addition to income, in some cases (e.g. entrepreneur households) the activity of the whole household is taken

Since the recession of early 1990s, there has been striking divergence in the at-risk-of-poverty rates (equivalised disposable income below 60% of median) especially between those employed and those not employed (including those unemployed and those outside the labour force) (Figure 2.1.3.4; see also Airio et al. 2008). At-risk-of-poverty rates among employed have been small and stable throughout the period 1990–2010, but the same rates among those in the labour force not employed have risen from 15% to 26% among men and from 9% to 30% among women. Echoing the earlier results, the figure shows that being without a job is these days a major risk of poverty in Finland. Actually, since the 1990s, the median real disposable income has not much increased among unemployed despite huge increase among the employed groups (see further results on income in Chapter 2.2).

In general and on all income groups, the share of wages and salaries has decreased as a proportion of all gross income (Figure 2.1.3.5). The higher in the income distribution one goes, the higher share wages and salaries form of gross income (wages and salaries + entrepreneurial income + income from property + transfers received). A deviation from the pattern is the top 10%, of whose level is close to the average: 56% of gross income in this group in 2010 came from wages. All deciles received a smaller portion of their income from wages in 2010 compared to 1990, but the change away from wage earnings has been remarkably strong in the highest income decile. As seen earlier, the top 10% and especially the top 1% have shifted their income more towards capital income (see Chapters 2.1.1 and 5.3). This development, along with lighter taxation on capital income than earnings income since mid-1990s, has aggravated the income inequality development in Finland.

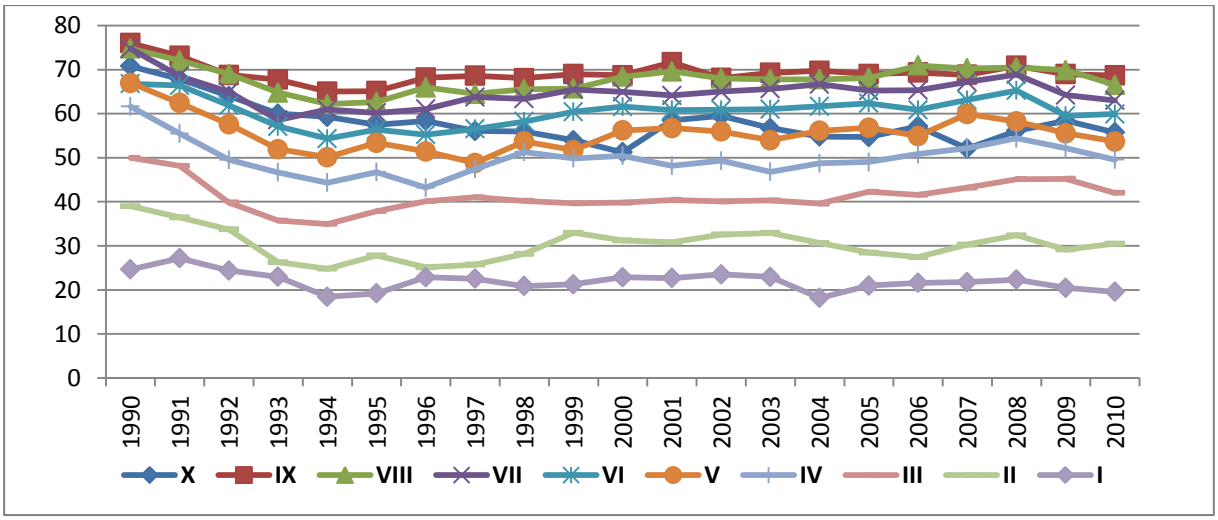
into account. Households of pensioner parents with children (including those over the age of consent) are also special cases where the parent with the higher income is selected as the reference person if the combined incomes of the parents clearly exceed those of a child.

Figure 2.1.3.4 At-risk-of-poverty rates (equivalised disposable income below 60% of median) by gender and employment status among working-age population, 1990–2010.



Source: Statistics Finland, income distribution statistics.

Figure 2.1.3.5 Share of wages and salaries (%) of gross income by income decile, 1990–2010.



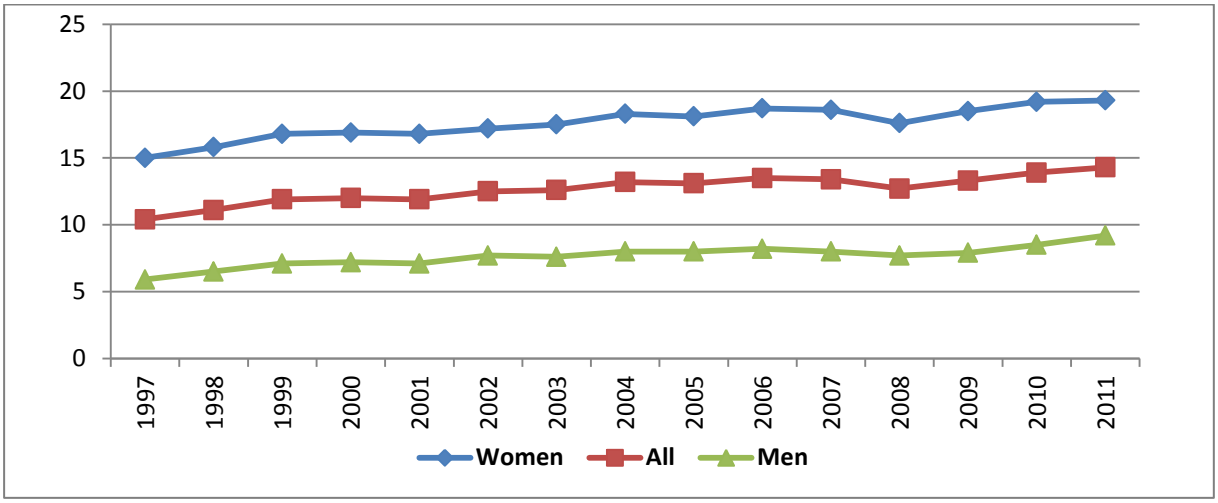
Source: Statistics Finland, income distribution statistics

Another driver may have been the growth in part-time work. Figure 2.1.3.6 shows that the proportion of employees that had a part-time contract has grown both among women and men. These data do not show, however, whether part-time work was 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 choice rather than a necessity.

Partly due to a controlled wage bargaining system (see Chapter 5.2), wages and salaries in different employment sectors have developed roughly hand in hand at least during the 2000s for which data is available (Table 2.1.3.1). There are no huge differences between sectors; almost all have improved

their salaries 1,5 fold by 2011 compared to year 2000. However, a general trend over sectors is that the monthly paid employees have improved their salaries more than the hourly paid employees.

Figure 2.1.3.6 Proportion (%) of employees aged 15–74 having a part-time contract, 1997–2011.



Source: Statistics Finland, labour force survey.

Table 2.1.3.1 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).

2.1.4 Educational inequality

The main objective in reforming the Nordic school system has been to involve the school in the realisation of social goals such as equal opportunity and community fellowship. Free school meals as a unique feature of Finnish family policy exemplify these goals. Arrangement of free school meals was based on charity organizations in Finland until 1921, after which it was the voluntary responsibility of the municipalities. Currently only the law obliges the schools to offer a free lunch for schoolchildren.

Equal opportunity was one of the most important policy goals during the decades of the construction of the Nordic welfare state model in the 1970s and 1980s. Since then, the ideas of economic competition between nations have gained greater influence over school philosophy and development also in the Nordic countries, and technical and instrumental goals have been prioritised at the expense of national and social unity (Telhaug, Medias & Aasen 2006).

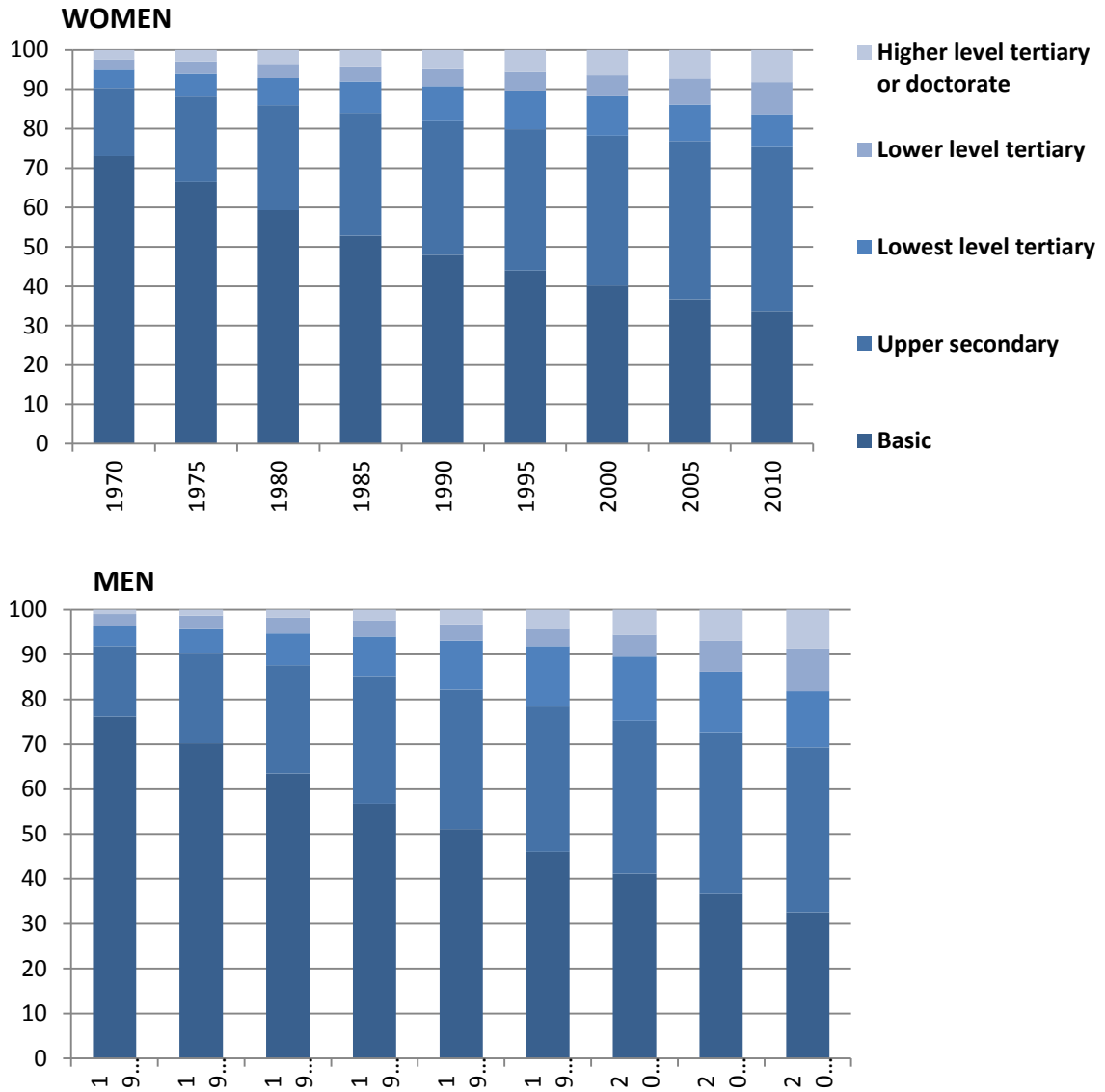
Upper secondary education has become more prevalent in Finland (Figures 2.1.4.1). In 1998 a major reform was introduced in higher education which accelerated the increase in the share of those with lower lever tertiary education. Data for the Register of Completed Education and Degrees are gathered directly from educational establishments, and therefore data concerning degrees and qualifications obtained in Finland can be considered reliable.

The educational level of Finns has increased dramatically over last 40 years (Figure 2.1.4.1). In 1970, most of persons aged 15 and over did not have any educational qualification. By 2010, almost 70 per cent of males and females had some educational qualification, while the share of those with only basic education had dropped almost to 30 per cent. The educational level of women has increased more than that of men.

The most dramatic increase in the educational level has taken place among those with upper secondary education. The share has increased from little over 15 per cent for both men and women up to above 35 per cent. The change can be attributed to a reform in polytechnic level of education. The indicator on upper secondary education refers to those who have passed the matriculation examination or have completed, in a vocational institution, studies of no more than 3 years and leading to a vocational qualification. Since 1995 due to a major reform in tertiary education, the share of those with lowest level of tertiary education started to decrease, while the share of those with lower level tertiary education increased.

The share of females among persons with higher level of tertiary education passed that of men in 2005. However, there are still more men with doctoral level education than women (1% of men, 0.6% of women in 2010).

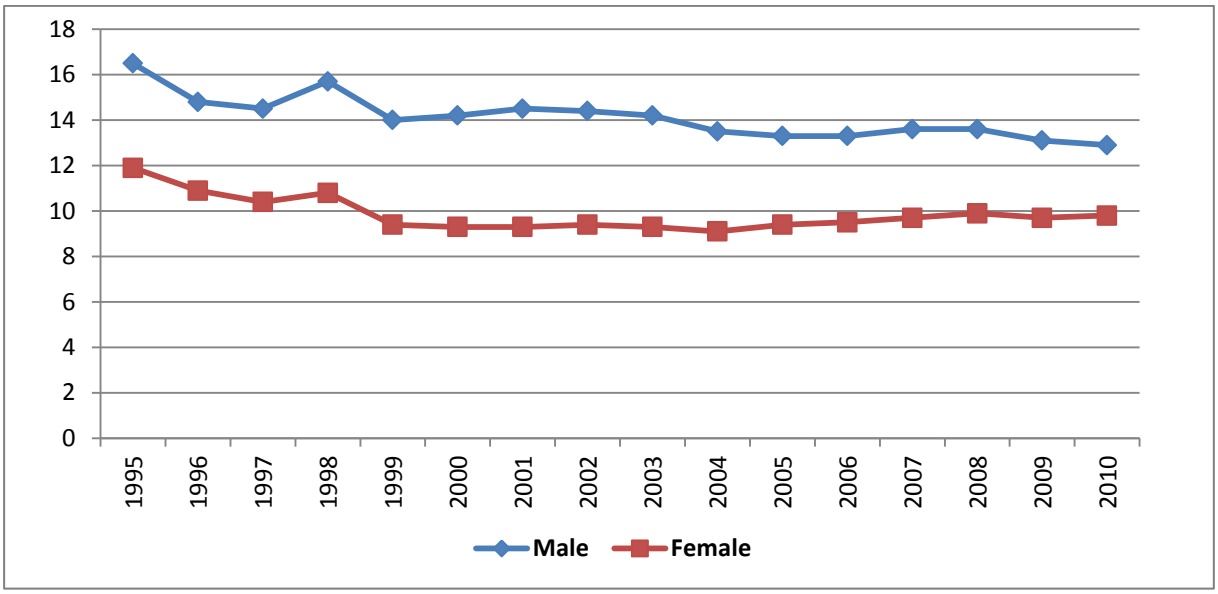
Figure 2.1.4.1 Distribution of education, as % of women and men aged 15 and over in 1970–2010.



Source: Statistics Finland: Register of Completed Education and Degrees.

Educational inequality and especially exclusion from the educational system have been widely discussed themes in the public debate in Finland. Despite deep concerns, the share of those aged 17–24 not in education or training, as percentage of total population of same age has not increased (Figure 2.1.4.2). Actually the share has dropped both for males and females from the mid-1990s to early 2000s. The gap between males and females has somewhat narrowed but was in 2009 still above three percentage points. Persons not in education or training refer to those who are not students during the year or for whom no degree code is retrievable in the registries, that is, have not attained a degree or qualification after basic education. The share is higher for males than females due to compulsory military service which only applies to men.

Figure 2.1.4.2 Those aged 17–24 not in education or training, as % of total population of same age, 1995–2009.



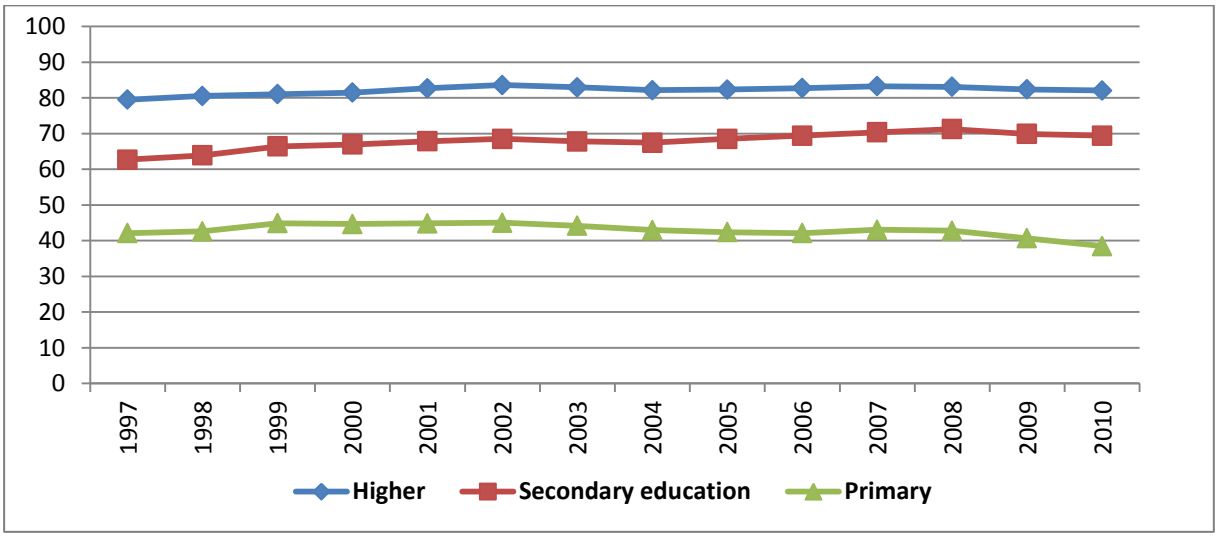
Source: Statistics Finland.

The development of employment rate for those working aged (15–64) absorbs a wide range of structural changes in the labor market and educational system including unemployment, staying outside the labor force and demography (Figures 2.1.4.3 and 2.1.4.4 for women and men separately). The large differences in employment rates between those with primary education and other groups may also reflect the effect of economic globalization. Jobs with lesser qualifications tend to move to countries where labor costs are lower. As a small export oriented country without sizeable natural resources, Finland is very vulnerable to such influences. Meanwhile, migration especially from neighboring Estonia brings workers to Finland to compete for jobs for which those with only primary education qualify. Employment rates for females and males among those with higher and secondary education have slowly increased, while employment rates have decreased for those with only primary education. There is a remarkable and growing difference in employment rates by education. 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 (Figures 2.1.4.3 and 2.1.4.4).

The effects of economic collapse of 2008 are hardly visible for females with secondary and higher education. The downturn hit most severely 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 others but those with primary education.

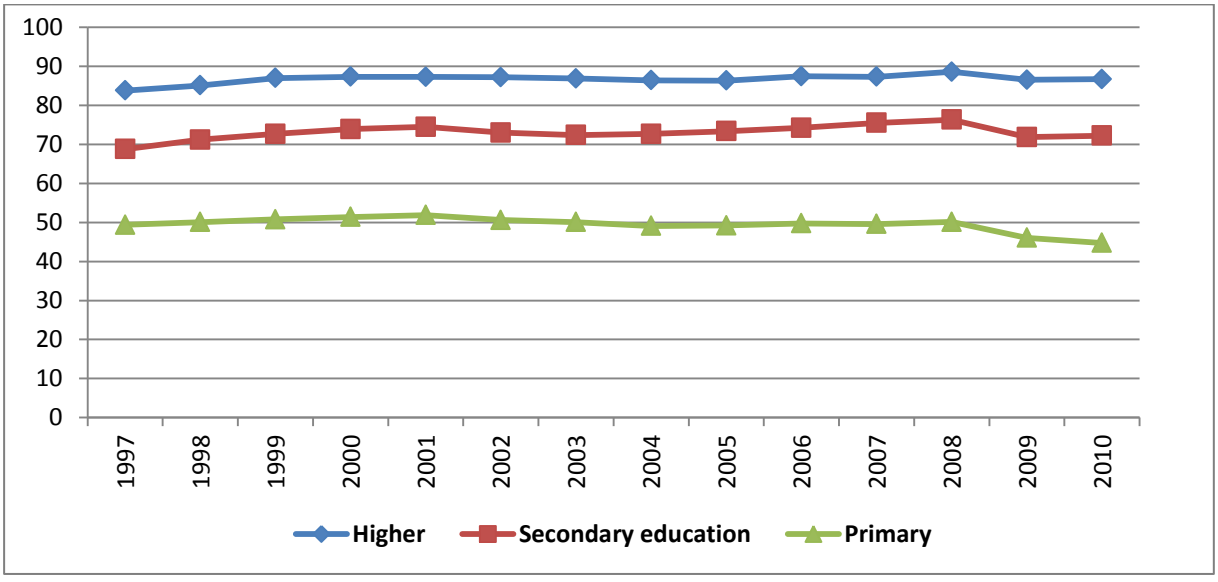
Employment rates are still clearly higher among males than females. Between 1997 and 2010 the gender gap varied for those with higher education between 3,6 and 6 percentage points, for those with secondary education between 2 and 7,3 percentage points and for those with primary education between 5,4 and 7,7 percentage points. The level and variation of gender gap in employment rates was lowest among those with higher education. This could reflect the fact that females' educational attainment is increasing (Figure 2.1.4.1).

Figure 2.1.4.3 Employment rate for working aged women by level of education 1997–2010, %.



Source: Statistics Finland.

Figure 2.1.4.4 Employment rate for working aged men by level of education 1997–2010, %.



Source: Statistics Finland.

2.2 Whom has inequality affected?

In this chapter, we present trends in median equivalised disposable income from the early 1990s to 2010 by different background characteristics of the households (Figures 2.2.1–2.2.6 and Table 2.2.1). Most indicators are available from the statistics with background information concerning the household reference person (see footnote 1 in Chapter 2.1.3). Figure 2.2.1 shows the development of median income by income deciles. As shown earlier in Figure 2.1.1.3, there has been divergence between the deciles, and especially the top 10% have diverged from the others (see also Table 2.2.1). Real median disposable income of the top 10% has increased by more than 60% (by 19 000 €) since 1990, while increase in median income of the poorest 10% has been only 19%, and measured by the amount of money, the increase has been only one tenth of that of the richest 10% (1 900 €).

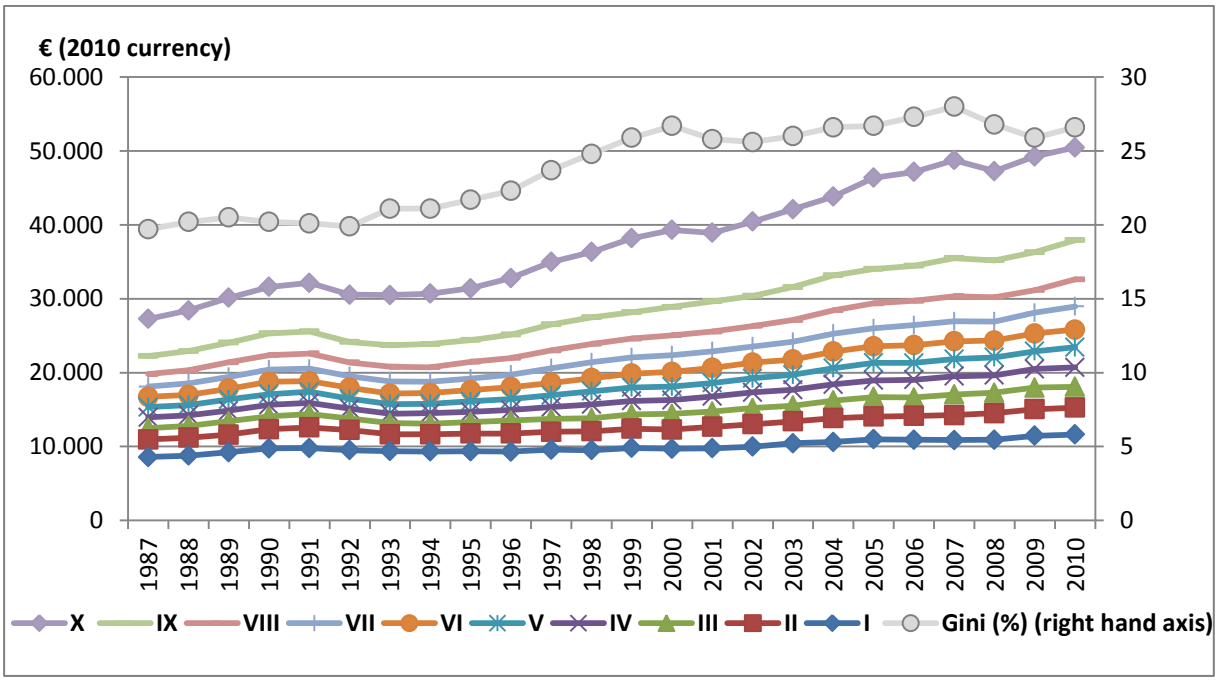
Figure 2.2.2 demonstrates that couples without children fare the best in terms of income, and single and single parent households have least income. Since 1990, single parent households have increased their median disposable income only by 21%, about 3 100 euros, and singles by 34% (4 800 €) while couples with no kids have managed to increase their income by 44% (almost 9 000 €) (Table 2.2.1). Singles, even though having comparatively low median income, have not been left very much behind from the other groups; however, single parent households have moved further down from the median of all households. Looking at the age of the household reference person, we see bigger divergence (Figure 2.2.3). The youngest households (reference person's age is less than 25 years) have actually not improved their income at all since 1990. Relative increase in median income has roughly been the higher, the older the age group, except for the oldest one (75+).

Figure 2.2.4 shows the at-risk-of-poverty rates (equivalised disposable income below 60% of median) in 1990–2010 by gender and age. Highest poverty rates are found among women aged 65 and over. Interestingly, in working-age population, men have higher poverty rates than women, but among older people, women have poverty rates much above the population average, while men have poverty rates much below the population average. This may tell about the fact that retired men are more often entitled to earnings-related pensions, while many older women have to rely on basic pension because of insufficient or lacking working careers.

Echoing differentiated positions of educational groups in the labour market (Chapter 2.1.4), those with only primary education have been left behind also measured by income (Figure 2.2.5, Table 2.2.1). During the period 1990–2000, the development of the educational groups went roughly hand in hand in terms of relative changes, but especially since 2000, those with secondary or tertiary education have increased their real median incomes.

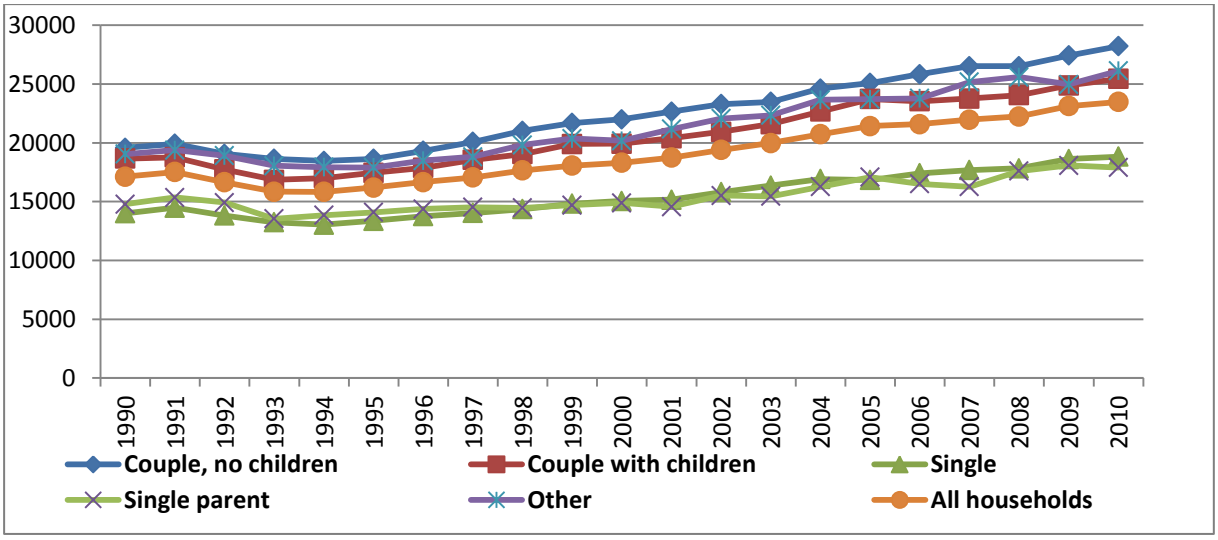
Figure 2.2.6 shows the development by socio-economic status. While median income of students and the unemployed have increased only meagerly, upper white-collar employees, entrepreneurs and farmers have seen relative increases of 10 000 – 11 000 euros and have further diverged from the average disposable income of all households. in 1990, median equivalised disposable of the unemployed was 64% of the average, but because of very little income change in this group during a period in which those employed increased their income, by 2010 the ratio had decreased to 54% (Table 2.2.1).

Figure 2.2.1 Median equivalised disposable income (€ in 2010 currency) by income deciles, 1987–2010.



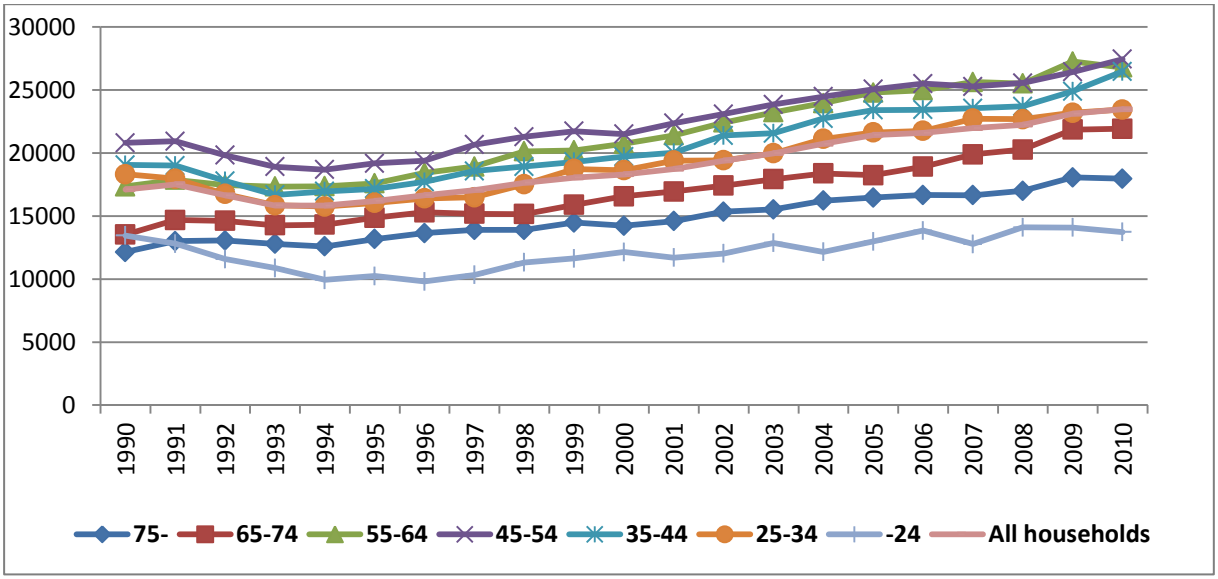
Source: Statistics Finland, income distribution statistics.

Figure 2.2.2 Median equivalised disposable income (€ in 2010 currency) by household structure, 1990–2010.



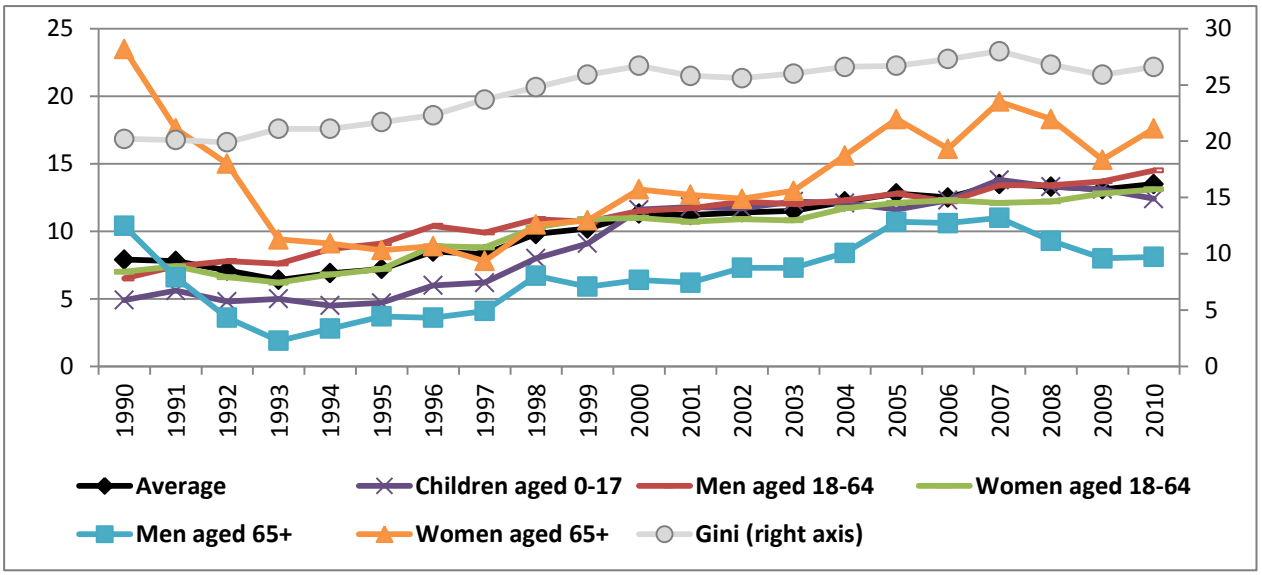
Source: Statistics Finland, income distribution statistics.

Figure 2.2.3 Median equivalised disposable income (€ in 2010 currency) by the age of household reference person, 1990–2010.



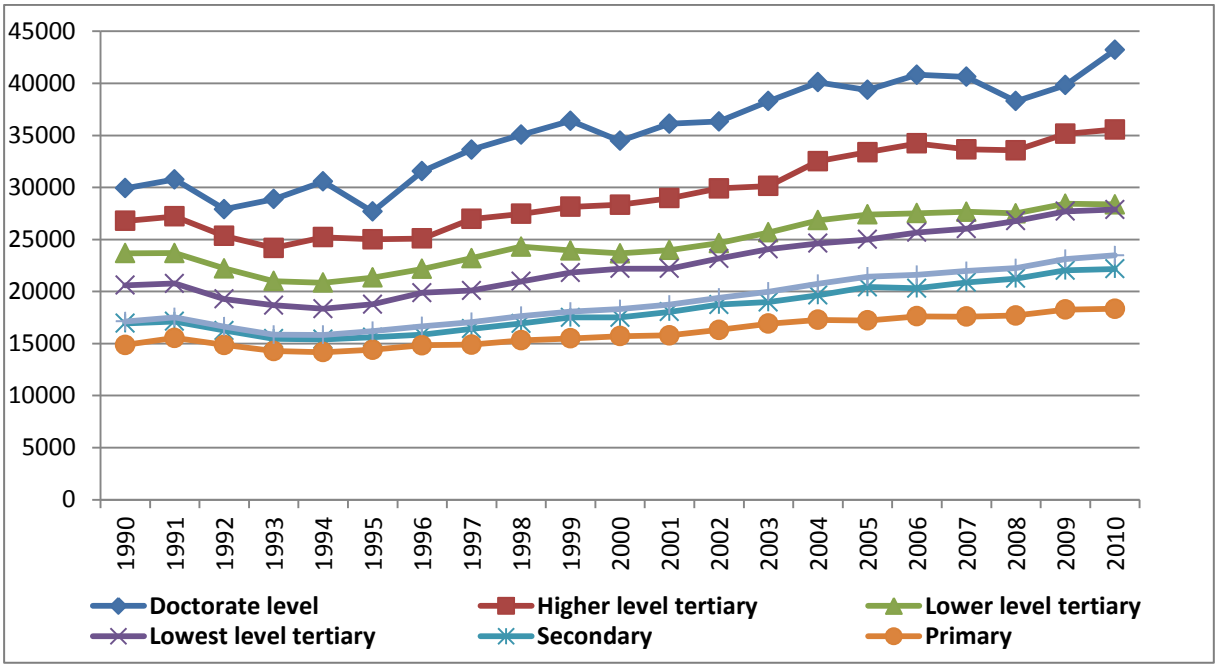
Source: Statistics Finland, income distribution statistics.

Figure 2.2.4 At-risk-of-poverty rates (equivalised disposable income below 60% of median) by gender and age, 1990–2010.



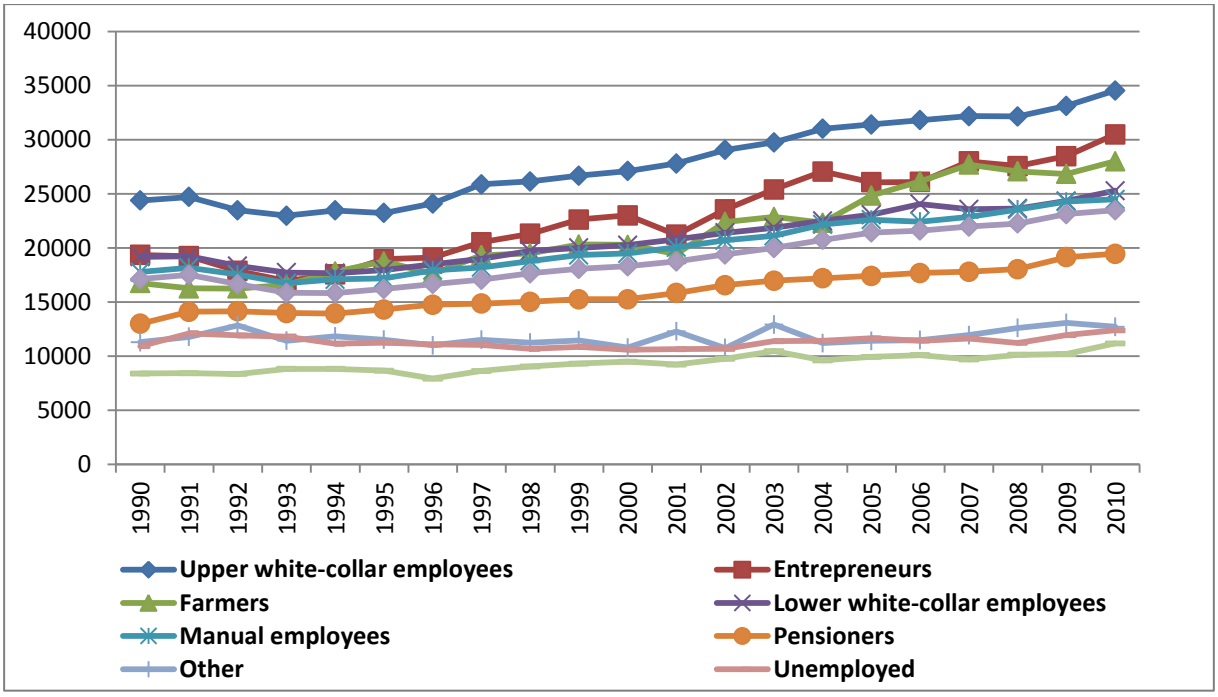
Source: Statistics Finland, income distribution statistics.

Figure 2.2.5 Median equivalised disposable income (€ in 2010 currency) by education of the household reference person, 1990–2010.



Source: Statistics Finland, income distribution statistics.

Figure 2.2.6 Median equivalised disposable income (€ in 2010 currency) by socio-economic status of the household reference person, 1990–2010.



Source: Statistics Finland, income distribution statistics.

Table 2.2.1 Indexes of the development of median equivalised disposable income by different characteristics of the households, 1990=100.

	1990	1992	1994	1996	1998	2000	2002	2004	2006	2008	2010	1990-2010 increase in median, €	Median income of the group relative to the median of all households 1990	2010
All households	100	97	93	97	103	107	113	121	126	130	137	6 361		
Income desile														
I	100	98	96	96	98	100	102	109	112	112	119	1 885	0,57	0,50
II	100	99	94	95	98	100	105	112	115	118	124	2 925	0,72	0,65
III	100	98	93	96	98	102	108	115	118	123	128	3 998	0,82	0,77
IV	100	97	93	96	100	104	111	118	122	126	132	5 064	0,91	0,88
V	100	96	92	96	102	106	113	121	125	129	137	6 349	1,00	1,00
VI	100	96	92	96	103	107	114	122	126	130	138	7 056	1,10	1,10
VII	100	96	92	97	105	110	115	124	129	132	142	8 539	1,19	1,23
VIII	100	96	93	98	107	112	118	127	133	135	146	10 238	1,31	1,39
IX	100	95	94	99	109	114	120	131	136	139	150	12 596	1,48	1,62
X	100	97	97	104	115	124	128	139	149	150	160	18 883	1,85	2,15
Household structure														
Single	100	99	93	98	103	108	113	121	124	127	134	4 826	0,82	0,80
Couple, no children	100	97	94	99	107	112	119	126	132	136	144	8 654	1,14	1,20
Couple with children	100	95	91	96	102	107	112	121	126	129	136	6 771	1,09	1,08
Single parent	100	101	94	97	98	101	105	110	112	119	121	3 122	0,86	0,76
Other	100	99	94	97	104	106	116	124	125	134	137	7 083	1,11	1,11
Age of the household reference person														
-24	100	86	74	73	84	90	89	90	103	105	102	285	0,79	0,58
25-34	100	91	86	90	96	102	106	115	119	124	128	5 140	1,07	1,00
35-44	100	93	89	93	99	103	112	119	123	124	139	7 424	1,11	1,13
45-54	100	95	90	93	102	103	111	118	123	123	132	6 648	1,22	1,17
55-64	100	101	100	106	116	119	129	138	144	147	154	9 438	1,01	1,14
65-74	100	108	106	113	112	122	129	136	140	150	162	8 407	0,79	0,93
75-	100	108	104	112	114	117	126	134	137	140	148	5 815	0,71	0,76
Education of the household reference person														
Primary	100	100	95	100	103	106	110	116	119	119	123	3 469	0,87	0,78
Secondary	100	96	91	94	100	103	111	116	120	125	131	5 232	0,99	0,94
Lowest tertiary	100	94	89	96	102	108	112	120	125	130	135	7 280	1,20	1,19
Lower level tertiary	100	94	88	94	103	100	104	113	116	116	120	4 701	1,38	1,21
Higher level tertiary	100	95	94	94	102	106	112	121	128	125	133	8 777	1,56	1,51
Doctorate level	100	93	102	105	117	115	121	134	136	128	144	13 282	1,75	1,84
Socioeconomic status of the household reference person														
Entrepreneurs and farmers	100	95	98	103	114	123	127	142	145	152	163	11 453	1,05	1,26
Farmers	100	97	106	105	116	121	134	133	156	162	167	11 263	0,98	1,19
Entrepreneurs	100	92	91	99	110	119	122	140	135	142	158	11 153	1,13	1,30
All employees	100	97	94	99	106	109	117	124	131	131	142	8 135	1,14	1,18
Upper white-collar	100	96	96	99	107	111	119	127	130	132	142	10 162	1,42	1,47
Lower white-collar	100	96	92	96	103	106	112	117	126	123	132	6 117	1,12	1,08
Manual workers	100	99	96	101	106	110	117	125	126	133	138	6 730	1,04	1,04
Students	100	99	105	94	108	113	116	114	120	121	133	2 776	0,49	0,48
Pensioners	100	109	107	114	116	117	127	132	136	139	150	6 469	0,76	0,83
Unemployed	100	109	102	102	98	97	98	105	105	103	114	1 477	0,64	0,53
Other	100	114	105	97	100	95	95	99	102	112	112	1 409	0,66	0,54
Household tenure status														
Owned	100	98	95	101	108	112	119	127	132	135	145	8 342	1,09	1,15
Rented	100	95	87	90	92	97	99	104	105	109	112	1 733	0,84	0,69

Source: Statistics Finland, income distribution statistics.

2.3 Interdependence between the inequality components over time

The development of rising overall income inequality is partly connected to persisting unemployment in some population groups, and to the fact that the income development of those without a job has been stagnated since the recession of the 1990's, while incomes of those employed have been rising - and especially the top-educated and those in the highest socio-economic statuses have been separating from the others. Those well off have been able to increase both their wealth and income while some of those less better off are barely hanging on. Unemployment has been one of the key

drivers of growing income inequality. Since the recession of early 1990, unemployment remained a persistent problem in the Finnish labour market. Basic benefits were left to erode, and the median incomes of the unemployed have risen only meagerly since the 1990's. Unemployment is often connected to, for example, poor education, poor health, and young age, and thus the income trends shown in Chapter 2.2 separately by different characteristics of the households are actually very much intertwined: it is more or less the same people that have low income in all figures: if they are working-aged, they are most often low-educated and unemployed or are outside the labour force because of disability. Other important low-income groups consist of students and old-age pensioners.

The share of earnings income of all gross income has slowly decreased, but it has especially decreased among the top 10% who have gained a growing proportion of their income from capital – which has aggravated the inequality development since capital income is taxed on a lighter basis than earnings income. Thus, the role of paid taxes in reducing inequality has diminished.

2.4 Why has inequality grown?

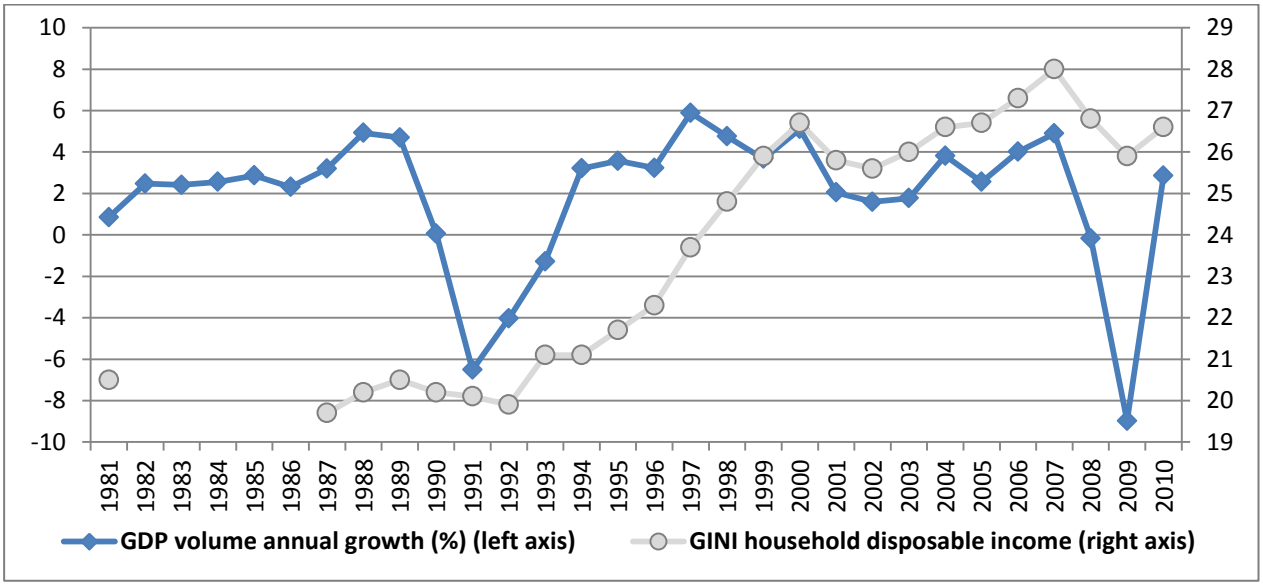
Finland still belongs to the Nordic regime of social democratic welfare states with a high tax rate and a tradition of rather universal coverage and high reimbursement rates of social benefits. However, retrenchment of the welfare state has been prominent since the Great Depression of the 1990's. Needs to cut expenses in early 1990 lead to weakening of many benefits, which never reached the former level even in the period of economic boost after the mid-1990s until the latter half of the first decade of the 2000's. The long period of economic growth after the recession of the 1990's was fueled by opening of international trade, by globalization and by the strong growth of the ICT sector in Finland. With growing demand of high-skilled labour force, also the salaries of the top-rated employees, including the executives of multinational corporations, have risen.

This period of welfare state retrenchment, with simultaneous economic growth and increasing income for those in employment, has also been a period of strongly increasing income inequality. The Gini coefficient of equivalised disposable income rose from 20% in 1990 to 28% in 2007, ending in a downward trend for a couple of years because of the recession of 2008–2009 that diminished the income shares of the highest income decile (see Chapter 2). Growth in income inequality in Finland has been very much connected to average development of the economy. During the past decades, the Gini coefficient has been growing during periods of economic growth and decreasing during economic downturns (Figure 2.4.1).

Income inequality has been fueled also by the actions of the political forces. Among the most important effects of political decision making have been changes in the taxation system and decisions concerning the level and coverage of social security. Reforms in both transfers received by the household and paid by the households have further contributed to the inequality development. The level of many benefits was cut under the pressure of saving public expenditures during the 1990s' recession, after which they have in many cases remained quite stagnant and not followed the general development of rising incomes. In Finland, absolute poverty does practically not exist, but relative poverty has increased since those worst off and living on benefits have not gained much from the period of general economic boom.

Furthermore, the tax reform of 1993, after which capital income has been taxed proportionally instead of progressively, has contributed to the income inequality development. After the reform, the high-income earners have had incentive to transfer at least some of their income to capital income – for example by taking out their income as dividends from companies – and thus pay lower average tax rates than what is paid on wages and salaries. Furthermore, this has effects on the total progressivity of taxation and on collected taxes, and has corroded the principle of progressivity – that everyone should participate in financing the public expenses according to their resources.

Figure 2.4.1 GDP annual real growth rate (%) and Gini coefficient of equivalised disposable income (%), 1981–2010.



Source: Statistics Finland, income distribution statistics; annual national accounts.

2.5 Conclusion: The Finnish story of inequality drivers

As the OECD reports *Growing Unequal* (2008) and *Divided We Stand* (2011a) have shown, the gap between rich and poor has widened in most OECD countries over the past 30 years. These reports have also indicated that Finland is among the countries in which the rise of income inequality has been exceptionally fast and steep. Growing income inequality was witnessed in Finland during a relatively short period in the latter part of the 1990s. The period between 1995 and 2000 meant a dramatic increase both to gross and disposable income inequality, followed by more stable trend during the 2000s.

Shifts in national economy are associated with development of inequality in Finland. Economic recession of the early 1990s entailed a steep increase in unemployment, and thus, a large proportion of households witnessed severe financial difficulties. However, in terms of income inequality and at-risk-of-poverty rates, the economic recession did not accelerate income inequality or income poverty immediately – largely because median income of all income groups decreased during the recession. Both income inequality and at-risk-of-poverty rate increased after the recession when the national economy started to recover from the recession. In a similar vein, a minor economic downturn decreased income inequality between 2000 and 2003 followed by slight increase until the financial crises in 2008 when income inequality begun to decrease again.

There are different but to some extend interrelated drivers for rising inequality. OECD's reports have emphasised that inequality has generally risen because rich households have done particularly well in comparison with those at the middle or at the bottom of the income distribution (OECD 2008; 2011a). This is true also in the Finnish case. However, unlike the general trend in the OECD countries would suggest, greater inequality in wages and salaries is not the most important driver in the Finnish case. Main reason behind growing income inequality was the increase of income among high income groups, which was mainly driven by increase in capital income. At the same time, the redistributing role of taxes and benefits – especially taxes – was diminished. This was mainly due to dual-taxation system, i.e. differences in taxation between capital income and earnings, as explained in Chapter 2.4.

Even though also OECD's *Growing Unequal* (2008) argues that capital income has become very unequally distributed over the past decade, increased importance of capital income is especially the Finnish speciality in rising income inequality. Opening of the Finnish financial markets and introduction of new types of investment instruments since the late 1980s and early 1990s, combined with the ICT boom at the latter part of the 1990s, created totally different circumstances for business and financial markets than before. Consequently, the role of financial assets has increased in the

wealth structure among the highest income decile. The net wealth inequality has also risen during the 2000s, and in absolute terms especially the highest income decile has increased its average net wealth. These factors together with dual-taxation reform in 1993 meant the shift from earnings to capital income, which in turn, meant a diminishing redistributive role of income transfers.

In regard to labour market inequalities, one possible explanation why inequality in wages and salaries is not the most important driver for rising inequality in Finland as is the case in many other OECD countries (OECD 2011a), is a controlled wage bargaining system (see Chapter 5.2). Hence, for example wages and salaries in different employment sectors have developed quite equally. There are, however, inequalities in labour force participation. As emphasised in Chapter 2.1.4, there is a remarkable and growing difference in employment rates by education. This would suggest that technological progress has been more beneficial for workers with higher skills, as has been suggested also in OECD's reports.

Still, more important than differences between those in the labour force, is the gap between employed and not employed. The decrease of unemployment was much slower than the economic growth after the economic recession of the 1990s. Especially persistent and long-term unemployment emerged as a new problem. The real increase in income among those who are on social benefits or do not have a job in general has been very modest. Consequently, their at-risk-of-poverty rates are much higher than those who have a job (Chapter 2.1.3; Airio et al. 2008). Thus, one driver for rising income inequality is the modest real income growth among low as well as middle income groups. Yet, this explanation is much weaker than the capital income and dual-taxation story presented above. Many population groups which main source of income is composed by social benefits, such as those on basic pensions, have still a relatively good position in income distribution. For instance, as shown in Chapter 2.1.1, the relative median at-risk-of-poverty gap is the lowest in Europe, meaning that there is large number of people concentrated around the median. Many people in Finland live just below the 60% income threshold. Consequently, this can mean that the social impacts in terms of more direct material deprivation or subjective measures of well-being do not necessarily follow the pattern which has drawn based on the development of income inequality. These social impacts of inequality will be examined in the following chapter.

3. The Social Impacts of Inequality

3.1 Introduction

This chapter will review whether the inequality development during the past decades has had effects on social outcomes such as material deprivation, cumulative disadvantage, social cohesion, family formation, health, housing, crime, subjective well-being and intergenerational mobility. Based on Chapter 2, it is evident that inequality has risen in Finland starting from the period of economic growth after the recession of the 1990's, and continuing to the latest financial crisis. However, it is not straightforward whether rising inequality has had effects on social indicators. On the general level, there may not be much change, but social gradients in many phenomena may have increased because some groups fare better but some are being left behind in the society. In the following chapters, we try to take changes in the social gradients into account whenever possible.

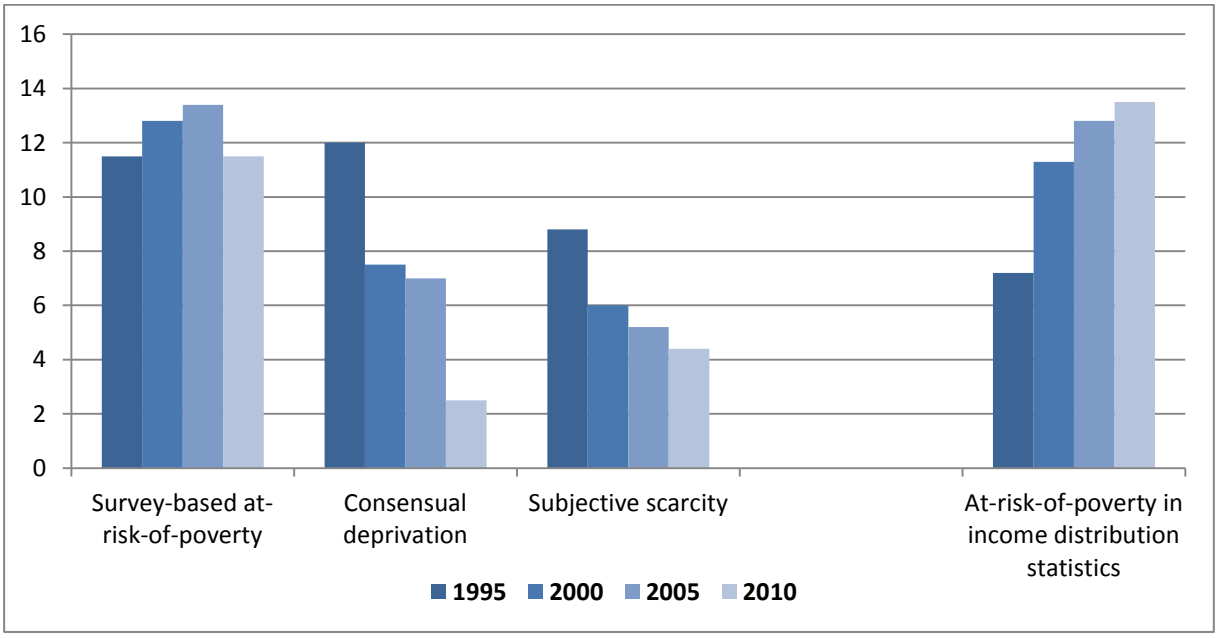
3.2 Material deprivation

Despite of rising income inequality and at-risk-of-poverty rate measured by relative income threshold (chapter 2.1.1.), material deprivation indicators show that economic hardship has decreased in Finland after the period of economic recession in the early 1990s. Figure 3.2.1 shows that the picture of trends in economic hardship is totally different if we examine direct measures of deprivation instead of indirect at-risk-of-poverty rate. A more direct measures of material deprivation presented in the figure are consensual deprivation and subjective scarcity. The consensual deprivation approach was formulated by Mack and Lansley, who defined poverty as "an enforced lack of socially perceived necessities" (Mack & Lansley 1985: 39). The measure aims to discover whether there are people below the minimum publicly accepted standard. The necessities of life were defined by public opinion and people were then regarded as deprived in terms of their ability to maintain the standard of consumption that was perceived as necessary by the majority of the population. As in some earlier studies (Kangas & Ritakallio 1998; Gordon & Townsend 2000), the criterion for poverty was set at an involuntary lack of three or more necessities in the household of the respondent. Subjective scarcity, on the other hand, is a simple subjective measure which indicates whether or not respondent's household has great difficulties in "making ends meet".

At-risk-of-poverty rates obtained from the survey and those provided by Statistics Finland in their income distribution survey are somewhat different in Figure 3.2.1 (comparing the first and last set of bars) and may be caused by different methodologies and response rates in these studies. However, the trend from 1995 to 2005 with increasing poverty rates looks approximately the same.

Also another indicator for material deprivation, i.e. financial difficulties in meeting everyday expenses, shows that material deprivation has decreased after the mid-1990s (Table 3.2.1). Compared to the results from the Finnish survey data, which shows considerable decrease for subjective deprivation and scarcity also during the 2000s, EU indicators of poverty and social exclusion indicate more constant trends. Both EU 2020 indicators for poverty and social exclusion (Figure 3.2.2.) and Eurostat's housing deprivation indicator (Figure 3.2.3.) show that there has not been practically any changes in aggregate level of poverty and material deprivation. Yet both sources of data show that at-risk-of-poverty rates are much higher than more direct material deprivation.

Figure 3.2.1. The incidence of material deprivation according to different measures 1995–2010 (%).



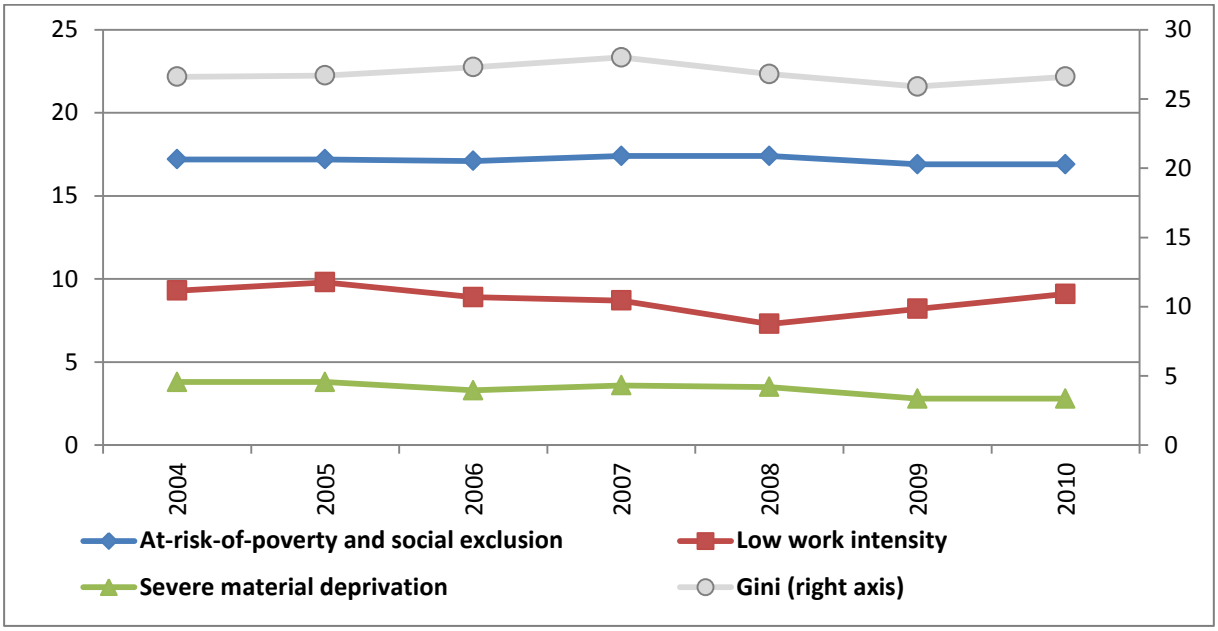
Source: Ritakallio 2010; Statistics Finland: income distribution statistics.

Table 3.2.1. Financial difficulties in meeting everyday expenses in Finland 1996–2009 (%).

	1996	1999	2001	2004	2006	2009
Employed	16	11	9	6	5	6
Unemployed	41	36	24	24	21	39
Student	50	30	30	26	15	18
Retired	12	12	9	11	11	9
Other	24	12	11	12	14	14
Total	21	14	11	9	8	9

Source: Moisio 2010.

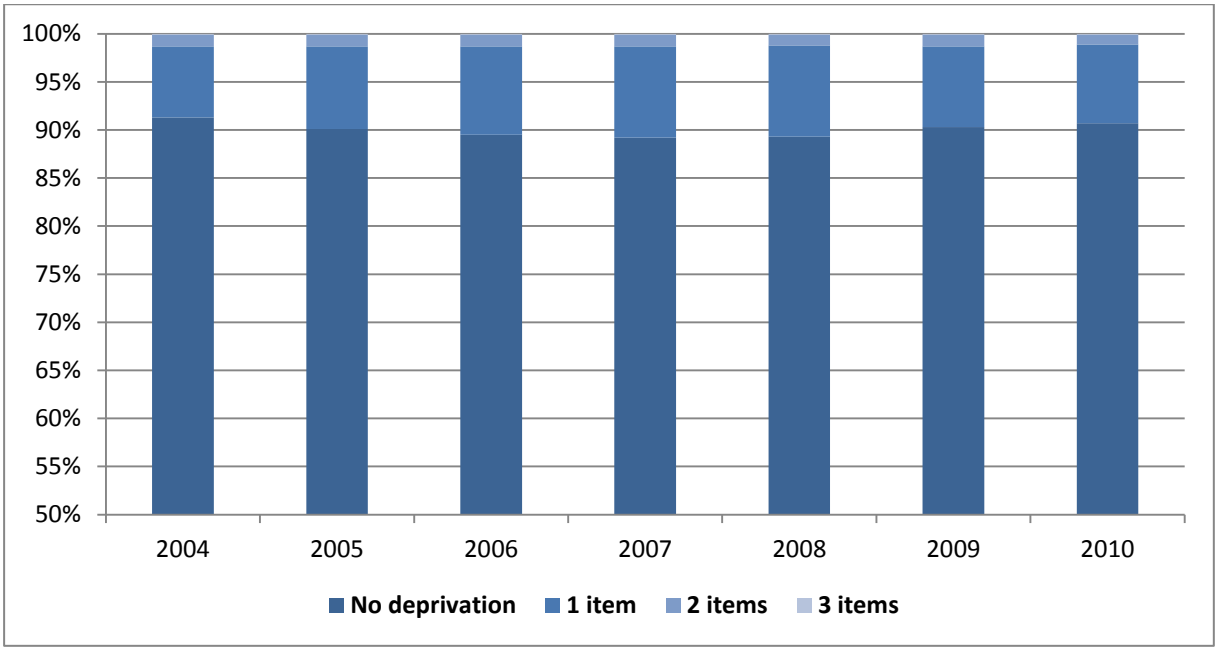
Figure 3.2.2 Trends in EU 2020 indicators in Finland 2004–2010 (%).



Source: Eurostat; Statistics Finland, Income distribution statistics.

Compared to the results from the Finnish survey data, which shows considerable decrease for consensual deprivation and subjective scarcity also during the 2000s, EU indicators of poverty and social exclusion indicate more constant trends. Both EU 2020 indicators for poverty and social exclusion (Figure 3.2.2.) and Eurostat's housing deprivation indicator (Figure 3.2.3.) show that there has not been practically any changes in aggregate level of poverty and material deprivation. Yet both sources of data show that at-risk-of-poverty rates are much higher than more direct material deprivation.

Figure 3.2.3 Housing deprivation in Finland 2004–2010.



Source: Eurostat.

It is hardly surprising that unemployment is the most important factor associated with poverty and social exclusion. Regardless of the indicator, the risk of poverty is radically higher for the unemployed than for the employed or the retired (see Figures 2.1.3.4 and 2.2.4). The only exception here is the at-risk-of-poverty rates of students which are even higher than those of the unemployed. During the late 1990s, the unemployed were the only group whose financial positions worsened according to both indicators. Even though their situation has improved slightly during the early 2000s, they are still in the most disadvantaged position. Besides the labour market status, another important factor is a family structure. Even among the employed households there are clear differences in economic hardship between single-earner and two-earner households. (Airio 2008; Airio et al. 2008; Kangas & Ritakallio 2008)

3.3 Cumulative disadvantage and multidimensional measures of poverty and social exclusion

Research on cumulative disadvantage and multidimensional measures of poverty has shown that the overlap between different indicators is rather low (Kangas & Ritakallio 2008). Table 3.3.1 confirms these results. In regard to recipients of social assistance, which is means tested and last resort social benefit in Finland, only 22 to 43 percent reported that they had had financial difficulties in meeting everyday expenses. This relationship between direct and indirect measures of poverty is even weaker

when we examine those whose household's disposable income is lower than 60 % of the national median: only 20 to 38 per cent of those below the at-risk-of-poverty threshold reported that they had had financial difficulties with everyday expenses.

Table 3.3.1 The association between social assistance recipiency and at-risk-of-poverty to financial difficulties in meeting everyday expenses in Finland 1996–2009 (%).

	1996	1999	2001	2004	2006	2009
On social assistance	43	42	31	22	36	36
At-risk-of-poverty	38	28	28	20	20	24
Total	21	14	11	9	8	9

Source: Moisio 2010.

When it comes to the indicators presented above (Figure 3.2.1.), 24 percent of those who are at-risk-of-poverty are also consensually deprived. In addition, only 20 percent of low income households report subjective scarcity. In regard to consensually deprived, 44 percent of them are also at-risk-of-poverty, and one third of them are subjectively deprived. Finally, about half of those who have reported difficulties in making ends meet are also at-risk-of-poverty and 44 percent of them are consensually deprived. (Table 3.3.2.)

Table 3.3.2 Overlap between dimensions of poverty and social exclusion in 2005, %.

	At-risk-of-poverty	Consensual deprivation	Subjective scarcity
At-risk-of-poverty	100	24	20
Consensual deprivation	44	100	33
Subjective scarcity	51	44	100

Source: Kangas & Ritakallio 2008.

Table 3.3.3 shows the proportional shares of the component overlaps of EU 2020 indicators for poverty and social exclusion. As explored above (Figure 3.2.2) at-risk-of-poverty rate has been considerably higher than low work intensity and severe material deprivation. About half of those whose household's disposable income is lower than 60 % of the national median are only income poor. On average, a bit more than one third of the income poor have had also low work intensity while the overlap between severe material deprivation and at-risk-of-poverty is considerably lower. On the other hand, those who are materially deprived have also quite often both low work intensity and low income. This overlap has increased from 21 % to 48 % during the period between 2004 and 2010.

In regard to the dynamics of poverty and social exclusion, receipt of social assistance is interesting measure because the trends in it follow general economic trends (Figure 3.3.1.). There was considerable increase in the number of persons who receipted social assistance during the economic recession of the early 1990s, and again during the global financial crises in 2008–2009. Even though the number of households who receipt social assistance was in 2010 at the same level than before the economic recession of the early 1990s, the duration of social assistance recipiency has increased. While in 1990 about 22 % of claimants of social assistance receipted the benefit more than 6 months, this proportion was increased to 43 % in 2010 (Table 3.3.4.).

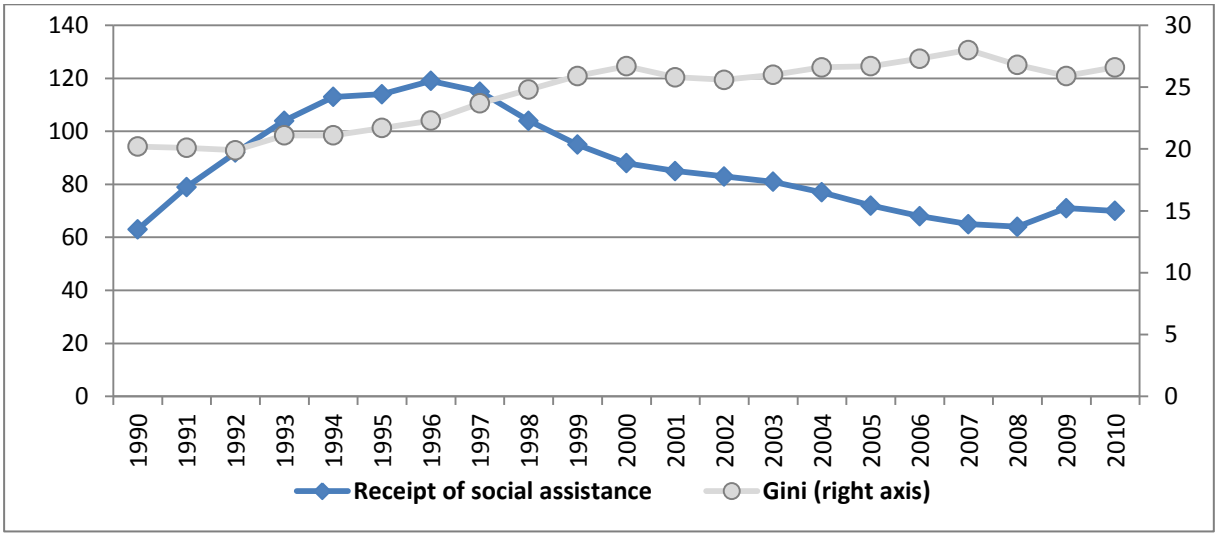
Table 3.3.3 The proportional shares of component overlap of EU2020 poverty and social exclusion measures (%).

	2004		2006		2008		2010	
	Overlap, %	Relative share, %	Overlap, %	Relative share, %	Overlap, %	Relative share, %	Overlap, %	Relative share, %
At-risk-of-poverty								
Only inc.poor	4,6	50,0	4,9	47,6	6,2	55,4	5,0	44,2
Inc.poor & mat.dep	0,4	4,3	0,6	5,8	0,4	3,6	0,2	1,8
Inc.poor & work.poor	3,4	37,0	3,4	33,0	3,6	32,1	5,0	44,2
Inc.poor & mat.dep & work.poor	0,8	8,7	1,4	13,6	1,0	8,9	1,1	9,7
Total	**9,2**	**100**	**10,3**	**100**	**11,2**	**100**	**11,3**	**100**
Material deprivation								
Only mat.dep	1,8	46,2	0,9	25,0	0,8	32,0	0,6	26,1
Mat.dep & inc.poor	0,4	10,3	0,6	16,7	0,4	16,0	0,2	8,7
Mat.dep & work.poor	0,9	23,1	0,7	19,4	0,3	12,0	0,4	17,4
Inc.poor & mat.dep & work.poor	0,8	20,5	1,4	38,9	1,0	40,0	1,1	47,8
Total	**3,9**	**100**	**3,6**	**100**	**2,5**	**100**	**2,3**	**100**
Low work intensity								
Only work.poor	4,9	49,0	4,0	42,1	2,9	37.2	3,7	36,3
Work.poor & inc.poor	3,4	34,0	3,4	35,8	3,6	46,2	5,0	49,0
Work.poor & mat.dep	0,9	9,0	0,7	7,4	0,3	3,8	0,4	3,9
Inc.poor & mat.dep & work.poor	0,8	8,0	1,4	14,7	1,0	12,8	1,1	10,8
Total	**10,0**	**100**	**9,5**	**100**	**7,8**	**100**	**10,2**	**100**

Note: inc.poor = at-risk-of-poverty; mat.dep = severe material deprivation; work.poor = low work intensity. Please notice that total at-risk-of-poverty rates, deprivation rates and low work intensity rates differ to some extent from the results of Figure 3.2.2. This is due to the fact that some elderly and student population does not include in work intensity calculations. Hence, especially total at-risk-of-poverty rates are considerably lower in calculations presented here.

Source: Eurostat, EU-SILC 2004–2010, own calculations.

Figure 3.3.1 Receipt of social assistance in Finland 1990–2010 (persons per 1000 inhabitants).



Source: National Institute for Health and Welfare, Social Assistance 2010; Statistics Finland, Income distribution statistics.

Table 3.3.4 Households according to duration of primary social assistance 1990–2010 (%).

Duration in months	1990	1995	2000	2005	2009	2010
1	31,9	23,2	20,5	19,8	19,2	18,5
2	17,5	14,9	13,5	13,2	12,6	12,1
3	10,8	10,6	9,7	9,6	9,0	8,7
4–6	18,0	18,5	18,4	18,9	17,7	17,6
7–9	10,1	12,8	13,6	14,5	14,5	14,7
10–12	11,8	20,1	24,4	24,1	27,0	28,5
Total	**100**	**100**	**100**	**100**	**100**	**100**

Source: National Institute for Health and Welfare, Social Assistance 2010.

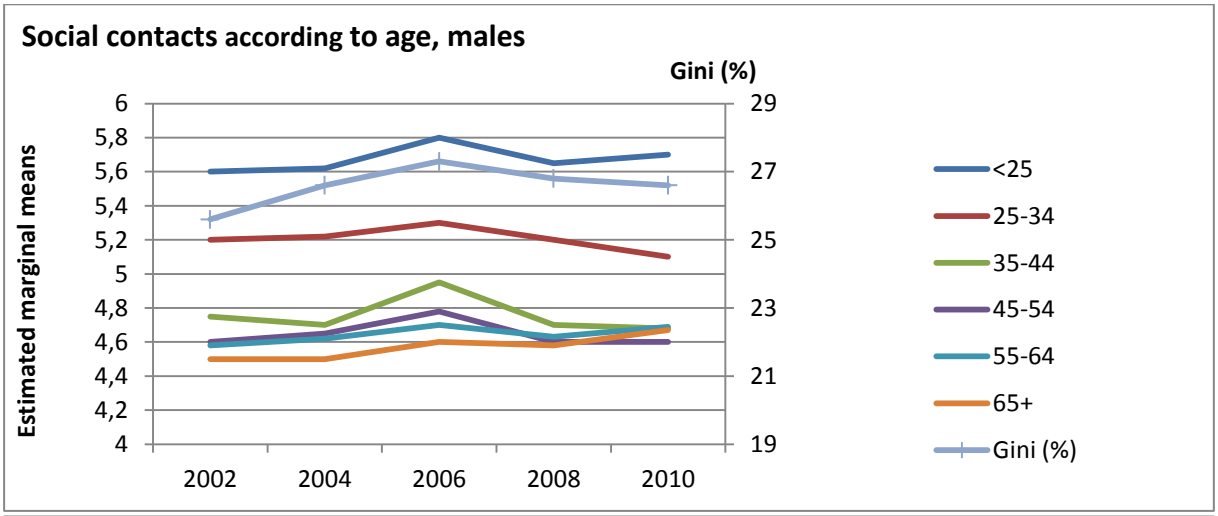
In general, changes in labour market status have a significant impact also on changes in long-term poverty. Those households in which the number of income earners has decreased have more than twofold risk to fall in poverty compared to the total population. The same goes for the students and the sick. Other life changes have not that clear impacts on poverty dynamics. Regarding the association between long-term income poverty and material deprivation results from the European Community Household Panel (1996–1999) showed that long-term poverty is associated especially with housing deprivation. Of the long-term poor about 8 % lived in dwellings without central or electric heating and had not access to running water, indoor toilet and bath or shower. The corresponding percentage in the whole population was about 1 %. (Penttilä et al. 2003.)

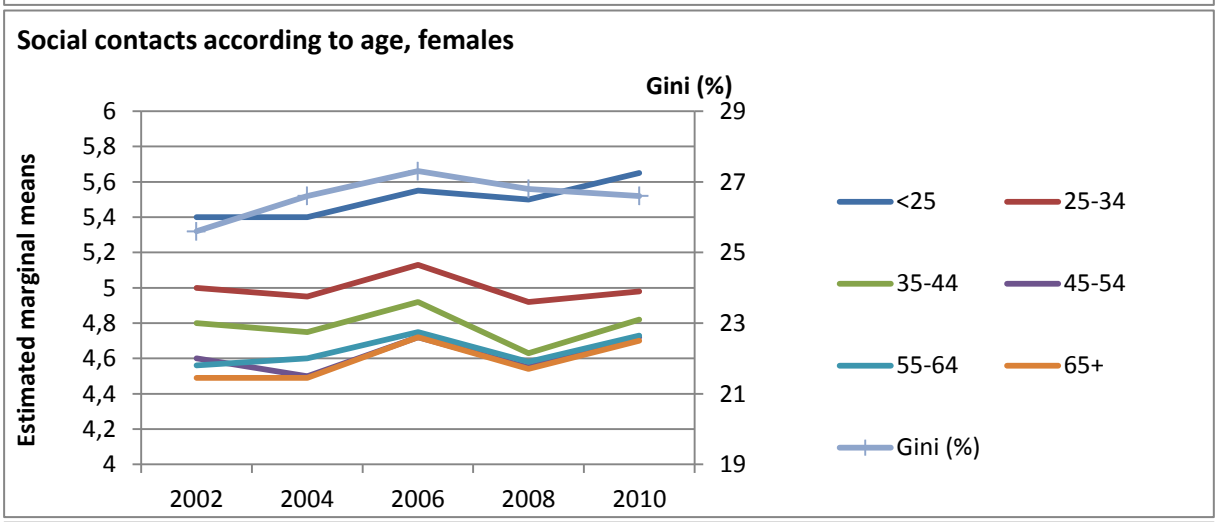
3.4 Social cohesion

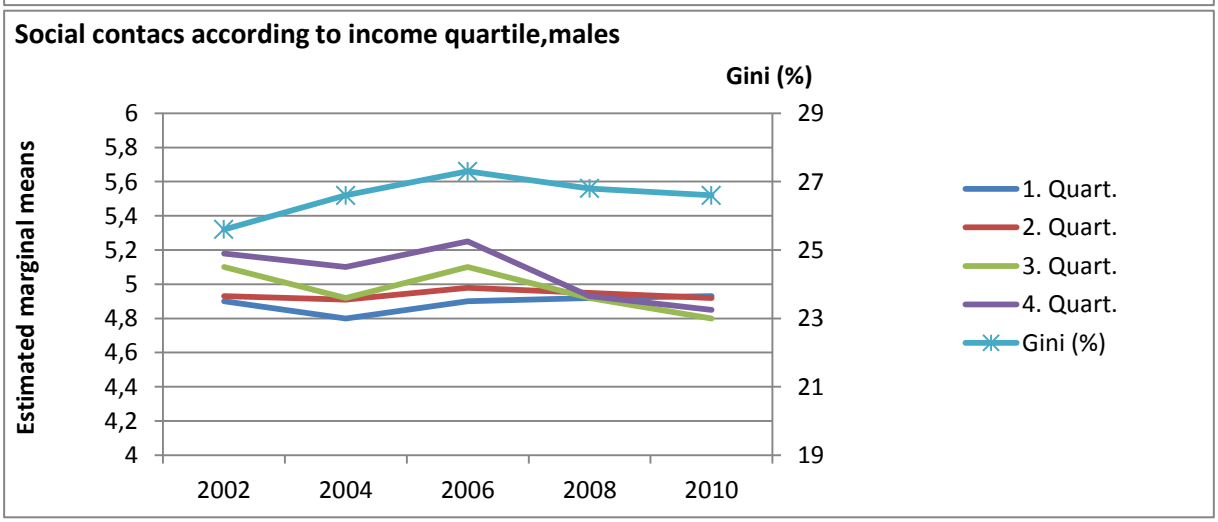
As a rule, social cohesion is a measure by two different but interlinked sets of variables. Whereas the first set pertains to frequency of social contacts with other people, the other set of variables refers to trust in fellow citizens and various institutions. When it comes to the first set, unfortunately, data are only available from the European Social Survey (ESS) that covers the years 2002 to 2010. In comparative terms social cohesion measured as the frequency of social contacts and the share of those who say that they have no friends at all are at the same level as in the other countries participating in the ESS. While on average 8.4 percent of the Finnish respondents say that they have not close and intimate friends, the corresponding share in Europe is about ten percent. About every second Finn meet friends and relatives either on daily basis of several times a week. The European average is about five percentage points lower.

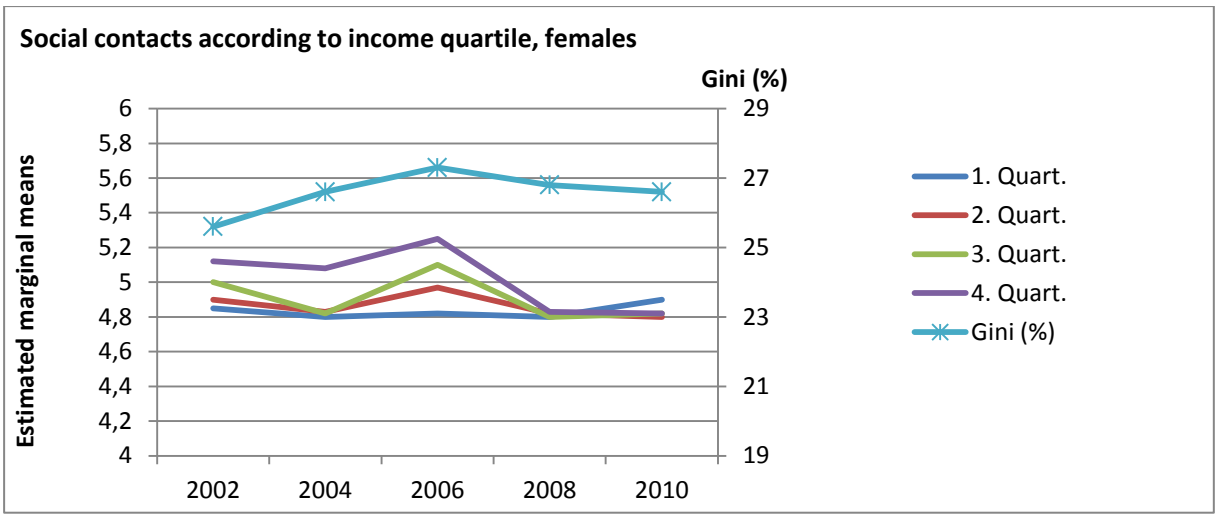
The quality and frequency of social contacts depends on various societal factors such as age, gender, employment, health status and economic conditions. In Figure 3.4.1 associations between a number of background variables and the frequency of social contacts are visualized by using profile plots from univariate general linear modeling. There are no significant differences between the five waves of ESS (sig. = .94), neither are there significant differences between genders (sig. = .56) nor between the employed and unemployed (sig. = .23), whereas the marital status (sig. = .00), self-assessed health (sig. = .00), income quartile of the respondent's household (sig = .00) and age (sig. = .00) all are significant.

Figure 3.4.1 Frequency of social contacts: how often meets friends, relatives or colleagues[1]









[1] 1='never'… 7='every day'.

Source: European Social Survey 2002–2010.

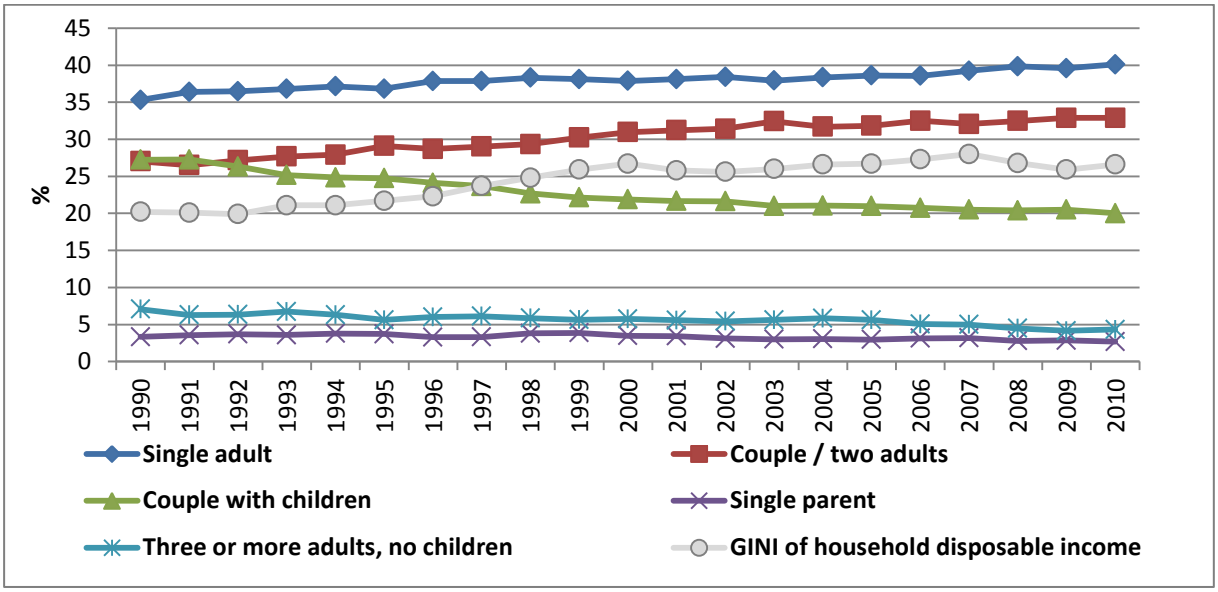
As can be seen in the upper two panels, age is an important determinant of social contacts. As such, this is not any surprise but in comparison to many other countries elderly Finns complain more about loneliness and the lack of social contacts than elderly people in many other European countries (Lelkes 2010). An interesting trend that is visible in the lower two panels is that in the early 2000s the highest income group (the 4th quartile) had the most frequent social contacts and differences between quartiles were significant. In the end of the decade these differences have totally disappeared. There is a significant difference in the level of social contacts between those respondents who had not met economic problems and those who suffered from economic hardship – the latter group reporting much less social contacts. Over time there is no trend towards diminishing or growing differences. In this respect, the story is about stable development throughout the 2000s.

3.5 Changes in household composition, marriage and fertility

Since 1990, the number of single person households has increased by 25 per cent and the proportion of them of all households has risen to 40% in 2010. Likewise, the share of two-person households has steadily increased, while the number and the proportion of households consisting of couples with children or of at least three adults and no children have substantially decreased. The proportion of single-parent households has varied around 3–4 per cent, but the proportion has slightly decreased from the late 1990's (Figure 3.5.1). These changes have many explanations contributing to the same direction. Young people tend to move out earlier than before and form their own households - and

single living alone is now the preferred form of living more often than before. Furthermore, the development is connected with ageing of the population. Increasing numbers of older people survive to old age and live alone after being widowed – especially women. On the other hand, the proportion of couples with no children of all households has increased when the baby-boom generation has got older and couples have been left by themselves when their children have moved out. The development is further fueled by the fact the younger couples starting to have children are smaller than the cohorts whose children are moving out to live on their own.

Figure 3.5.1 Household distribution (%) by family type and Gini coefficient of household disposable income in Finland, 1990–2010.



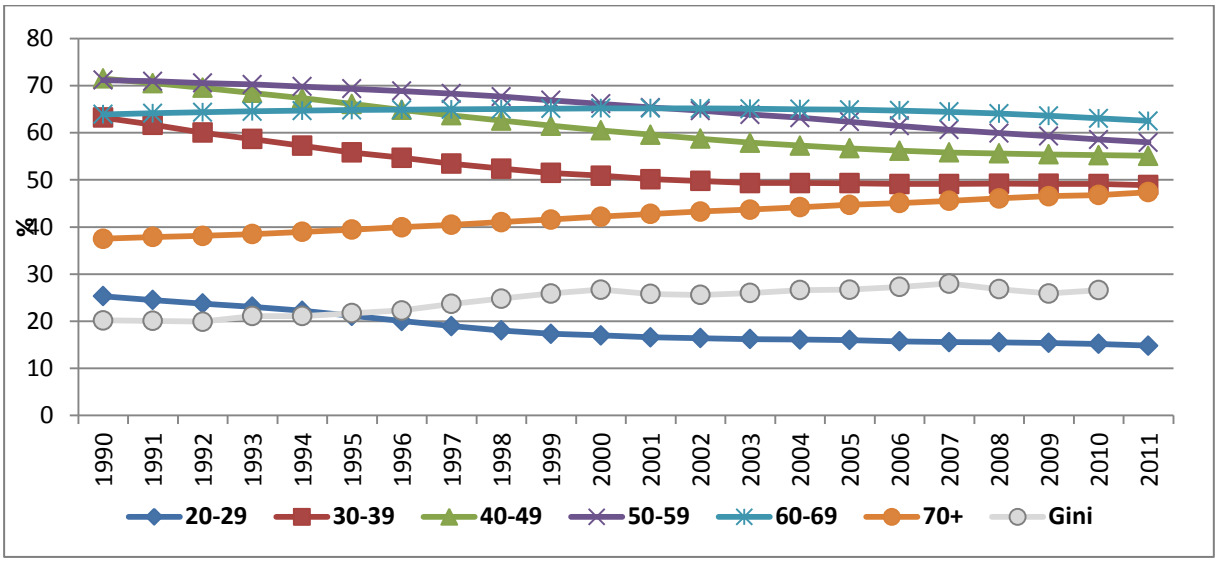
Source: Statistics Finland.

This development of increasing share of single person households has also had effects on the time trends in income inequality measures and poverty rates, since fewer and fewer persons can gain from benefits of sharing the living costs within their household. Figure 2.1.1.8 earlier in this report shows how at-risk-of-poverty rates have developed by family types in 1995–2010. Poverty risks of one-adult households (single persons and single parents) increased remarkably during 1995–2005 and have remained at the level of 25–30% since mid-2000's. Together with an increasing share of single-person households, this development has implications on the development of overall poverty rates and income inequality measured by the Gini coefficient: both increasing share of single persons and their increasing poverty risks have contributed to increases in overall inequality.

Echoing the development presented in Figure 3.5.1, the proportion of those married has decreased in most age groups (Figure 3.5.2) and marriages are contracted at older ages than before (Figure

3.5.4, green line). The proportion of married persons has decreased for several reasons: increasing preference for cohabitation, getting married at older ages, increasing numbers of divorces, and the preference to stay single. In contrast to younger groups, the proportion of those married has increased in the oldest age groups – mainly because mortality rates among older persons have decreased and older couples survive together longer, thus decreasing the proportion of widows in these groups.

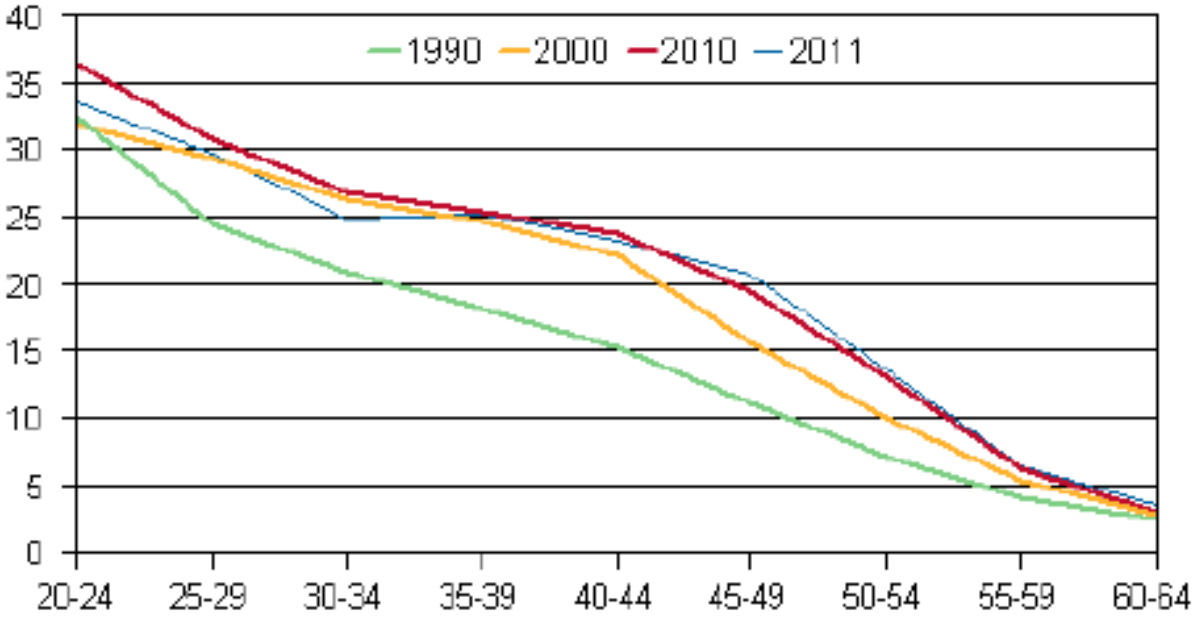
Figure 3.5.2 Proportion married by age group in 1990–2011.



Source: Statistics Finland.

Contributing to decreasing proportions of married persons, divorce rates have increased in all age groups according to data covering years 1990 to 2011 (Figure 3.5.3). Increase was higher during the period 1990–2000 than in 2000–2010. The first decade of this comparison, 1990–2000, was the period of steepest increase in the Gini coefficient in Finland, but based on these simple data it is not possible to conclude whether increasing inequality had something to do with rising divorce rates, or whether they were just implications of the same changes in family values that the other variables related to family issues have revealed. Furthermore, in the 1990s and 2000s, compared to earlier decades, marriages last shorter times before ending in divorce. Of marriages that were contracted in 1980, about 16% had dissolved by 10 years after the marriage, whereas the respective proportion for marriages contracted in 2000 was about 26% by the ten-year follow-up point (Statistics Finland 2012). However, none of the marriage cohorts followed since 1965 has yet exceeded a 50% total divorce rate.

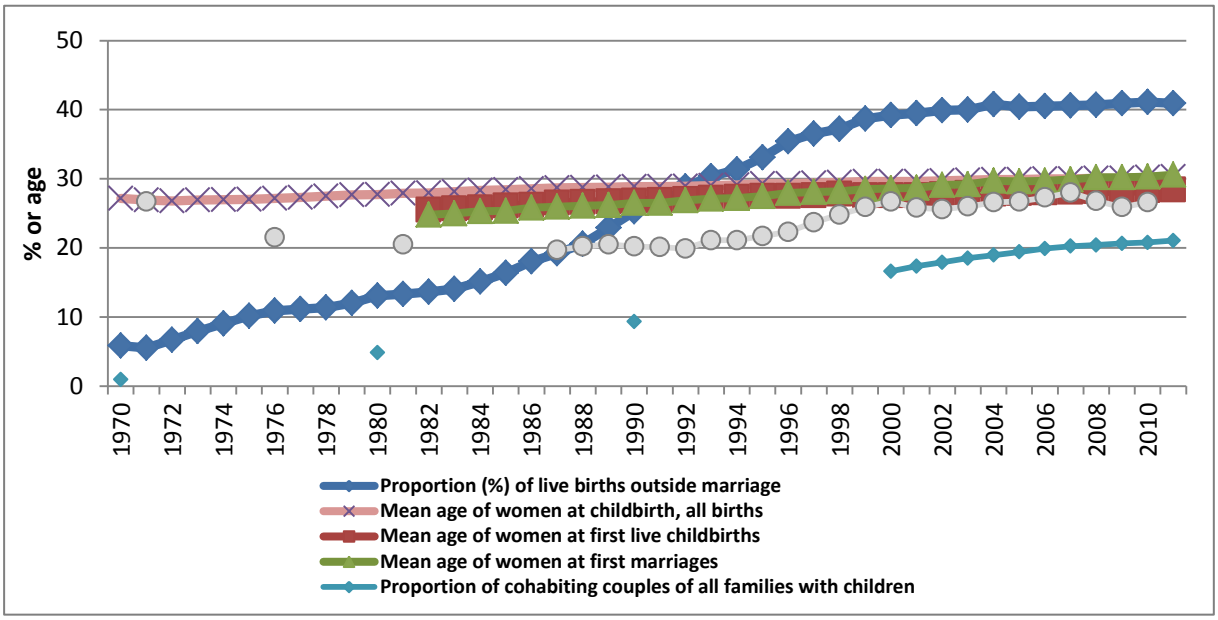
Figure 3.5.3. Divorce rate (per 1000 married women) by age 1990–2011.



Source: Statistics Finland 2012.

Figure 3.5.4 shows how the mean age of women at their first marriages and at first childbirth has increased throughout the years. The figure also shows how cohabitation has gained increasing favour during the last 40 years: the proportion of cohabiting couples with children was only 1 per cent in 1970, whereas it was 21 per cent in 2011. Likewise, the proportion of cohabiting couples (with or without children) of all families increased from 2 to 22 per cent. During the same time period, the proportion of births outside of marriage increased from 5 per cent to over 40 per cent in 2011, and the mean age of giving birth rose from 27 to 30 years.

Figure 3.5.4. Mean age of women at childbirth, and at first marriages, and proportion of births outside marriage, 1970–2011.



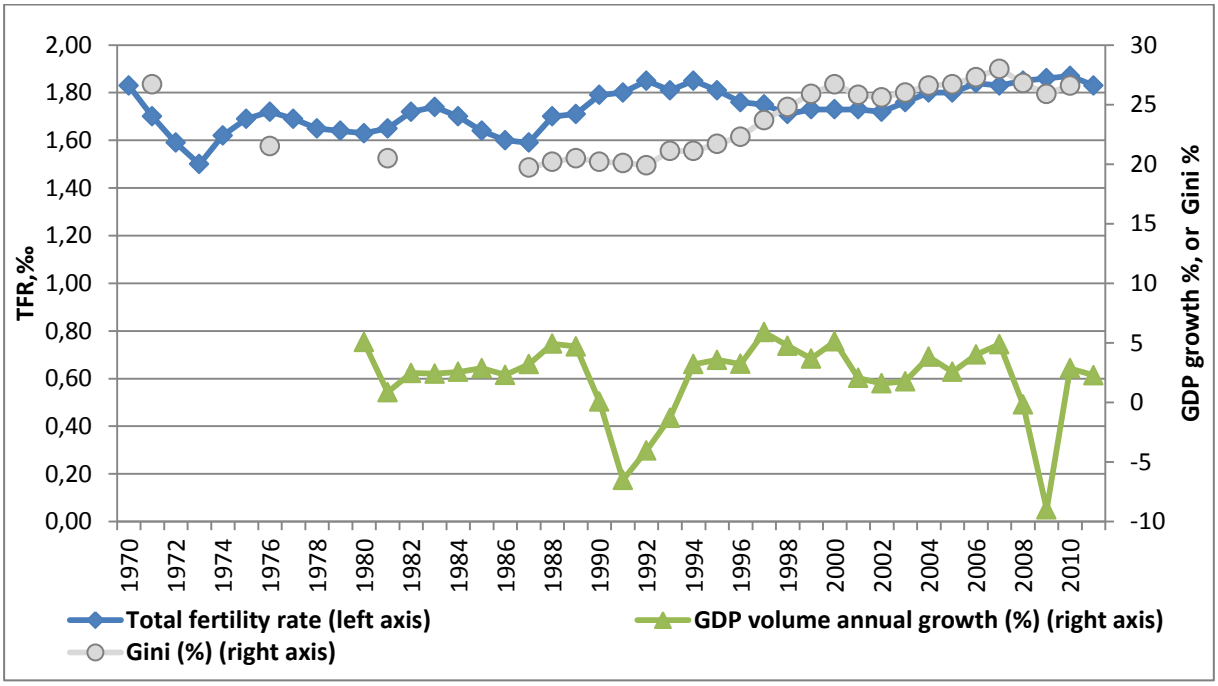
Sources: Statistics Finland, changes in marital status; births; income distribution; Eurostat fertility indicators.

Changes in family formation structures since the 1970's are obvious – but most likely they have not much to do with developments in income inequality so that equality or inequality levels would have affected family structure in any meaningful way. Rather – as stated earlier – changes in family structures are likely to impact measures of income inequality. Instead, changes in family and household composition as well as couple formation behavior reflect the overall individualization of society and degradation of traditional family formation patterns. However, even though couple formation has changed remarkably, there is no clear trend in total fertility rate (the average number children that a woman is likely to give birth to during her fertile years). Total fertility rate in Finland was 1.83 in 2011 (Figure 3.5.5) and it has fluctuated between 1.49 and 1.87 during the last 40 years. Total fertility rate has no obvious connection with income inequality, either, but it seems to have an association with GDP growth rate: during periods of economic downturn fertility rate has gone up, while during periods of economic boom it has come down (Figure 3.5.5). Also the Finnish comprehensive and affordable daycare and supported child home care system has contributed to maintaining high fertility rates.

More women remain childless now than some decades ago – and thus, with a relatively stable fertility rate, the average number of children per those women who do have children has increased. For example, in 2010, 27% of women aged 35 had no children, whereas the proportion was 19% in

1990 (Statistics Finland 2011). At age 35, these women still have time to have children, but most likely a large proportion of them will remain childless for the rest of their lives.

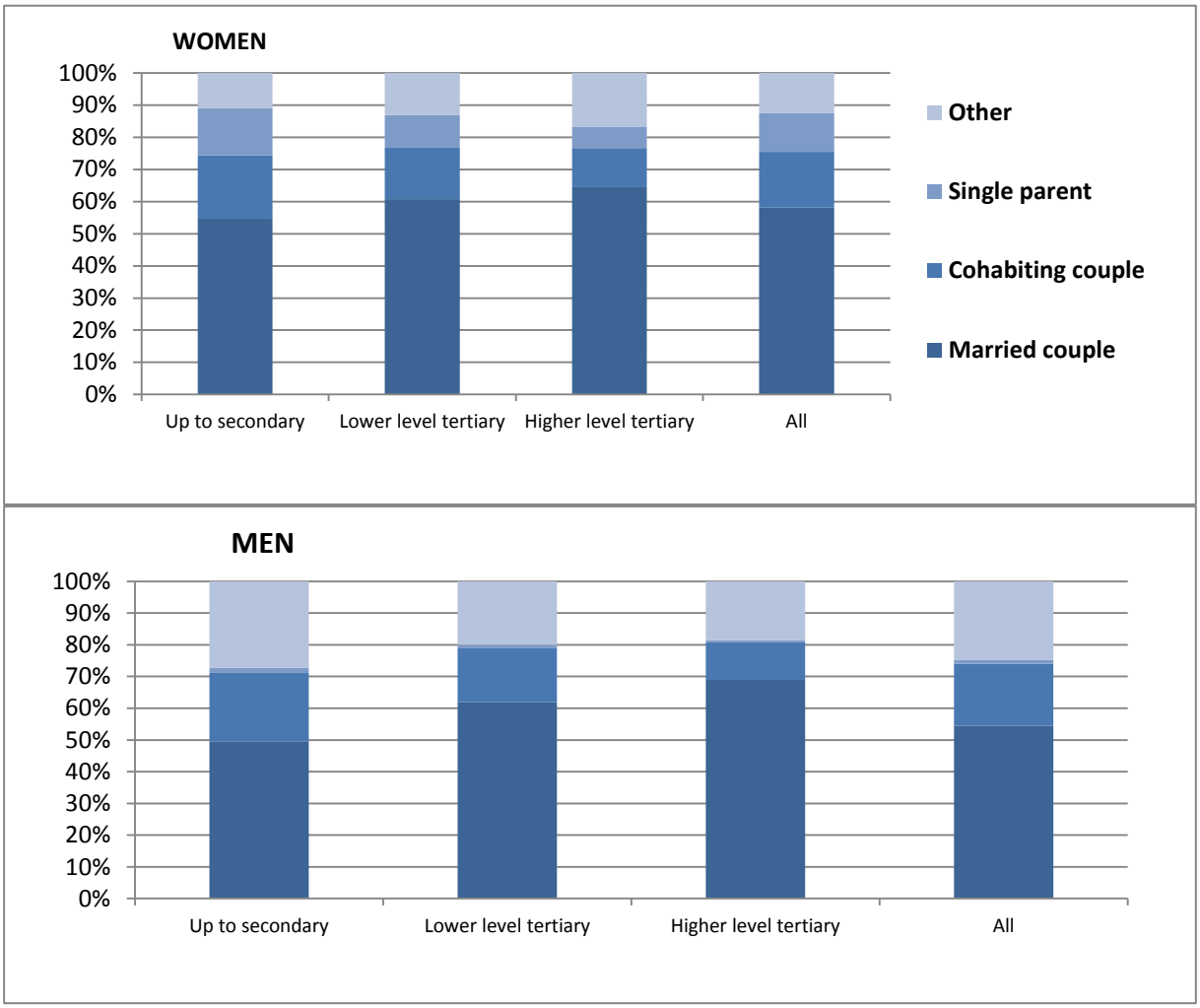
Figure 3.5.5 Total fertility rate and GDP annual growth (%), 1970–2011.



Source: Statistics Finland; annual national accounts; births; income distribution statistics.

Figure 3.5.6 gives some indication of the socio-economic gradient in family structures. Unfortunately, the statistics for this purpose are only available for year 2000, only for those employed, and only for limited age groups. However, the figure shows that the gradient of being married is steeper for men than women – there is a 20 percentage points difference in being married (with or without children) between men with up to secondary and at least higher level tertiary education. Among women the difference is only 10 percentage points. However, cohabitation somewhat evens out the difference in the proportion living in couples.

Figure 3.5.6 Family composition by level of education among employed women and men aged 35–39 in 2000.



Source: Kartovaara 2003; Statistics Finland.

According to studies, also divorce is socio-economically determined in Finland: risk of divorce is higher among those in lower socioeconomic positions (Jalovaara 2007). This gradient exists according to, for example, education, occupational status, employment and housing tenure. An interesting exception of this is that high income of the wife increases divorce risk whereas among men the risk increases with lower income (Jalovaara 2007). Calculated of the population aged 35–39 shown in Figure 3.5.5 in 2000, 19% of women with up to secondary education had sometimes experienced divorce, while the proportion was 10 for women with higher level tertiary education. Among men the proportions were 13 and 8. However, we are not aware of studies or statistics on socioeconomic trends in divorce in Finland.

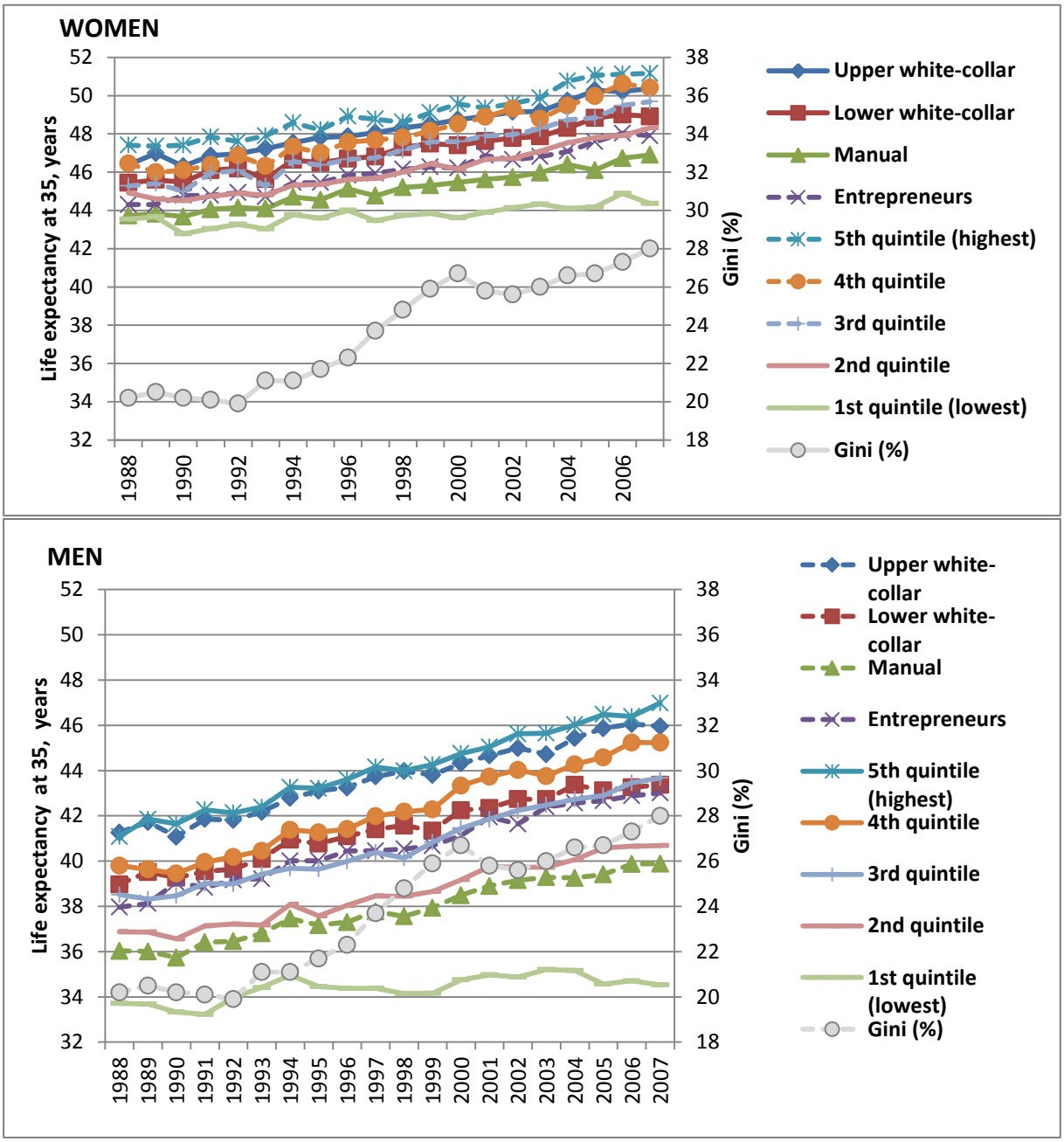
In summary, Finns have become more and more secularized in their family values. Compared to earlier decades, they now tend to live alone, marry later or don't marry at all, have children at older

ages and have no problems in having their children outside of marriages. They also tend to divorce more eagerly than in earlier times. Rather than reflecting changes in inequality, these general developments are reflections of loosening of traditional family values, more individualistic values, establishment of a dual earner model in the labour market, and also of strong gender equality. However, these general developments may hide important differences related to socioeconomic status within each household type. For example, there may have occurred polarization in the employment and socio-economic situation according to family types during the last decades. Unfortunately, trend data on socioeconomic variables together with family or household type are difficult to obtain. Anyhow, there are some indications of worsening situation of single and single parent households. For example, the proportion of single parent families among families with children receiving basic income support (*toimeentulotuki*) increased from 45% in 1998 to 56% in 2006 (calculated among families with children only) (Heino & Lamminpää 2008). Figure 2.2.2 earlier in this report shows how real disposable income per consumption unit has been left lagging behind among single persons and especially in single parent households. Simultaneous demographic change as well as changes in different household types' faith in the labour market have contribute to the widening income differences between household types, and these together have also contributed to increase in average measures of income inequality in Finland.

3.6 Health inequalities

Life expectancy at birth has increased continuously in Finland since the war years in the 1940's and was 83 years among women and 77 years among men in 2010 (Statistics Finland, StatFin database). The difference in life expectancy between women and men is one of the largest in Western Europe. Beyond the gender difference, also the socio-economic differences in life expectancy are large and further increasing. Calculated in a study by Tarkiainen et al. (2011; 2012) Figure 3.6.1 shows the remaining life expectancy at age 35 separately for women and men during the period 1988–2007 according to income quintiles (which, due to data availability, were measured as quintiles of gross taxable income per household consumption unit, calculated separately for women and men for each year) and occupation-based socio-economic groups. While life expectancy among those most well-off has increased, the development at the bottom income quintile has been negligible. Thus, the difference between the lowest and highest quintile has increased remarkably since the 1980's: among women the difference increased from 3.9 years to 6.8 years, among men from 7.4 years to 12.5 years. Life expectancy increased in all other quintiles but the poorest one, which has been stable since early 1990's.

Figure 3.6.1 Life expectancy at age 35 by income quintiles and socio-economic status, women and men in 1988–2007.



Source: Tarkiainen et al. 2011; 2012; Statistics Finland, income distribution statistics.

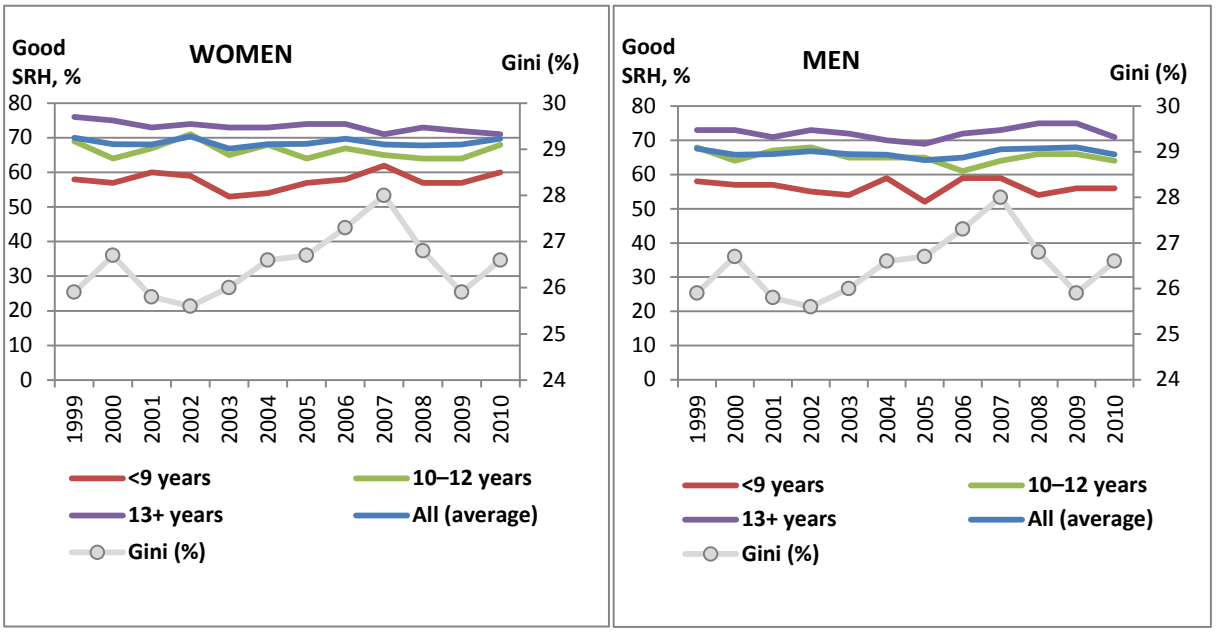
According to occupation-based socio-economic status, the difference grew only slightly. The same has been observed of the life expectancy trends related to education. Thus, according to these findings, income is a more severe determinant of health than education or socio-economic status. The main reason for the stagnant life expectancy in the lowest income quintile was increasing alcohol-related mortality among those aged 35–64. Also increasing cancer mortality among women and slow decrease of heart disease among men in this age group contributed to the differences

between the quintiles. (Tarkiainen et al. 2011; 2012.) Furthermore, health-related selection into the lowest income quintile may have strengthened, because benefits for those with poor health and disability have been more and more lagging behind the general income development.

The socio-economic gradient is obvious also in reporting good or reasonably good health (Figure 3.6.2). The figure demonstrates a clear gradient between the educational groups: about 70% of the highest educated report at least reasonably good health while the proportion is only 55–60% among the lowest educated. There has not been much change in reporting good health since 1999. Health behavior surveys are affected by some randomness in answering, and thus odd yearly fluctuations may be observed. Overall, self-reported good health seems to be on average almost at the same level in 2010 that it was ten years earlier. Among women, there seems to have happened some convergence between the educational groups.

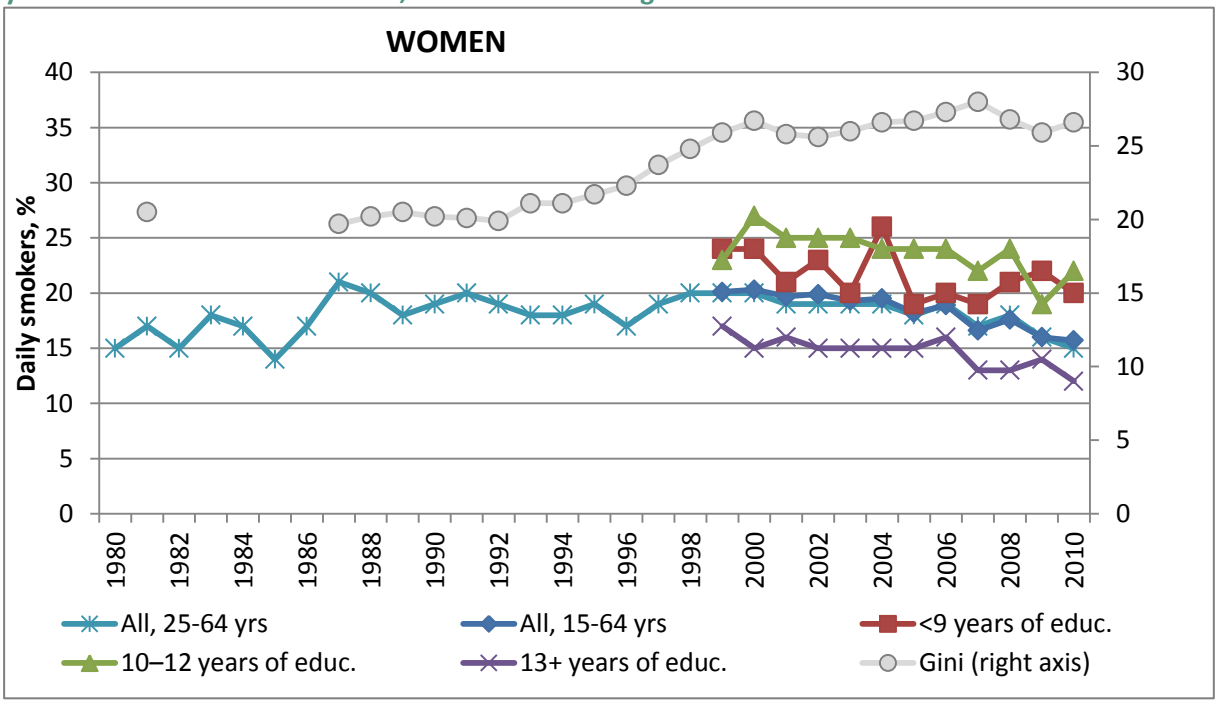
Smoking is one of the most important predictors of poor health and it affects also the socio-economic gradient in health. Figure 3.6.3 shows how the percentage of daily smokers has decreased among men aged 25–64 from 37% in 1978 to 24% in 2010 but among women, in contrast, the percentage has been rather stagnant. By education (available for those aged 15–64 in 1999–2010), the gradient is clear, with especially those with at least 13 years of education smoking less than the others. Among men, daily smoking has clearly decreased among those highly educated but increased or been stagnant among those with lower education. Thus, the socio-economic gradient in smoking has increased among men. Among women, daily smoking has slowly decreased in all groups, but the decrease has been more remarkable in the highly educated group.

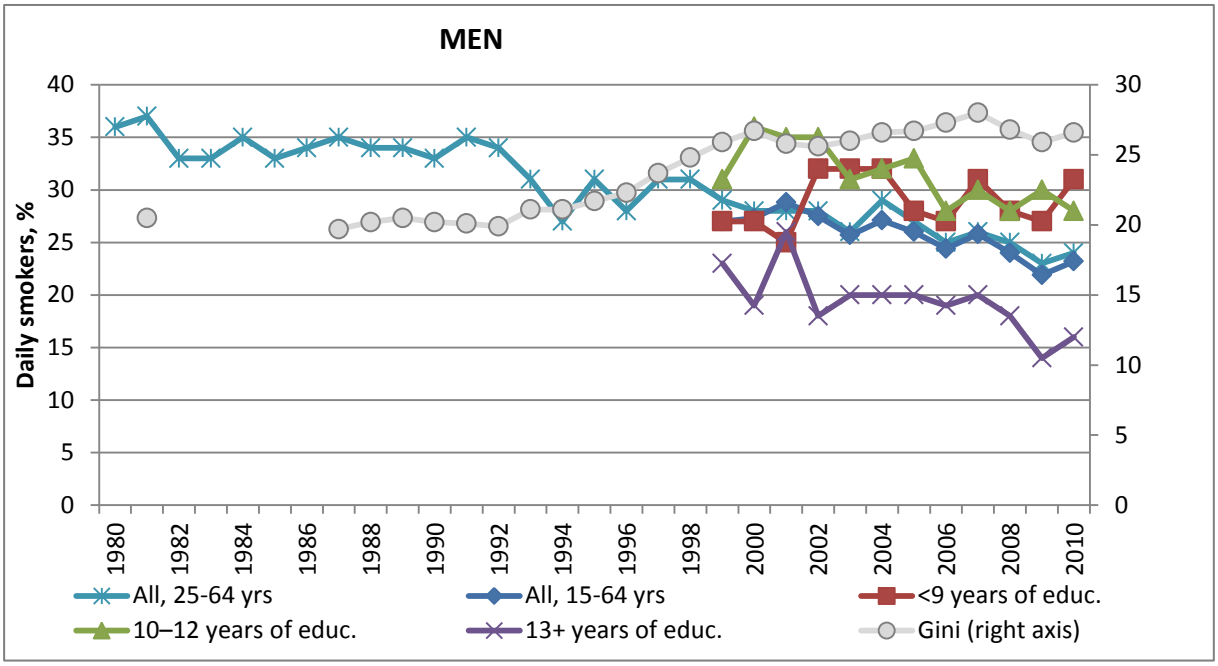
Figure 3.6.2. Those reporting good or reasonably good health (%) by years of education in 1999–2010, women and men aged 15–64.



Source: Health Behaviour and Health among the Finnish Adult Population, surveys 1999–2010 (THL).

Figure 3.6.3. Prevalence of daily smokers (%) in 1978–2010, men and women aged 25–64, and by years of education in 1999–2010, men and women aged 15–64.

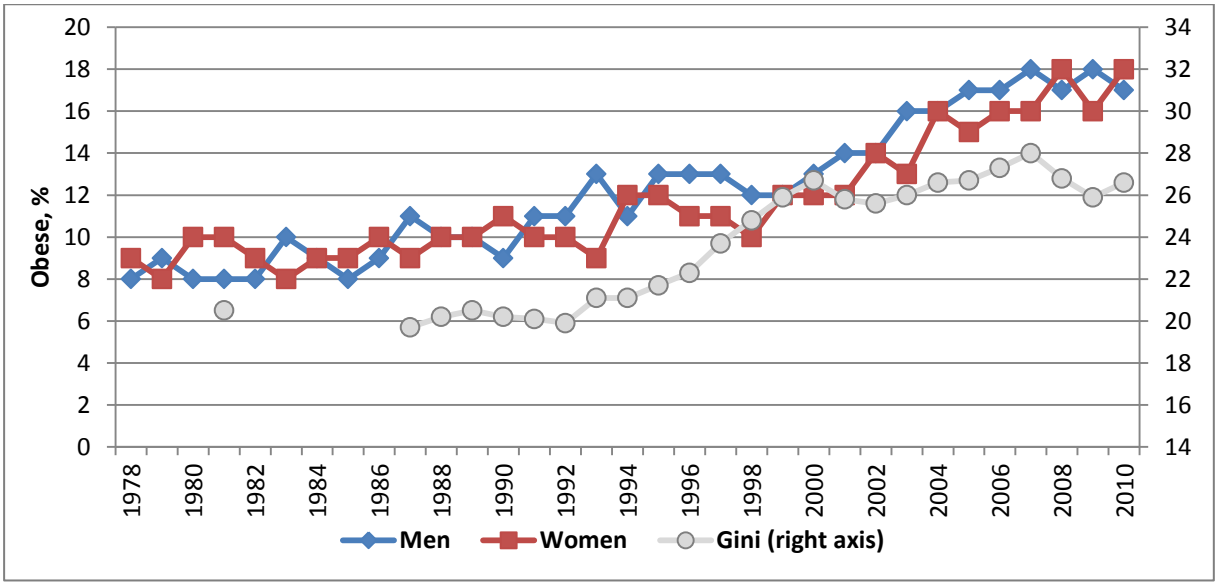




Source: Health Behaviour and Health among the Finnish Adult Population, surveys 1978–2010 (THL).

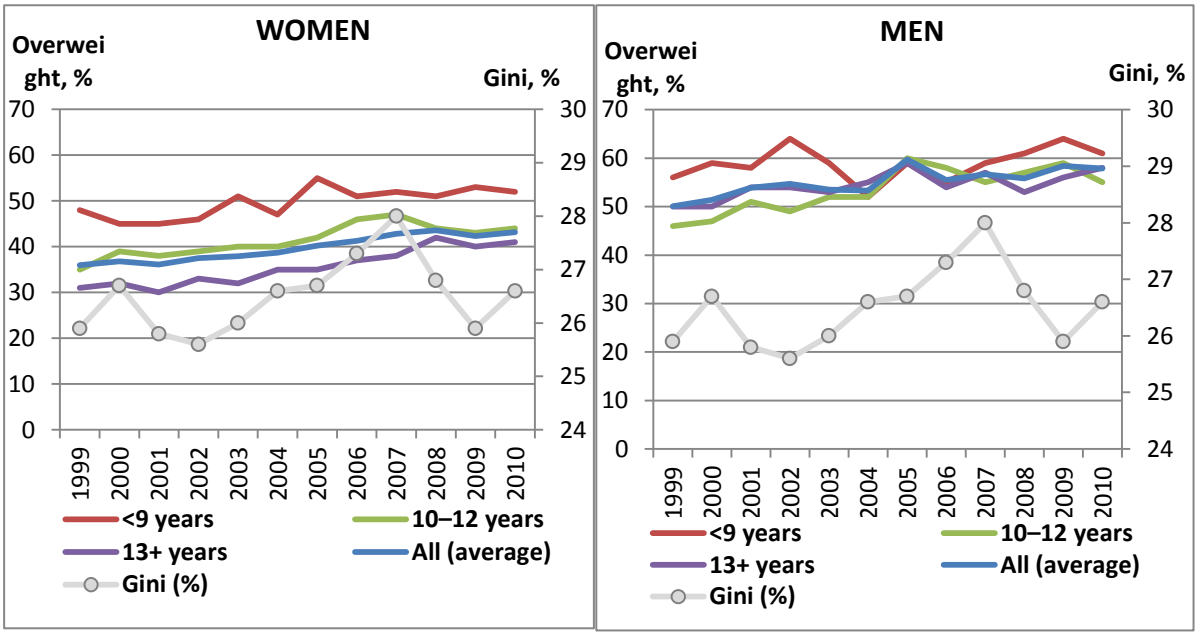
Obesity (BMI ≥ 30 kg/m2) and overweight (BMI ≥ 25 kg/m2) are these days important factors affecting overall public health negatively in Finland. Figure 3.6.4 shows how obesity has increased remarkably since the 1980's among both men and women. What is interesting is that the socio-economic gradient in obesity or overweight is not always as clear as in many other health or health behavior indicators. Figure 3.6.5 shows that while those with least education are the most overweight among men (over 60% in 2010), the difference between educational groups is rather small. In contrast, among women, the difference by education is clear. The prevalence of overweight has increased in all educational groups during the last ten years.

Figure 3.6.4 Obesity (BMI ≥ 30 kg/m2) (%) in 1978–2010, women and men aged 25–64.



Source: Health Behaviour and Health among the Finnish Adult Population, surveys 1978–2010 (THL).

Figure 3.6.5 Proportion overweight (BMI ≥ 25 kg/m2) by years of education in 1999–2010, women and men aged 15–64.



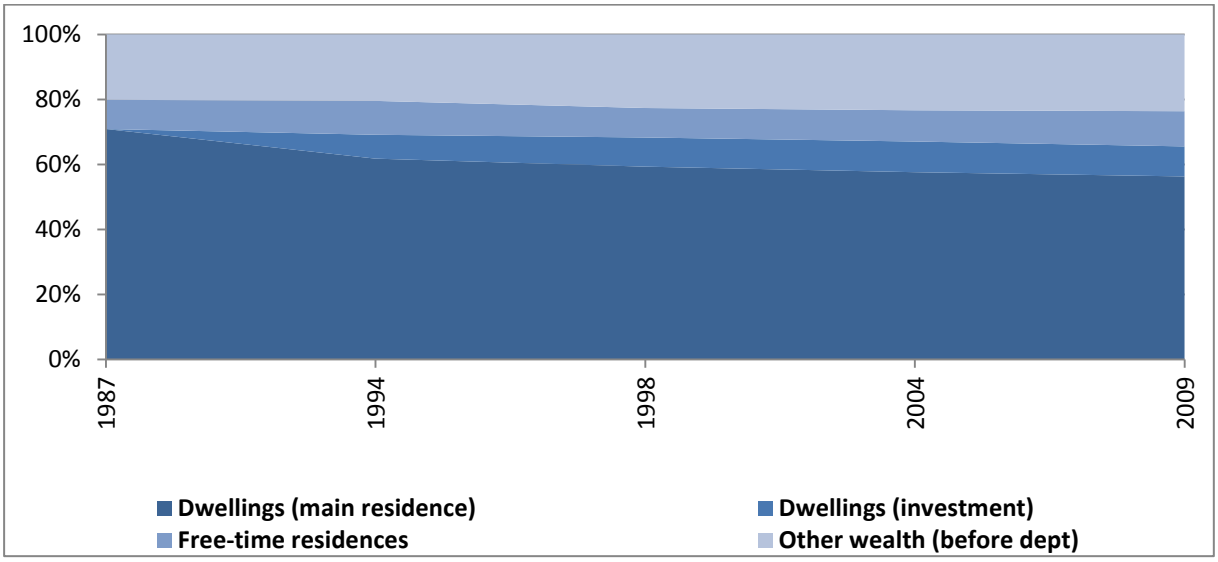
Source: Health Behaviour and Health among the Finnish Adult Population, surveys 1999–2010 (THL).

3.7 Housing tenure and changes in the role of housing in the wealth distribution

The degree of house ownership has been traditionally high in Finland. According to Household Expenditure Surveys from the mid-1980s, the proportion of households which owns their homes has been around 75 %. Consequently, the role of housing is crucial in the wealth distribution (see also Section 2.1.2). As Figure 3.7.1 shows the share of housing including all dwellings and free-time

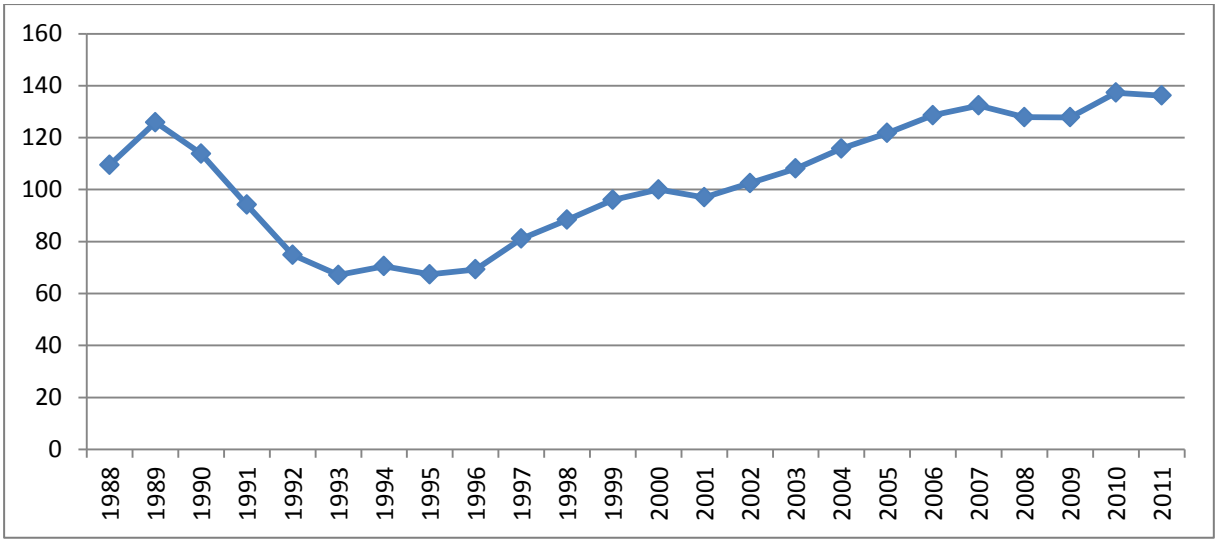
residences has been about 80 %. The role of main residences, i.e. houses or apartments in which households lives, is the most important: the share of main residences has been relatively constantly 60 % from mid-1990s to 2009.

Figure 3.7.1 The role of housing wealth in the wealth distribution, before debt, 1987–2009 (%).



Source: Households' assets, Statistic Finland. Note: Because of data collection issues dwellings for the purpose of investment cannot be separated from the main residences in 1987 and 1988.

Figure 3.7.2 Trend in prices of dwellings in real terms (index: 2000=100).

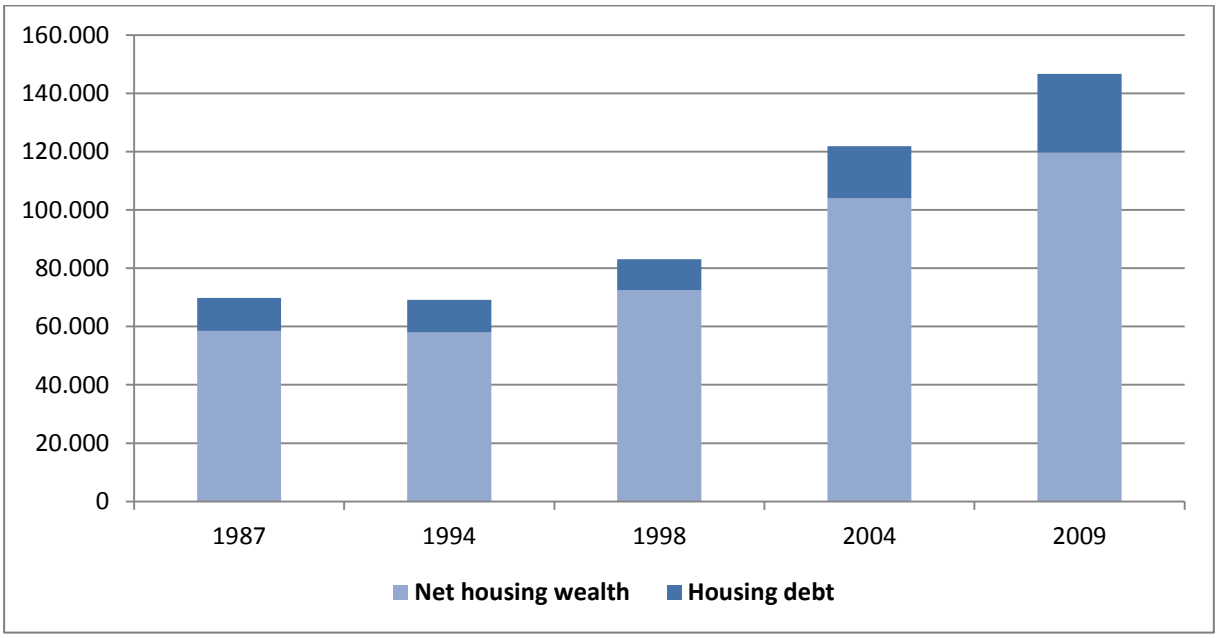


Source: Prices of dwellings, Statistic Finland.

Figure 3.7.2 shows the trend in prices of dwellings in Finland from late 1980s to 2011. The economic recession of the early 1990s meant a sharp decrease in prices of dwellings. The prices started to increase again after the mid-1990s. And thus, the period between the mid-1990s to the 2008

financial crises was the period of almost constant increase in prices of dwellings. Increasing trend in prices has also meant increasing net housing wealth from the mid-1990s as shown in Figure 3.7.3. In addition, the figure shows that the level of housing debt has increased as well.

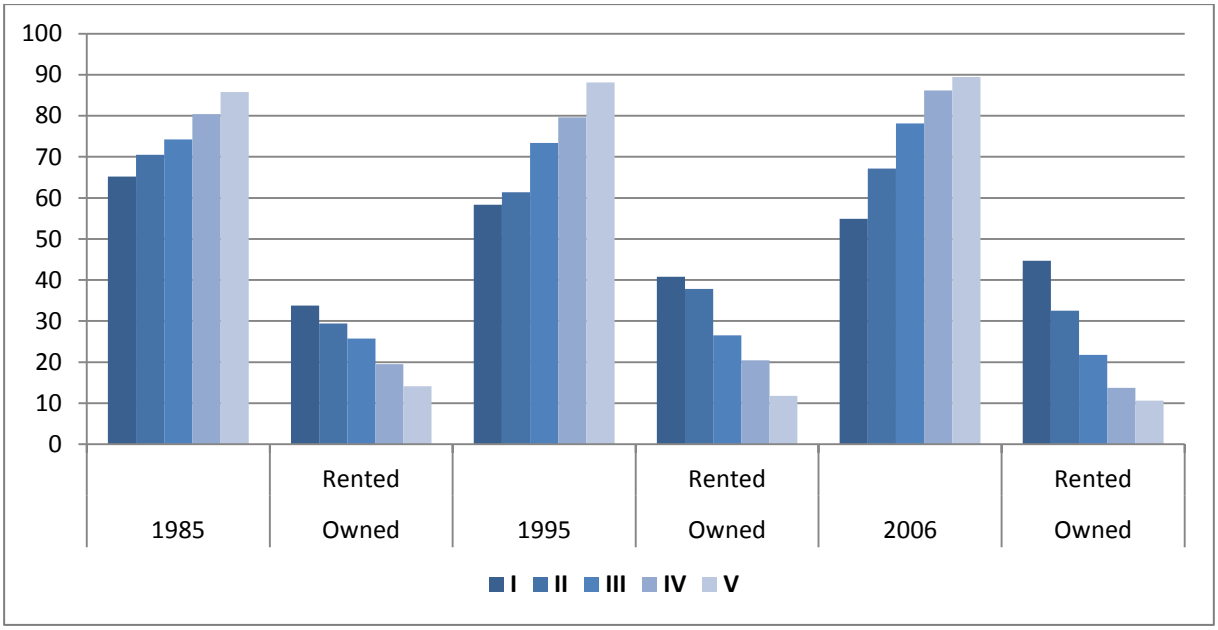
Figure 3.7.3 Changes in debt and net wealth in housing in Finland 1987–2009 (€ in 2009 currency).



Source: Households' assets, Statistic Finland.

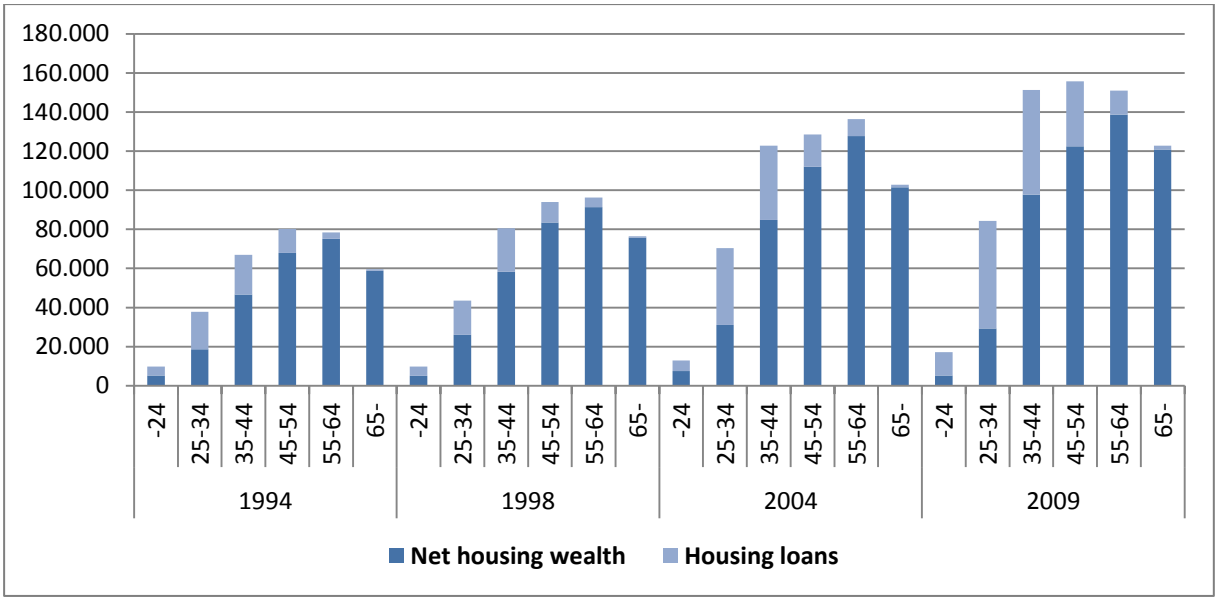
However, accumulating wealth takes time, which means that there are age differences as well as income differences both in tenure type and housing wealth (Figures 3.7.5. and 3.7.6.). Figure 3.7.4 shows that there is a clear relationship between tenure type and household income. On the one hand, the higher the household income, the higher is the share of households who owns their dwellings. On the other hand, those who live in a rented house belong more likely to lower income groups. This association is constant over time. The result can be partly explained by age differences. As Figure 3.7.5 indicates the level of net housing is considerably lower in younger age groups. Figure shows the life-cycle pattern regarding the wealth accumulation. In terms of gross wealth, housing wealth starts to increase in the age group of 25–34. However, the share of housing loans is then substantial. The share of housing loans decreases and net housing wealth increases with ageing. In addition, there is a clear association between household disposable income and net housing wealth. As Figure 3.7.6 illustrates this association is stronger in 2000s than late 1980s or mid-1990s.

Figure 3.7.4 Tenure type by household disposable income quintile in Finland 1985, 1995 and 2006 (%).



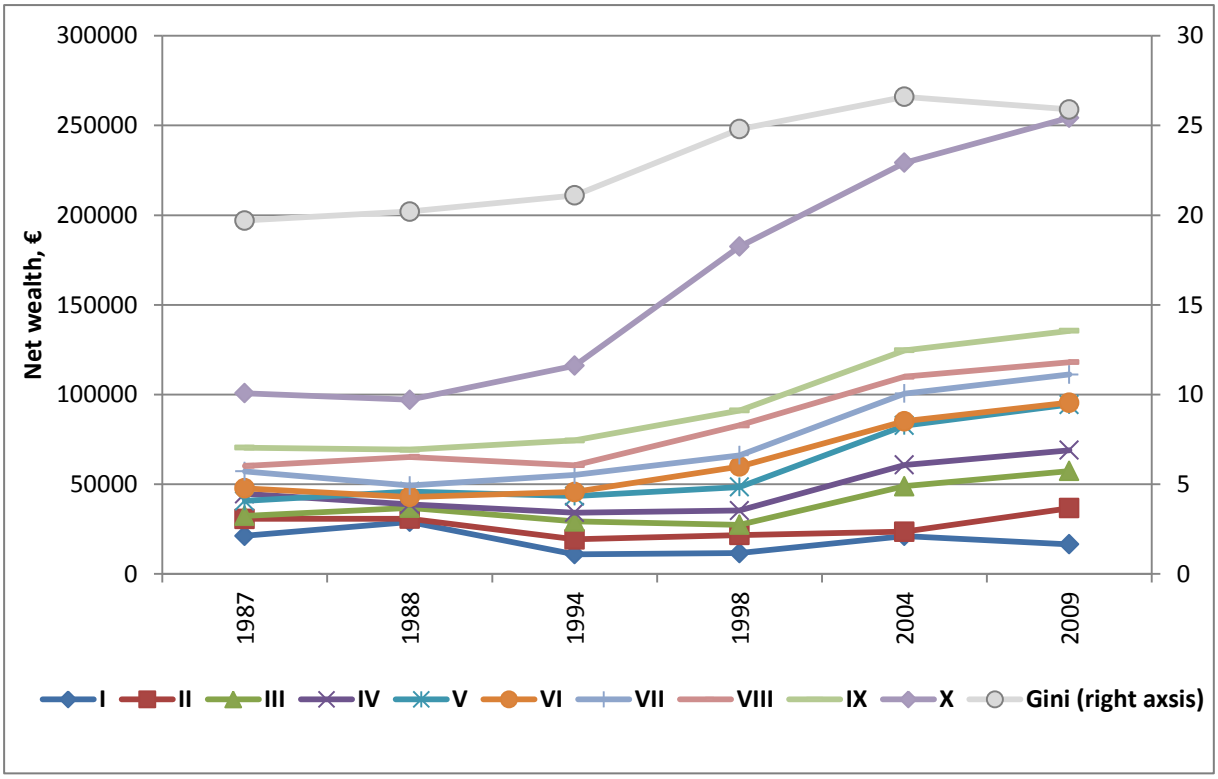
Source: Household Expenditure Surveys 1985, 1996 and 2006.

Figure 3.7.5 Changes in average housing wealth by age groups in Finland 1994–2009 (€ in 2009 currency).



Source: Households' assets, Statistic Finland.

Figure 3.7.6 Figure 3.7.6. Changes in average net housing wealth by disposable income decile in Finland 1988–2009 (€ in 2009 currency).



Source: Statistic Finland, households' assets; income distribution statistics.

Consequently, housing expenditures also decrease with ageing because of lower cost regarding housing loans. Among the households which own their dwellings, the share of housing expenditures from total consumption is at the highest level when the level of housing debt is high. On the other hand, among the households which live in a rented dwelling, housing expenditures are not associated with age differences in a similar way. Thus, the share of housing expenditures from total consumption is on average much higher. In general, when considering the structure of consumption in Finland, housing is the most important sub-group in consumption of low income households. The share of housing expenditures decreases when the level of household income increases. (Niemelä & Raijas 2012.)

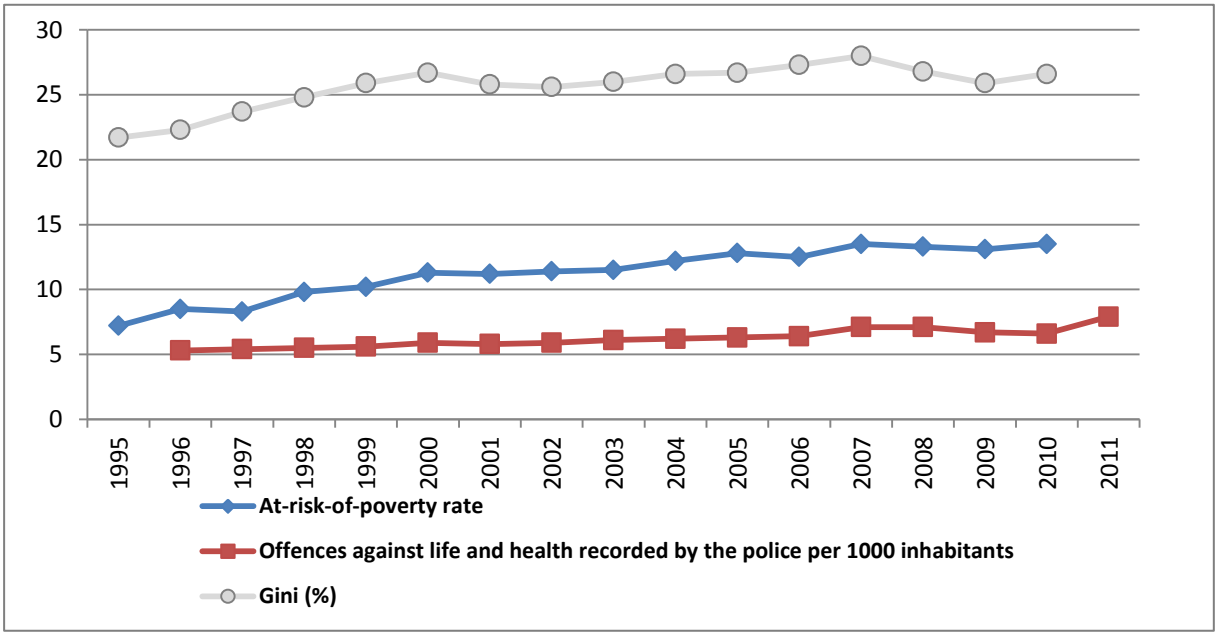
3.8 Crime and punishment

Despite the fact that income inequality and at-risk-of-poverty rate have increased in Finland over the last 15 years, incidence of crime has remained almost on a constant level. Crime indicators concern offences reported to the police or involving a summary penal order or petty fine. Criminal offences

are recorded by place of offence. A drawback of the statistics is that a major proportion of offences do not come to the attention of the police.

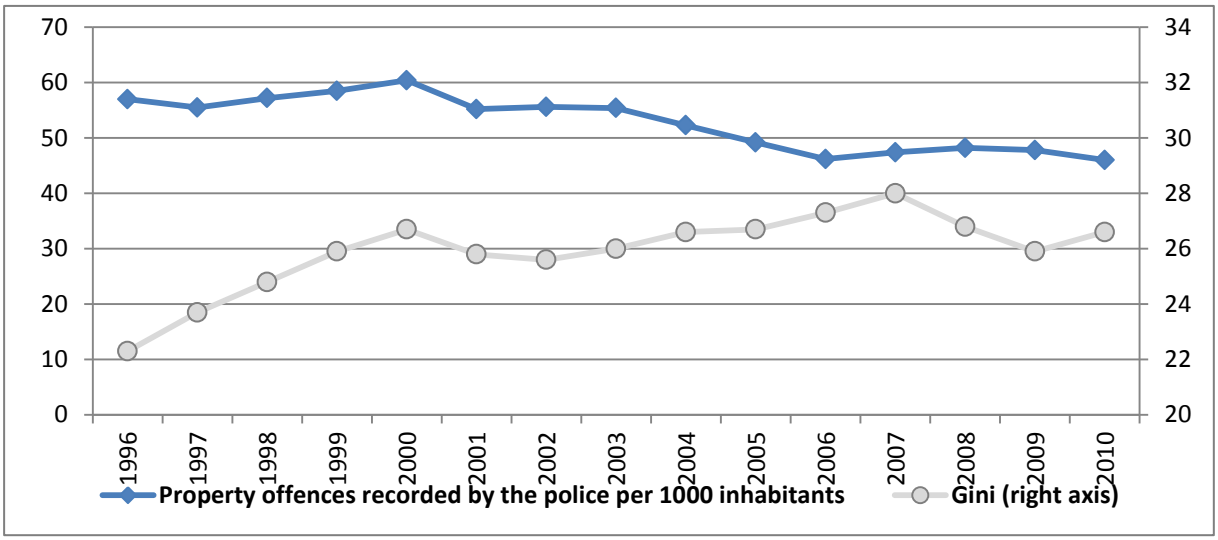
The offences against life and health recorded by the police did increase slightly between 2006 and 2011 (Figure 3.8.1). Since year 2000, property crimes have decreased steadily (Figure 3.8.2). The association between poverty (or inequality) and crime has been widely debated among social scientist. There appears to be a connection between violent crime and municipal level inequality among the Finnish municipalities (Figure 3.8.3). The same holds true for violent crime and poverty (Figure 3.8.4) where a small association is discovered (r=0.23). Violent crimes as an indicator gives the number of violent offences reported to the police per thousand inhabitants (the population data refer to year-end data). Violent offences include murders, manslaughters and offences against life and health.

Figure 3.8.1 Poverty, inequality and crime in Finland, 1995–2011.



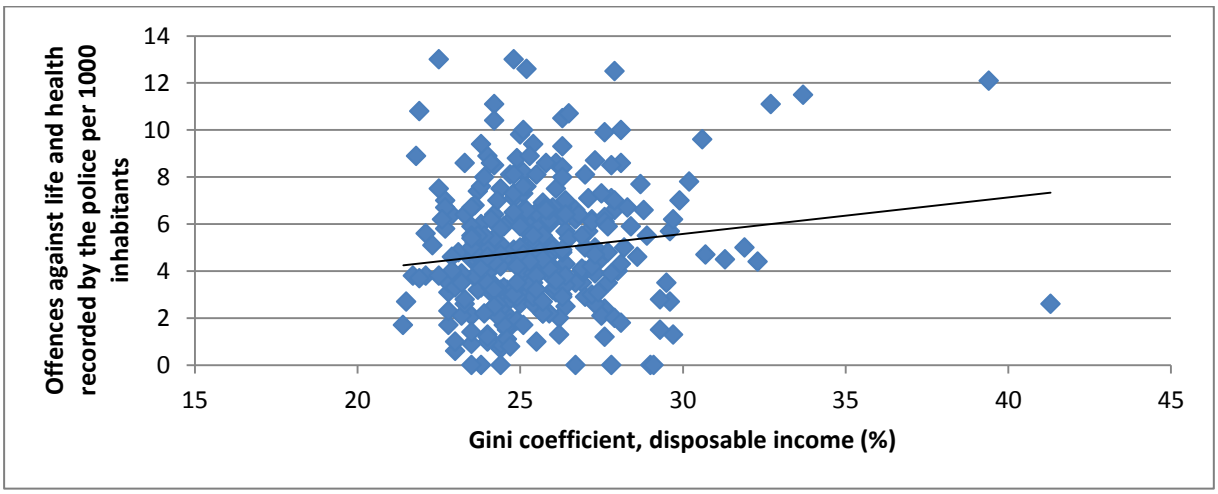
Sources: SotkaNet; Statistics Finland.

Figure 3.8.2 Property crime and inequality and crime in Finland, 1996–2011.



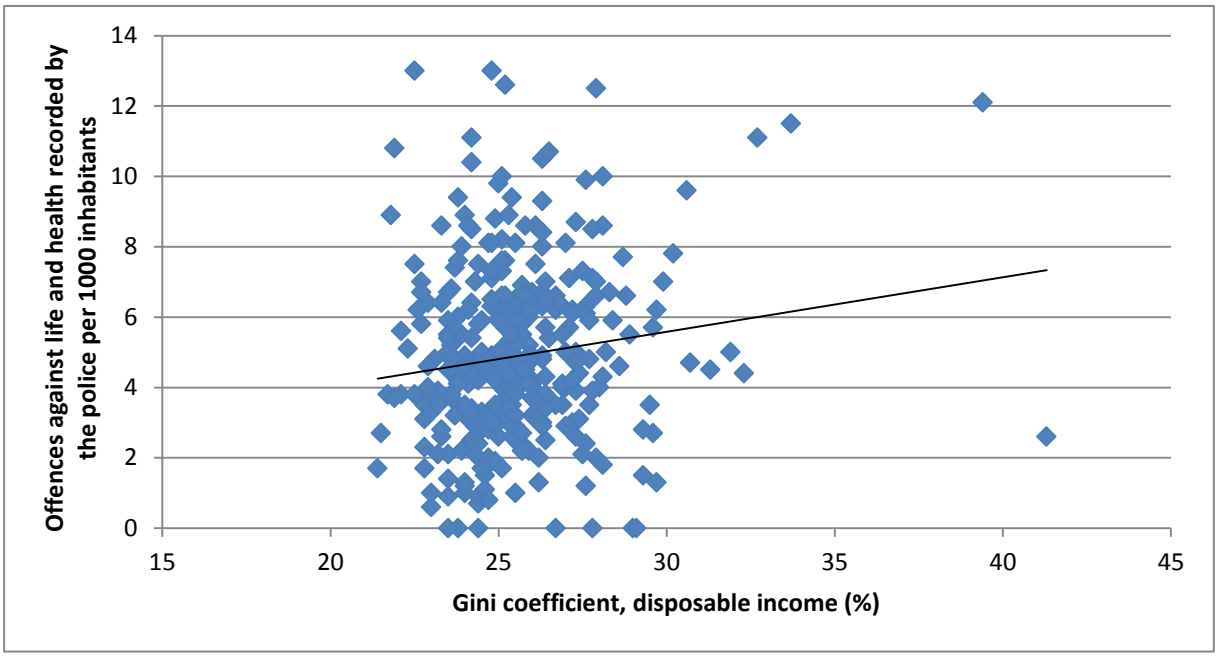
Source: SotkaNet; Statistics Finland.

Figure 3.8.3 Correlation between inequality and violent crimes among municipalities in Finland, 2010.



Source: SotkaNet.

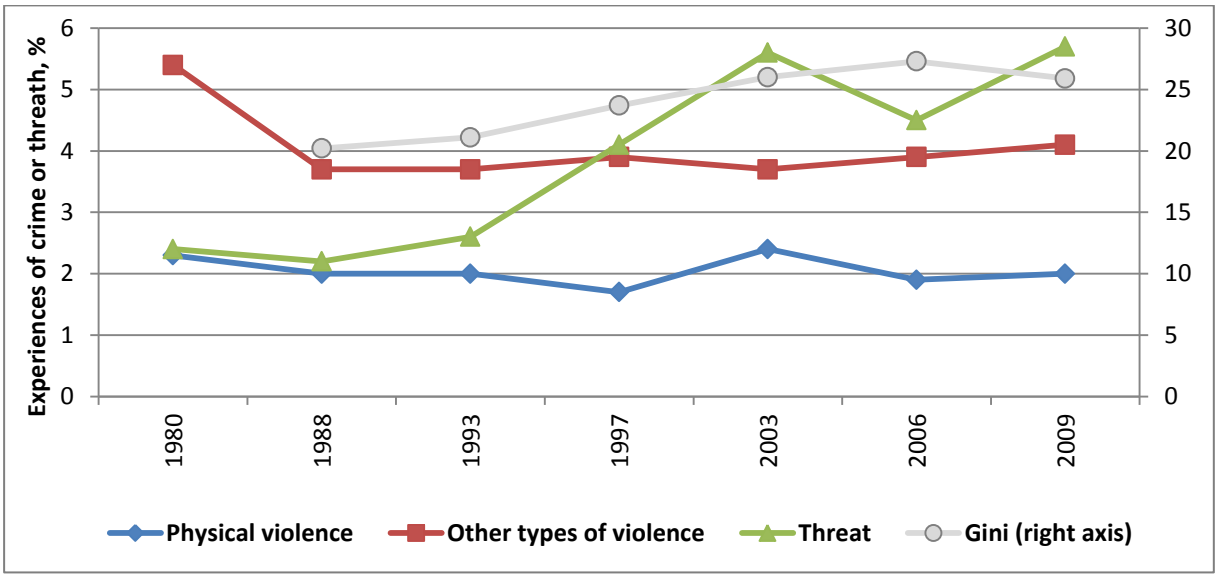
Figure 3.8.4 Correlation between poverty and violent crimes among municipalities in Finland, 2010.



Source: SotkaNet.

The subjective perception of crime is not completely related to crimes recorded by the police in Finland. Subjective perception of physical violence and other types of violence decreased markedly from 1980 to 1988 (Figure 3.8.5). Since then the rates have remained almost constant. However, there was remarkable increase in the subjective perception of threat from 1988 to 2003. This development coincided with increase in income inequality.

Figure 3.8.5 Subjective perception of crime in Finland, 1980–2009, % of population (15–74 years).



Source: National Research Institute of Legal Policy; Statistics Finland, income distribution statistics.

3.9 Subjective measures of well-being: satisfaction and happiness

Happiness has made a phenomenal entry into the high chambers of scientific inquiry. Soft social scientists are not the only ones to be thrilled about studying happiness today; hard-core economists and strict scientists are too. Needless to say, the search for happiness takes place in different domains and by different methods depending on the discipline of the scholar. Whereas the psychologist tries to trace electrical waves, the issue for the social scientist is to discover the societal contexts and conditions that actually cause that positive electrical brain activity in the first place. The possible link between an individual's physiological status, social position and the characteristics of the society he/she lives in has been widely discussed by epidemiologists, and the conclusion has been that social factors – income, employment, our position in social hierarchy, social relations, etc. – are of importance for our health. Whereas an advantageous position in society has a multiplier effect leading to better education, better income and health, as well as to a longer and happier life, in a disadvantageous position harmful things tend to accumulate: low educational attainment, low income, health problems, lower experienced happiness, and life expectancy that is years behind that of people in better positions in society. (see e.g., Marmot 1996 and 2002; Kawachi & Kennedy 2006; Wilkinson & Pickett 2009; Backhans 2011).

The old adage states that it is better to be healthy and wealthy than sick and poor. There is an undeniable common sense truth in this: in most societies people are happier if they are healthy and have money than if they were poor and in ill-health. No doubt, health is good for happiness but it has also been shown that positive emotions are good for health (Danner, Snowdon & Friesen 2001). It is not the task for this study to analyze whether the linkage is causal one or not. For our purposes it is sufficient to look at the relationship between health and happiness / life satisfaction.

When it comes to the impact of income upon health and happiness, there are two sets of explanations, absolute and relative. The first one emphasizes the impact of the absolute sum of money. The proponents of the relative interpretation argue that in addition to the absolute material conditions, there are numerous behavioral factors that are harmful to health, and most importantly, the suppressed position of the poor causes stress and other forms of psychosomatic strains, which, in a gradual manner, permanently weaken the health and reduce mental well-being. It is argued that large income differences are harmful for both health and happiness and the negative effects cannot be attributed to differences between the absolute level of wealth of the country and how wealthy the people themselves are. Also in very affluent societies inequality has corrosive effects. If this statement is true, we should find that Finns were happier in the early 1980 when income differences were smaller than people in countries with more equal income distribution. Furthermore, in the

Finnish context two hypotheses related to the reasoning above can be spelled out. 1) if the absolutist view is true, then the levels of happiness and life-satisfaction should be the highest in the late 2000s when the income levels are the highest. 2) if the relative interpretation holds, then data for the late 1990s when the economic recovery was rapid and income differences widened should display dissatisfaction and downward trend in happiness.

Previous research has shown that employment is not only a source of income, but an important factor affecting our well-being. Beginning from the classical Marienthal studies, there are a vast number of studies proving the negative effects of unemployment. These effects are not only negative in terms of income, but also affect our self-esteem, being is strongly built on our status in the labour markets. We can expect to find a strong negative association between unemployment and happiness.

In principle (and in practice) there are two data sets available: The World Value Survey (WVS) includes three waves for Finland (the years 1981, 1996 and 2005) and the other data are from the ESS (for the years 2002, 2004, 2006, 2008 and 2010). In the Finnish case the ESS is more comprehensive and contains more background variables, whereas the advantage with the WVS is the longer time period it covers. Therefore, we start with the WVS and complement the results by findings from the ESS.

Table 3.9.1 Happiness in Finland 1981–2005.

Year	Very happy	Quite Happy	Not happy	Not at all happy	N
1981	16.8%	76.8%	5.8%	0.6%	997
1996	24.0%	68.2%	6.6%	1.1%	975
2005	29.3%	62.5%	7.0%	1.2%	1013

Source: World Values Survey.

As indicated by table 3.9.1, although no substantial changes in the average level of happiness have taken place, there is a slight tendency that happiness bifurcates: both the share of very happy respondents and those who are not (+ not at all) happy increase over time. Differences are statistically significant (χ^2 = 52.53, sig. = .000)[2]. Here the testimony from the ESS is a bit different:

[2] In the ESS the happiness question is continuous and runs from 0 = extremely unhappy to 10 extremely happy. If we classify those with values 0 to 5 as unhappy and those with values 8 to 10 happy, then in 2002 7.1% of the respondents were unhappy and 74.7% were happy. The corresponding numbers for 2010 were 7.4% and 74.4%.

during the first decade of the 21 century there are no signs of bifurcation. Differences may be caused by different scales in the question.

One can think that while happiness is more limited a concept and measures a mental state of mind, satisfaction with life comes closer to traditional welfare studies and reflects more broadly the respondents' satisfaction with the actual circumstances in which they are living. In the ESS data the correspondence between happiness and life-satisfaction is high (correlation coefficient (r) is .70**). Therefore, in the subsequent analyses we only concentrate on life-satisfaction that is measure similar way in the ESS and WVS.

In the WVS the life satisfaction question states: "How satisfied you are with your life?" The respondents could express their satisfaction on a continuous scale that runs from 1 'extremely dissatisfied' to 10 'extremely satisfied'. In table 3.9.2 data is collapsed into three categories. Values 1–3 dissatisfied, 4–7 fairly satisfied and values 8–10 very satisfied. The story on life-satisfaction is very much the same as the story on happiness: a clear dualization tendency is visible (χ^2 = 30.58, sig. = .000). In the ESS the scale in life-satisfaction question goes from 0 to 10 and a collapsed data set with three satisfaction categories (0–4 not satisfied; 5–7 satisfied and 8–10 very satisfied) does not indicate significant differences between the waves (χ^2 = 10.89, sig. = .208) but the satisfaction levels for 2006 are very much the same as in the WVS for 2005, i.e., 4.0 percent are dissatisfied and 75.4 percent are satisfied with their present life.

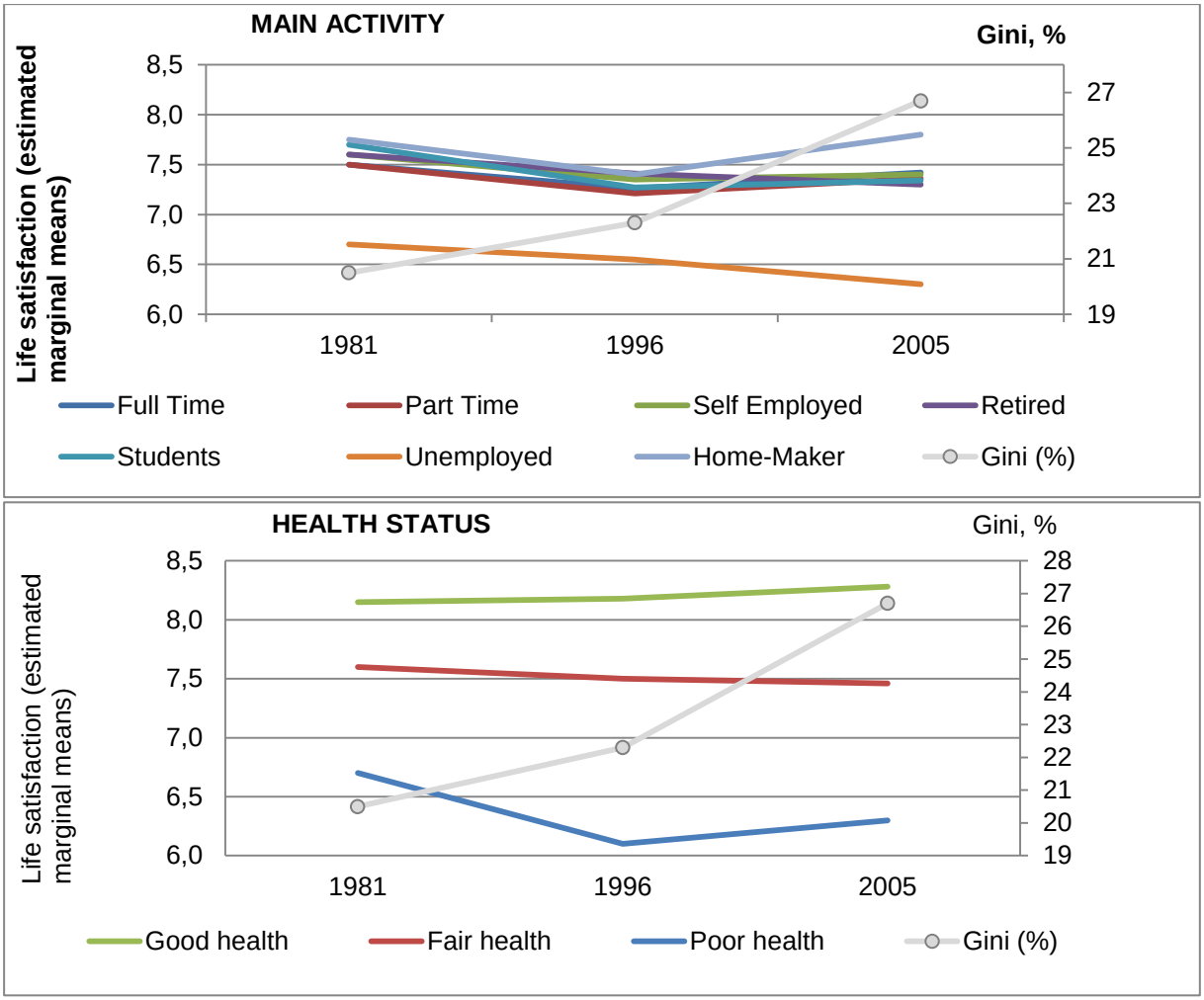
Table 3.9.2 Satisfaction with life in Finland 1981–2005.

Year	Dissatisfied	Fairly satisfied	Very satisfied
1981	1.3%	29.7%	69.0%
1996	2.1%	28.6%	69.3%
2005	4.3%	22.8%	72.9%

Source: World Values Survey.

In order to get a more nuanced picture of the relationships between life-satisfaction and employment and health status (unfortunately income data is not available for 1981 in the WVS) we again run general linear analysis to see trends over time. The model includes health status (measured in three categories) and labour market position and their interaction with time.

Figure 3.9.1 Life-satisfaction[1], employment and health status in Finland 1981–2005, estimated marginal means (GLM).



1 1 = 'very dissatisfied'… 10 = 'very satisfied'

Source: World value survey; Statistics Finland, income distribution statistics (Gini).

Both back ground variables depicted in Figure 3.9.1 are statistically very significantly (sig. = .000) associated with life-satisfaction. The left panel shows slightly decreasing trend in satisfaction but the trends for different employment statuses are somewhat different. In all categories satisfaction decreased 1981 to 1996, where after a slight increase has occurred with the exception of the retired and unemployed. As anticipated, there are substantial differences between healthy and sickness-stricken respondents as becomes evident in the second graph.

To get a closer picture of the determinants and social gradients to life –satisfaction we run linear regressions on the ESS data. The first model is based on the total pooled ESS sample 2002 to 2010 and the subsequent regressions are run on cross-sectional data for 2002, 2006 and 2010 to whether the relative importance of various background variables has changed over time.

Table 3.9.3 Unstandardized regression coefficients for life-satisfaction in Finland 2002–2010 (ESS data).

	All waves	2002	2006	2010
ESS wave	-.001	-	-	-
Constant	8.36***	8.42***	8.30***	8.25***
Female	.26***	.31***	.26***	.29***
Economic difficulties	-1.11***	-1.07***	-.94***	-1.13***
Pensioner	.09	-.01	-.04	.42
Unemployed	-.61***	-.23	-.75***	-.52***
Bad health	-.77***	-.76***	-.79***	-.71***
Feeling unsafe	-.34**	-.45***	-.29**	-.19
No friends	-.56*	-.62***	-.29*	-.75***
adj. R squared	.17	.15	.14	.19
Age and age squared were included into the model. Age had negative and age squared positive and highly significant coefficients in all models.				

Source: ESS.

The average level of life-satisfaction has been rather constant over the whole period of inspection as indicated by the constant that hovers around 8.3 (the range was 0 to 10). The Finnish women are more satisfied than their countrymen. The strongest negative associations are between satisfaction and economic hardships (a dichotomous variable: 1 = has problems to cope with present income; 0 = no problems), bad health (0 = bad or very bad health; 0=others) and being unemployed. The two last variables that pertain to feeling unsafe when walking alone and to loneliness (no intimate friends = 1, others = 0) show how social environment plays an important role in our happiness. It is interesting to compare two groups that are outside the labour market, i.e., the unemployed and the pensioners. Whereas being a pensioner has no significant connection to satisfaction, unemployment has a clear negative impact. There are two explanations to these findings. On one hand there is the old Marienthalian explanation that becoming unemployed brings feelings of uselessness and social stigma, whereas a pensioner has a legitimate status in society. On the other hand, in the Finnish context pensioners seem to be in better economic position. In the ESS data 46 percent of unemployed vs. 34 percent of pensioners are in the lowest quintile and 37 percent of unemployed vs. 13 percent of pensioners have problems to cope with their present income. The same story can be read from table 2.2.1. showing that real incomes among pensioner have increased by 50 percent 1990 to 2010, whereas the increase among the unemployed has been only 14 percent. In fact, income of the unemployed as a group did not improve at all 1990 to 2002 (see table 2.2.1.).

3.10 Intergenerational mobility

Contrary to many other Western societies, the change from an agrarian society to an industrialised one occurred quickly in Finland, within two decades after the Second World War. Due to the modernisation and the growth of public sector, Finnish social mobility was changing largely during the post-war era: The white collar and manual classes had their origins among classes which at the time were rapidly diminishing, i.e. the self-employed farmers and farm workers (Erikson & Pöntinen 1985). Thus, the period change in social fluidity appears to be towards greater openness for both men and women (also Erola 2009). When mobility differences between different cohorts have been studied, the results suggest that younger cohorts have stronger mobility than the older ones (Moisio 2006). Also, when social fluidity between two consequent generations was studied, it signalled a weakening inheritance of social status (Erola & Moisio 2007).

The economic recession of the early 1990s had not immediate effects on class mobility (Erola & Moisio 2005). As shown in Chapter 2.1 recession was, however, followed by growing inequality. On the one hand, one might expect that just as with the increase in the other forms of inequality, inequality of opportunity would increase as well. On the other hand, the level of education has been increasing in recent decades. During the recession of the early 1990s, the educational system was expanded in order to buffer unemployment and to foster social change. Therefore, opposed to rising inequality hypothesis one might expect positive changes in mobility.

Based on the analysis of Finnish Census Panel during the period 1970–2000, Erola (2009) found that the period change is towards greater openness, stronger for women than for men. However, this effect is considerably weaker than the variation according to cohorts. Table 3.10.1 shows the results on absolute, vertical, upward and downward mobility in different cohorts. Absolute mobility refers to the percentage of the cohort in a class positions different from that of their parents. Vertical mobility refers to the mobility across three hierarchy levels of the EGP class classification. If a person has a more advantageous class position than his/her parents, he/she is considered as upwardly mobile, and, if less advantageous, downward mobile. Results suggest that the level of absolute mobility is higher for women than for men. For men, there is a decreasing absolute mobility up to the fourth cohort. For women, there is first an increase in mobility, then a decrease between the last two cohorts. Overall, the results show higher level of social inheritance for the youngest cohorts than for the cohorts before them.

Table 3.10.1 Absolute and vertical mobility of 35–39 year-old Finns in different cohorts.

Men	1936–40	1941–45	1946–50	1951–55	1956–60	1961–65	Total
Absolute mobility	77.6	76.8	75.3	73.9	73.8	74.2	74.8
Vertical mobility	53.3	52.8	54.0	52.9	52.8	54.5	53.4
Upward vertical	36.1	33.9	35.4	32.2	30.0	29.5	32.1
Downward vertical	17.2	18.9	18.6	20.6	22.9	24.9	21.3
Women	1936–40	1941–45	1946–50	1951–55	1956–60	1961–65	Total
Absolute mobility	83.7	85.8	85.8	85.8	85.2	83.0	84.8
Vertical mobility	43.7	45.4	45.7	50.4	50.1	51.8	48.9
Upward vertical	21.9	23.0	25.4	26.7	27.5	28.8	26.4
Downward vertical	21.8	22.4	20.2	23.8	22.5	23.5	22.5

Source: Erola 2009, 313.

Erola (2009) also found that controlling education-related variation does not reduce cohort differences very much. Instead, the period change can be explained by the changes in educational attainment. Table 3.10.2 shows the role of education in social mobility in Finland. The results suggest that improving educational achievements is not a universal trend based on social background. For example, if we look at the semi- or unskilled working classes (VIIa and VIIb), we can see even an opposite trend: the proportion of those with higher tertiary education actually diminishes rather than grows.

Intergenerational mobility in education is in general weaker than social mobility. Yet this finding can be partially a technical outcome of the classification differences between educational and social statuses. Table 3.10.3 shows descriptive figures on participation in higher education of the 20–24 year-old cohort between 1980 and 1995 by parents' education. Analysis shows that there are clear difference in participation in university education between those whose parents have a university education and those whose parents have only a basic level education. Also more detailed multivariate analyses indicate that the participatory differences in higher education have been relatively stable during the 1980s and 1990s. (Kivinen et al. 2001.)

Table 3.10.2 Percentage of children with higher tertiary degree according to class origin.

Men	1936–40	1941–45	1946–50	1951–55	1956–60	1961–65	1966–70	Total
I	17.6	21.1	17.9	19.5	26.1	23.8	30.9	24.4
II	16.0	25.2	26.4	31.3	32.0	32.5	36.6	31.4
III	13.7	9.4	7.8	7.1	8.4	12.4	7.4	9.1
IVab	9.9	7.9	9.5	6.7	5.5	4.4	6.4	6.4
IVc	23.7	14.7	16.6	13.8	11.9	9.1	7.1	11.5
V–VI	9.9	11.3	11.2	12.9	11.5	13.0	8.5	11.1
VIIa	7.6	8.3	9.5	8.7	4.1	4.7	3.0	5.6
VIIb	1.5	2.3	1.4	0	0.5	0.2	0.1	0.5
Total	100	100	100	100	100	100	100	100
Women	1936–40	1941–45	1946–50	1951–55	1956–60	1961–65	1966	Total
I	25.4	15.6	15.4	16.1	22.1	20.7	21.7	20.3
II	15.3	22.7	26.9	28.3	30.2	28.1	33.2	29.6
III	11.9	13.3	14.8	11.5	9.8	19.2	14.7	14.5
IVab	11.9	10.2	7.7	4.9	6.7	5.1	5.4	6.0
IVc	18.6	18.0	16.5	22.7	15.6	14.5	9.9	14.4
V–VI	6.8	11.7	7.1	10.2	10.8	8.5	11.8	10.2
VIIa	10.2	5.5	10.4	5.9	4.8	3.8	3.3	4.7
VIIb	0	3.1	1.1	0.3	0	0	0.1	0.3
Total	100	100	100	100	100	100	100	100

Source: Erola 2009, 320.

Note: EGP class classification: I Upper service; II Lower service; III Routine non-manual; IVab Self-employed (non-farming); IVc Self-employed farmers; V–VI Technicians, Supervisors and skilled manual workers; VIIa Semi- or unskilled manual workers; VIIb Semi- and unskilled manual workers in agriculture.

In regard to intergenerational income mobility, Jäntti et al. (2006) compared intergenerational earnings mobility in Denmark, Finland, Norway, Sweden, UK and USA. The study reported that intergenerational earnings mobility is highest in Nordic countries, lower in the UK and lowest in the USA, especially among men. For women, the differences across countries are smaller, but the ranking of countries remains similar to that of men. The study examined also income mobility at different points of father's earnings distribution using transition matrices (see results for Finland, Table 3.10.4). When considering adult sons whose fathers were in the poorest fifth, upward mobility is rather large in Finland. About 28 percent of men in Finland born to low-income fathers remained in the bottom of the income distribution. This figure is lower than in the United States (42 %) and in the UK (30 %). Finnish figure is similar level with Norway and a bit higher than in Sweden (26 %) and Denmark (25 %).

Table 3.10.3 Participation in higher education of the 20 to 24-year-old cohort between 1980 and 1995 by parents' education (%).

Father's education	1980	1985	1990	1995
University	41.9	45.2	47.8	48.0
Vocational (3–4 years)	20.4	22.9	24.0	25.1
Vocational (<3 years)	10.1	10.1	10.1	10.7
Basic	5.4	6.4	7.5	8.5
Mother's education		1985	1990	1995
University		50.3	49.9	49.6
Vocational (3–4 years)		28.6	28.3	26.6
Vocational (<3 years)		10.9	11.2	11.8
Basic		6.8	7.5	8.5

Source: Kivinen et al. 2001, 175.

Table 3.10.4 Intergenerational income mobility in Finland. Earnings quintile group transition matrices for fathers and sons and for fathers and daughters, corrected for age (excluding zeros).

Father			Son		
	q1	q2	q3	q4	q5
q1	0.278	0.234	0.203	0.172	0.113
q2	0.192	0.216	0.249	0.191	0.153
q3	0.177	0.198	0.219	0.216	0.189
q4	0.164	0.195	0.195	0.229	0.218
q5	0.151	0.156	0.140	0.206	0.347
Father			Daughter		
	q1	q2	q3	q4	q5
q1	0.238	0.201	0.230	0.195	0.136
q2	0.222	0.225	0.202	0.191	0.159
q3	0.187	0.190	0.203	0.225	0.195
q4	0.181	0.206	0.196	0.206	0.210
q5	0.172	0.166	0.160	0.188	0.313

Source: Jäntti et al. 2006.

There are also studies which have investigated intergenerational transmission of poverty in Finland. Airio et al. (2005) examined whether there were differences in the intergenerational correlation of income poverty before and after the economic recession during the early 1990s. They found that Finns who grew up poor were around two times more likely to be poor as adults than those who grew up non-poor. The economic recession of the early 1990s had not immediate effect on inheritance of poverty: those coming from a poor childhood family had the same poverty risk before and after the recession. The economic recession may have, however, a longer term impact as has

been suggested in the study by Airio and Niemelä (2009). Utilizing the survey data from 1995 to 2005 with retrospective questions on childhoods' economic circumstances, they found that financial difficulties in childhood are associated with current consensual deprivation (see Table 3.10.5). Moreover, the relative significance of family background has increased after the mid-1990s. Results based on analysis of cohorts indicated that the economic recession in the early 1990s might have its own relevance to the increase of intergenerational transmission of poverty.

Table 3.10.5 The association between financial difficulties in childhood and current consensual deprivation in 1995, 2000 and 2005. Poverty rates (%), odds rations and 95 % confidence intervals.

Family background	Consensual deprivation (%)	Odds ratio	Confidence interval
1995 Poor Non-poor	(*) 15.1 10.5	(5.468*) 1.52 ref.	 1.07 – 2.16
2000 Poor Non-poor	(**) 9.3 5.7	(6.669*) 1.69 ref.	 1.14 – 2.49
2005 Poor Non-poor	(***) 10.1 5.3	(13.503***) 2.01 ref.	 1.38 – 2.91

Source: Airio & Niemelä 2009.

Overall, prior research on income, occupational and educational mobility shows that in general income mobility is the strongest, then occupational mobility and intergenerational mobility in education is the weakest. Yet this finding can be partially a technical outcome of the classification differences between educational and socio-economic positions. First, there are a much smaller number of educational positions in the analysis compared to the level of occupations and income. Second, educational mobility is more often only upward mobility whereas the direction of social and income mobility can be either upward or downward.

3.11 Conclusion: interdependence of inequality drivers and their social impacts

Up to the early 1990s income differences continuously diminished in Finland. Interestingly enough the deep recession decreased the proportion of poor in most population groups, notably so among the pensioners. The situation rapidly changed in the latter part of the 1990s when economic growth was extremely rapid. The rising tide did not lift all the boats in a same way and consequently a substantial number of people were lagging far behind. Perhaps the old adage saying that 'rich were getting richer and poor getting poorer' was not exactly true but almost. The upper-income groups

enjoyed exceptionally rapid increases in their income, while income increases in the lowest deciles were negligible or in some cases, e.g., the unemployed, income stagnated for a decade or so at the 1990 level. The development led to increase in income inequalities that was one of the fastest in the OECD hemisphere. Interestingly enough, measures of consensual deprivation and subjective feelings of scarcity decreased. These discrepancies have something to do with the relative and absolute measurements of poverty. While according to the Finnish statistics relative poverty increased from seven percent in 1990 to fourteen in 2010, the absolute poverty (= the poverty line is fixed at the 1990 level) diminished to less than four percent.

Similar differences are visible if we compare relative poverty and material deprivation. Some 40 percent of income poor are classified poor according to consensual poverty measure and half of the income poor have problems to cope on their income. Thus, the overlapping between different poverty measures is not that good. That is a bad news for poverty researchers but perhaps it is better news for the poor people: cumulation of disadvantage has not been that strong. Good news is also the finding that there still is substantial degree of inter-generational mobility both in terms of income and social class, whereas it is alarming that there is a tendency that those coming from poor child-hood homes have significantly higher probability to be poor in their adulthood that those who are coming from non-poor backgrounds.

Growing income inequality did not results with a flood of social and health problems in Finland (Hiilamo, 2010). There were for example more children placed outside the home and more alcohol related deaths but less homeless people and less property crime. The number of children placed outside the home almost doubled between 1991 and 2008. Poverty and inequality are part of the underlying factors for this development. An increase in the alcohol related death was due to a tax decrease which was aimed to prevent export of liquor from Estonia.

Growing socio-economic differences in health, measured as life expectancy at the age of 35, are notoriously a Finnish problem. The problem is linked to a number of behavioral factors – how people eat, drink and smoke – and access to health care. Without doubt inability to combat these differences is a clear weakness of the Finnish welfare state. Needless to say that increasing differences in social conditions, increase differences in detrimental behavior which fortifies the vicious cycle.

Importance of health is accentuated also if we instead of material living conditions look at subjective well-being, which is a growing business in welfare state studies. Already in the early 1980s there were substantial differences in mental well-being between the healthy and the sick, and by 2005 they were larger than they were two decades earlier. The same goes for differences between the

unemployed and employed. In 2005, the unemployed were more dissatisfied with their lives than the unemployed in the 1980s. In conclusion, it seems to be so that despite the growing inequality the average level of subjective well-being is high but the average conceals a worrying trend: there are more very happy but there also are more very unhappy citizens.

4. Political and Cultural Impacts

4.1 Introduction

According to Aristotle a person that is outside the community either is a beast or a god. Aristotle's writings pinpoint to the importance of collective behavior and membership in community as a source of well-being. The same verdict is given in numerous studies analyzing the beneficial effect of social capital measured as trust in various institutions people. Trust is not only source for mental well-being and happiness but it is said to significantly contribute to our health. In contrast to Ancient Greek city states where democracy was directly exercised in modern societies the democratic representation is channeled through organizations that represent 'people's will' expressed in elections. In this section we look at political activity, political attitudes, changing power constellations and opinions on redistribution and immigration.

4.2 Political and civic participation

Finland was the first country to accomplish a universal suffrage in parliamentary elections (1906). After the Second World War the electoral turn-up has varied from the highest 85.1 percent in 1962 to the lowest record of 67.9 percent in 2007. Until the early 1980s the voting activity hovered around 80 percent and since then there is a downward trend despite some increases in turn-up, as in 2003 and 2011.

Table 4.2.1 Total electorate turn-up (%) in parliamentary elections 1979–2011.

	1979	1983	1987	1991	1995	1999	2003	2007	2011
All	81,2	81,0	76,4	72,1	71,9	68,3	69,7	67,9	70,5
Males	81,9	81,2	76,2	71	70,6	66,8	67,6	65,8	69,6
Females	80,6	80,9	76,6	73,2	73,1	69,7	71,6	69,9	71,0

Source: Statistics Finland.

Traditionally voter turn-up in municipal elections has been lower than in parliamentary elections. Diminishing interest in voting is highly visible also in municipal elections. The all-time lowest electorate turn-out was reached in 2012 when only 58,2 percent cast their votes. Since 1987 males

have been lazier to vote than women (table 4.2.2.) which mirrors the situation in parliamentary elections.

European Social Survey gives some possibilities to evaluate social gradients in non-voting. When it comes to income quartiles there is a rather stable picture that has not changed that much 2002 to 2010. In the year 2002 about 24 percent of citizens in the lowest quartile said that they did not vote. In 2010 the share was almost the same (25%). For the highest income quartile the corresponding percentages were 14 and 15. A more dramatic change has taken place in the voting behavior of the unemployed vs. employed. 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. 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.

Table 4.2.2 Electorate turn-up (%) in local (municipal) elections 1980–2008.

	1980	1984	1988	1992	1996	2000	2004	2008	2012
Whole country	78,1	74,0	70,5	70,9	61,3	55,9	58,6	61,2	58,2
Towns	76,2	71,2	67,2	69,1	58,5	52,3	56,4	59,7	
Towns-like municipalities	80,5	77,0	73,5	72,6	63,7	59,0	60,7	63,2	
Rural areas	80,7	78,4	76,2	74,1	66,9	63,6	63,8	65,7	

Source: Statistics Finland.

As a rule, the Finns trust in their national institutions (see chapter 4.3.). According to WWS in 2005 as much as 56 percent of the Finns said that they trust in parliament and 65 percent had trust in the cabinet. When it comes to the European Union more and more critical voices are raised against the 'Eurobureaucracy' and consequently, the legitimacy of the EU is low – 37 percent express their confidence to the EU (WVS 2005). Furthermore, European Parliament is regarded as alien and remote decision-making machinery that has not that much to do with the every-day lives of ordinary Finns. Against this background it is no surprise that people are not that much interested in participating in Euro Parliamentary elections which is clearly visible in the very low electorate turn-up numbers displayed in table 4.2.3. In the 2009 elections some 40 percent of the Finns used their rights. While in the first Euro elections in 1996 about 60 percent voted, the electorate turn-up was only 31 percent in 1999.

Table 4.2.3 Electorate turn-up (%) in European Parliament elections 1996–2009.

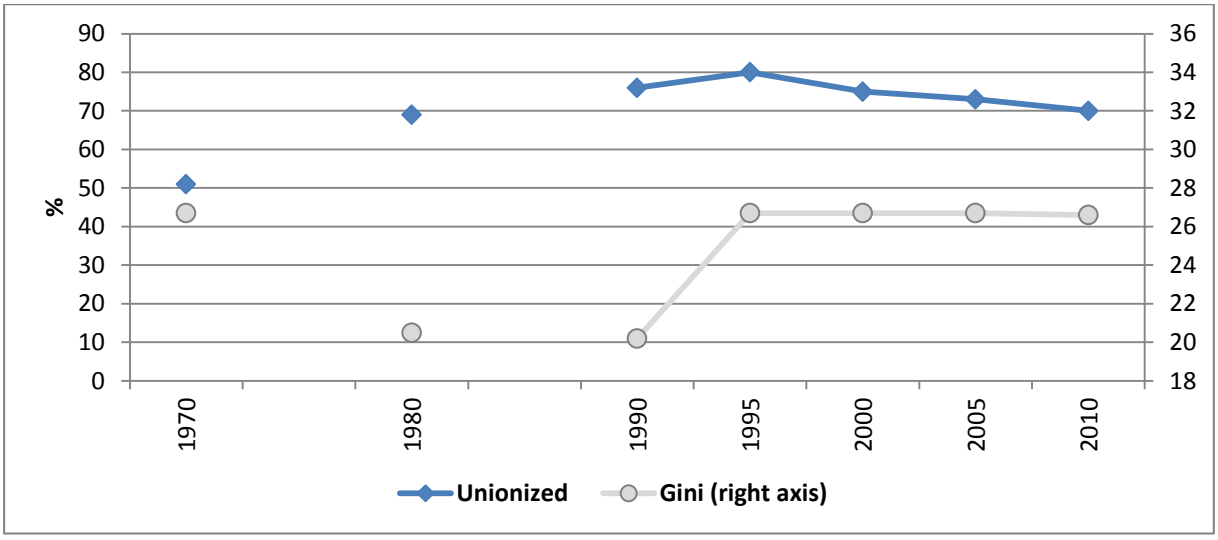
	1996	1999	2004	2009
All	60,3	31,4	41,1	40,3
Males	58,9	30,5	38,9	39,0
Females	61,5	32,3	43,1	41,5

Source: Statistics Finland.

Not only is political activism and the support for socialist parties in decline, the same goes for membership in trade unions. The unionization density in Finland was lagging behind the other Nordic countries but due to the rapid increase in unionization the Finland reached the Swedish and Danish levels which are the highest ones in the OECD hemisphere. The explanation to the high unionization density in the three countries is the fact that trade unions have been the main carriers of unemployment insurance, i.e., unemployment insurance have been administrated by unions which has been an effective incentive to join the union. The downward trend that began in the mid 1995 is explained by the emergence of 'free unemployment funds', free in that sense that the membership in the fund does not imply membership in trade union. Furthermore, the structural transformation of economy has eroded unionization. On one hand those employed by the high-tec sectors have been 'masters of the universe' preoccupied by thoughts that they never will be unemployed and do not need insurance. On the other hand, many short-term employed and atypical workers in service sector do not want to spend their small money in insurance. Since the Finnish unemployment system is a dual one – income-related benefits for the insured fund members and basic daily allowance for those who have not been members or whose income-related benefits have expired – there are a substantial number of unemployed that go directly to the low basic benefits, and, needless to say, this causes economic problems.

At the level of power balance in society, the falling unionization rate means that the relative power balance between labor and capital is gradually turning in favor of employers. The employers' position is further fortified by the intensifying globalization of Finnish enterprises and national economy.

Figure 4.2.1 Trade union density (% workforce unionized), 1970–2010.

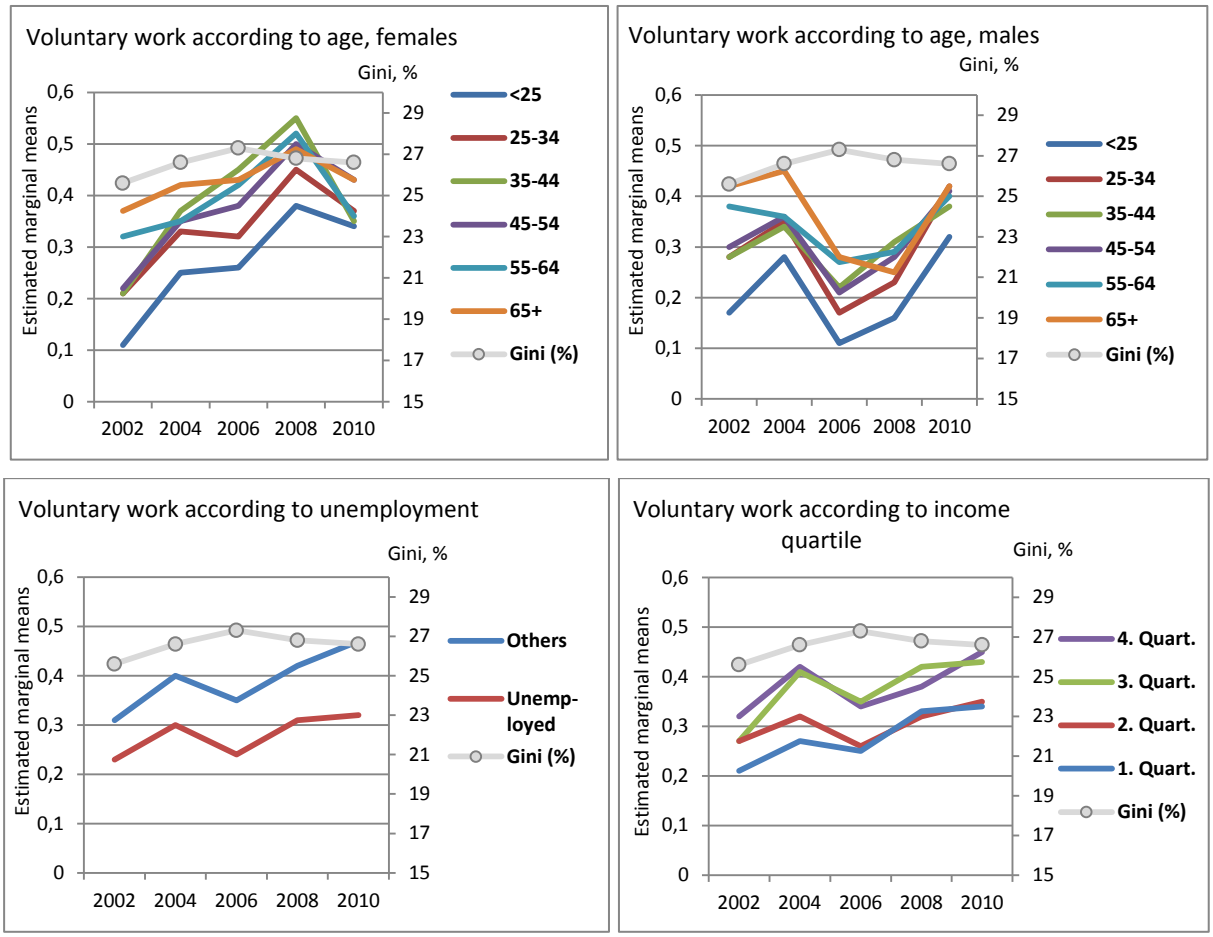


Source: Visser 2006; OECD 2012.

Finland is a country of organizations. Inglehart (1997: 190) has pointed out only a few countries can compete with Finland in the memberships in various associations. Due to multiple memberships, the rate exceeds 100 percent of the population. One way to try to go around this problem is to see what the proportion of people working in various organizations is. In comparative terms the Finns spent much time volunteering (OECD 2011b, 177). Working in political parties is not that common but according to ESS micro-data about one third of Finns have worked for some organization or association during last 12 months.

As Figure 4.2.2 displays, while volunteering among females has increased 2002 to 2010 (despite a small decline 2008 to 2010), volunteering among men of some reason 'dived' 2004 to 2006 but is 2010 back at the same level as in the beginning of the decade. Voluntary work is highly age specific the older age cohorts volunteering more. However age based differences have diminished and if we omit the youngest age group there virtually are no more differences between the age groups. When it comes to unemployment (lower left-hand panel) the unemployed are more passive than employed and those belonging to higher income groups (quartile 3 and 4) tend to spend more time in organizational work. There are no signs of widening gaps in activity rates between various groups inspected here.

Figure 4.2.2 Has done voluntary work in organizations or associations in last 12 months[1]



[1] 0 = 'no'; 1 = 'yes'; estimated marginal means (GLM; age, gender, income and unemployment included in the model).

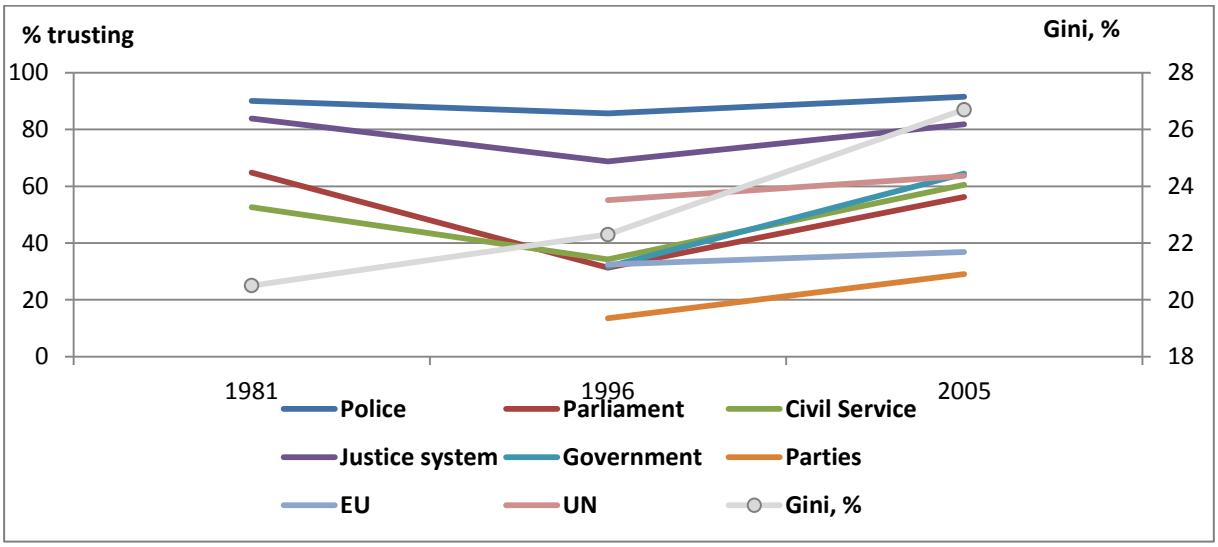
Source: ESS; Statistics Finland, income distribution statistics.

4.3 Trust in others and in institutions

In the introductory part of the report we referred to Francis Fukuyama (1995) who emphasized the importance of mutual trust. Trust is important not only for economic performance of the country, transparency of its institutions but trust is essential for individual well-being as well. Indeed, earlier studies have shown that the most important determinant of happiness and a good life is the degree of trust (or social capital) the individuals have. Those who have high levels of social trust display high levels of happiness and life-satisfaction as well. There are two forms of trust and both of them are crucial for the afore-mentioned reasons: trust in institutions and trust in other persons. We start here with the institutionalized trust and look at how confident the Finns are with their national institutions. Just to give some perspective some international organizations are included in the comparison. The inspection is based on the WVS.

Institutional trust has been and it still is at a high level in Finland when compared to most other OECD countries. Figure 4.3.1 clearly shows that the crisis of the 1990s had huge impact upon citizens' trust in political system and political decision-makers. Confidence is extremely high in police and the justice system. Trust in political parties is even lower than trust in the EU against which a substantial number of Finns are very skeptical.

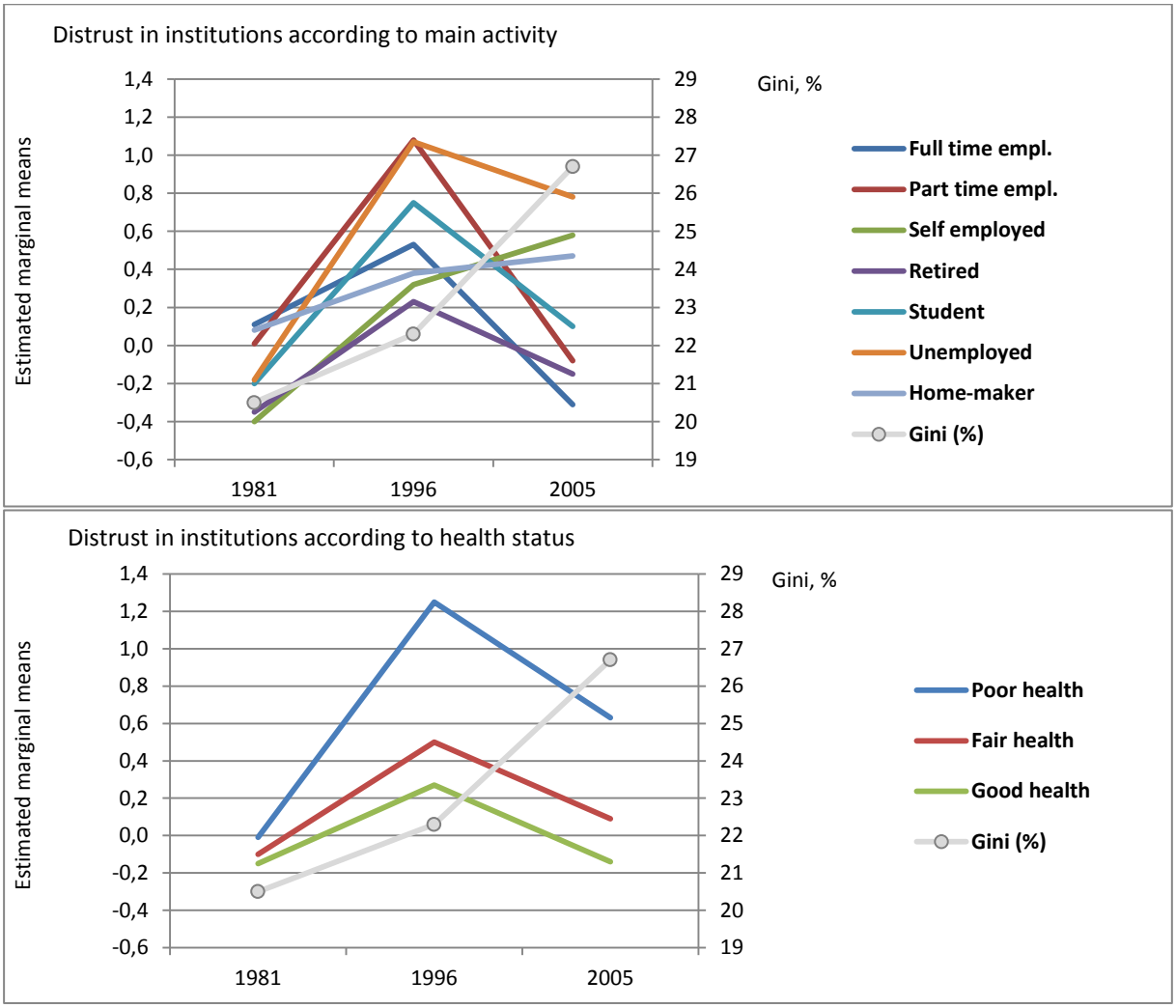
Figure 4.3.1 Trust in institutions in Finland 1981–2005[1]



[1] Percentage of respondents that they have 'a great deal' or 'quite lot' confidence in institutions.
Source: World Value Survey; Statistics Finland, income distribution statistics.

In order to squeeze presentation and the number of figures we collapsed those four variables that cover all the three observation years. We run principal component analysis that resulted in one component on which the loadings were high for all the variables: confidence in police (loading = .674), the justice system (.746), civil service (.785) and parliament (.785). Since the higher values in the factor indicate lower trust, we call the factor 'Distrust factor'. The higher the value, the lower the confidence.

Figure 4.3.2. Distrust in institutions in Finland 1981–2005



Source: World Value Survey; Statistics Finland, income distribution statistics.

What became evident in Figure 4.3.1 is fortified by the more nuanced analyses visualized in Figure 4.3.2. In 1981 the level of trust was rather high and there were no substantial differences between employment categories, not to speak about health status groups. During the turmoil of the 1990s distrust increased and notably so among the sick persons (right hand panel) and among those in weak labour market positions (unemployed and part-timers) as shown in the left-hand panel. The morality of the story is straightforward: increasing economic problems and inequalities contributed to increases distrust in national institutions. The situation is now more or less settled and the average levels of (dis)trust are the same as they were in 1981. However, socioeconomic differences have expanded and they are wider than twenty five years ago.

In WVS there is one question on personal trust that goes back to the early 1980s. Distribution of responses on question 'Most people can be trusted?' is given in table 4.3.1. The respondents could react on two alternatives: 1) most people can be trusted; 2) you can't be too careful. The questions is

regarded as one of the most powerful single questions capturing trust in fellow people. Thus, it is a good starting point for further analyses on individual trust.

Table 4.3.1 Trust in individuals in Finland 1981–2005 (% saying that 'most people can be trusted').

	1981	1996	2005
All	57.2	48.8	58.8
Good health	60.5	52.0	65.0
Poor health	54.9	33.3	25.0
Very satisfied with one's life	61.6	53.0	62.3
Very dissatisfied with one's life	38.5	28.6	27.3
Full-time job	55.8	51.3	67.3
Part-time job	58.0	47.9	65.0
Self-employed	53.3	60.0	61.0
Unemployed	50.0	37.3	45.8
Retired	40.5	40.0	48.0
Student	67.3	66.9	61.9

Source: WVS

The story on individual trust is very much the same as on institutional trust. The confidence is at rather high level in 1981 and it goes down in the mid-1990s to increase again towards the year 2005. In many categories the level of individual trust in 2005 is higher than it was in 1981, but there are some groups that lack behind the 1981 levels, groups as students, unemployed and those with poor health status. It is noteworthy that the level of trust has continuously diminished among this group.

4.4 Political values and legitimacy

The left-right continuum of the Finnish political parties is as follows: The Left Alliance represents a party to the left from Social Democrats (SDP). The Greens occupy a position to the right from the SDP. The conservative National Coalition Party shares traits with old conservatism (basic values) but also increasingly of urban (neo)liberalism, while the True Finns base their political agenda on nationalism and traditional values. The Center party is an heir of the older Agrarian Party and stands for centrist ideas on social policy. The group 'other' includes the Swedish People's Party (representing the Swedish-speaking minority), the Christian Democrats and some minor parties not represented in the Parliament. As indicated earlier in chapter 4.2. the Finnish politics is based compromises and grand coalitions in cabinet formations which makes it difficult to say which party

represent the extreme right and which is the ultra-left party. Furthermore, the true Finns are in many social policy questions a clear and traditional left-wing party, whereas in moral questions they represent conservatism and immigration issues they are a clear right-wing party. In its land-slide victory in 2011 elections the party won Euro-critical votes from SDP and notably so from the Center party.

Table 4.4.1 Votes cast (%) for political parties in Finnish parliamentary elections 1983–2011.

	CENT	CONS	SDP	LEFT	GREEN	KD	SFP	TRUE FINNS
1983	17,6	22,1	26,7	13,5	0	3	4,6	9,7
1987	17,6	23,1	24,1	9,4	4	2,6	5,3	6,3
1991	24,8	19,3	22,1	10,1	6,8	3,1	5,5	4,8
1995	19,8	17,9	28,3	11,2	6,5	3	5,1	1,3
1999	22,4	21	22,9	10,9	7,3	4,2	5,1	1
2003	24,7	18,6	24,5	9,9	8	5,3	4,6	1,6
2007	23,1	22,3	21,4	8,8	8,5	4,9	4,6	4,1
2011	15,8	20,4	19,1	8,1	7,3	4	4,3	19,1

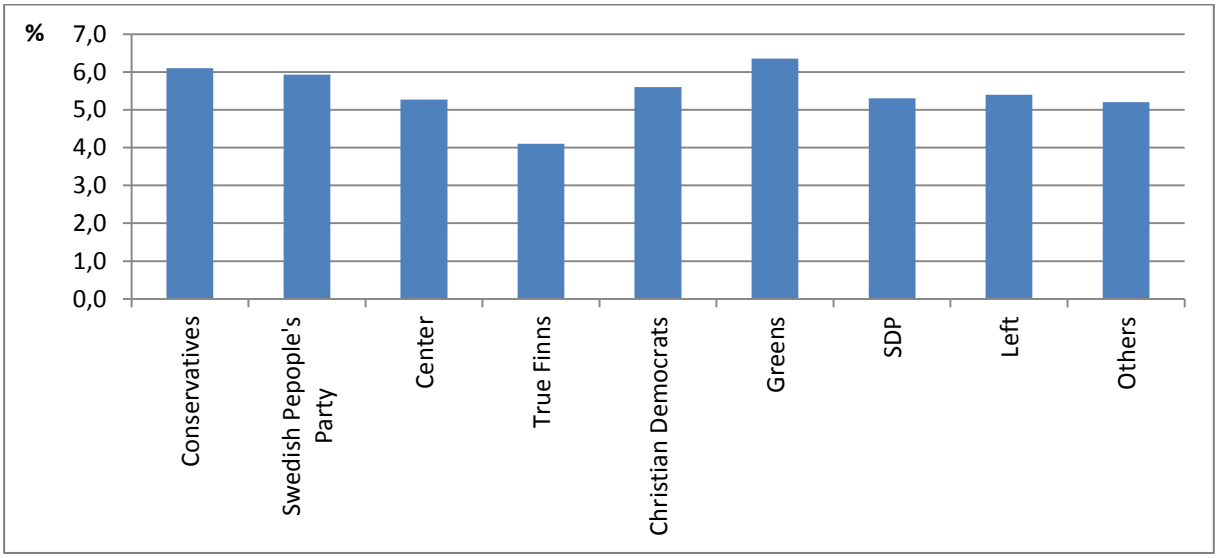
Abbreviations: Center = Center party; Cons = National Coalition, SDP = Social Democratic Party, Left = Left-Wing League, Green = The Green party; KD = Christian Democrats, SFP = Swedish People's Party; True Finns (previously the Rural Party).
Source: Statistics Finland.

The phenomenal increase in votes cast for the True Finns are partially explained by the fact that the party collects also immigration critical voices in the country. According to European Social Survey the share of those respondents who think that Finland should not take any further immigrants from the poorer countries is in increase. In 2002 less than nine percent of the respondents said that no further immigrants from poorer countries should be allowed. In 2010 the share was almost 16 percent.

True Finns are the most skeptical against the statement 'immigration is good for economy', whereas the Greens, the Conservatives and Swedish People's Party have the most positive views on the issue. As we anticipated above, the True Finns are partially fishing in the same waters with socialist parties and the Center party. As can be seen in figure 4.4.1., those three parties are the closest to True Finns when it comes to the opinion on whether immigration is beneficial for the economy or not, which means that in order to keep their constituencies SDP, Center and the Left must somehow react on the True Finns' cries. Thus, in this issue as in the question of the EU the True Finns are setting the agenda for policy-making. Attitudes are linked to constituencies of different parties. Whereas the core constituency for the Conservatives are 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 immigrants as threat to their own employment possibilities, which explains their attitudes (cf. Rueda 2007).

Figure 4.4.1 Respondents agreeing with the statement 'immigration is good for economy',2008[1].



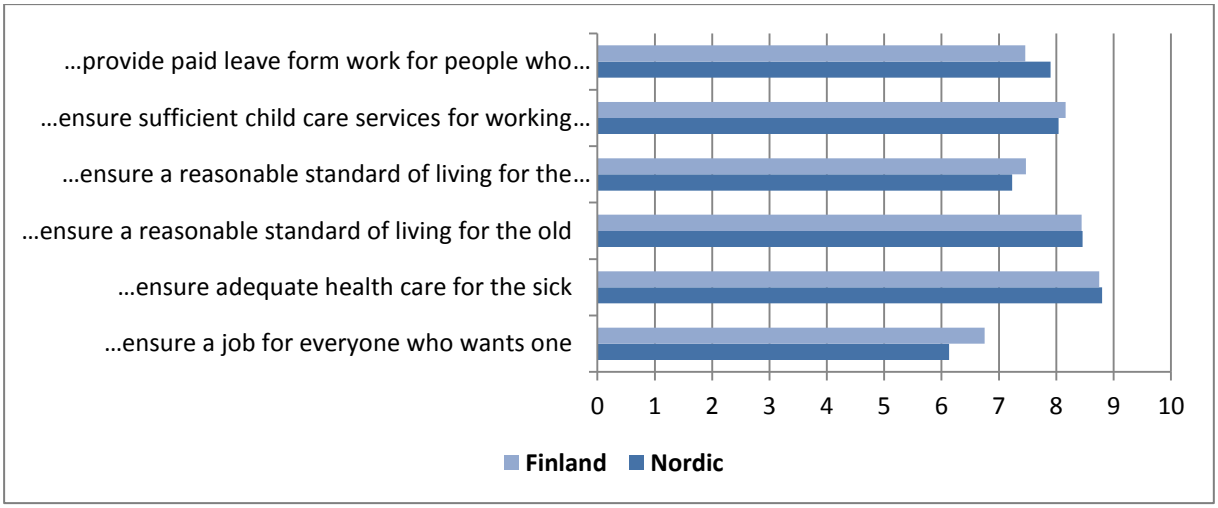
[1]. 0 = immigration is bad… 10 = immigration is good. Values according to the party affiliation of the respondent.
Source: ESS.

4.5 Values about social policy and welfare state

In regard to welfare state support, the legitimacy of the welfare state stands high in Finland. As a prior research on public opinion on the responsibilities of government has shown, public in the Nordic countries is more in favor in welfare state responsibility than the public in other welfare regimes (Blumberg et al. 2012). As the figure 4.5.1 shows, Finnish attitudes towards the role of government in ensuring social welfare are in line with that of Nordic countries in general.

There are, however, differences between Finland and other Nordic countries in regard to opinions towards welfare state performance (Figure 4.5.2). Despite the fact that health and income related inequalities has increased in Finland, Finns are more likely than their Nordic neighbors to endorse that welfare benefits and services has led to a more equal society. On the other hand, Finns are more critical to the idea that welfare benefits and services prevent widespread poverty.

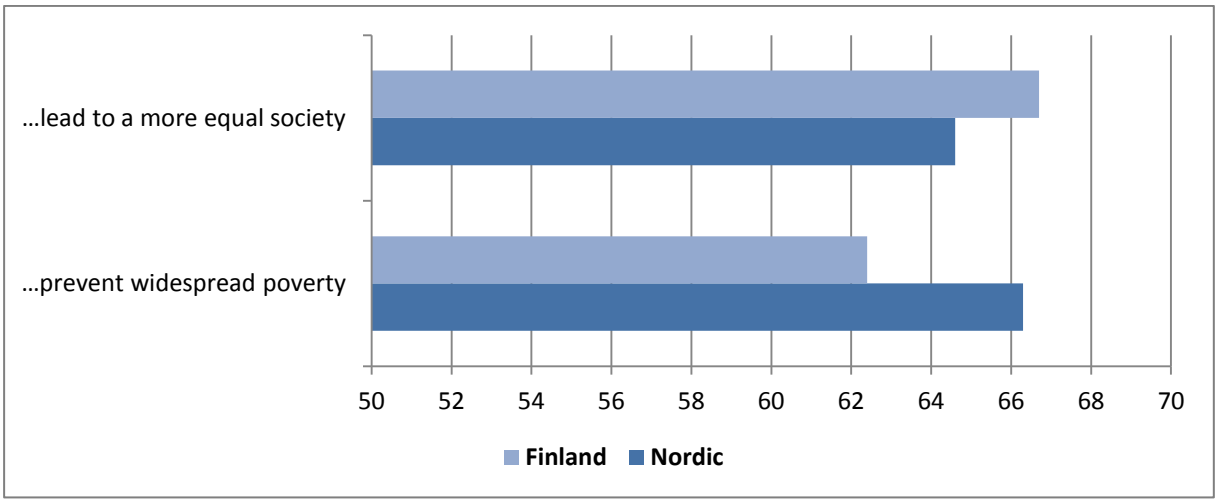
Figure 4.5.1 Welfare attitudes towards the responsibilities of government in Finland and Nordic countries. Scale: 0–10.



Source: European Social Survey, Round 4.

It is widely known that public services in the Nordic countries encompass a larger service variety than those of other welfare states. Hence, the role of welfare services is crucial in the Nordic universalism. Finland is the most decentralized country in the European Union, and local authorities have far-reaching powers as well as significant budgetary independence, including the right to tax the income of their residents. The role of local governments in welfare service production is also crucial. They provide primary and specialized healthcare as well as social and educational services. The public support towards public services is remarkably high in Finland as shown in figures 4.5.3 and 4.5.4. The proportion of those who agree with the statement that local governments should rather increase than decrease the supply of public services has also increased during the past 20 years. In addition, Finns perceive that the best way to finance public services is taxation. The legitimacy of taxation has been strong, and it has also to some extent increased since the early 1990s.

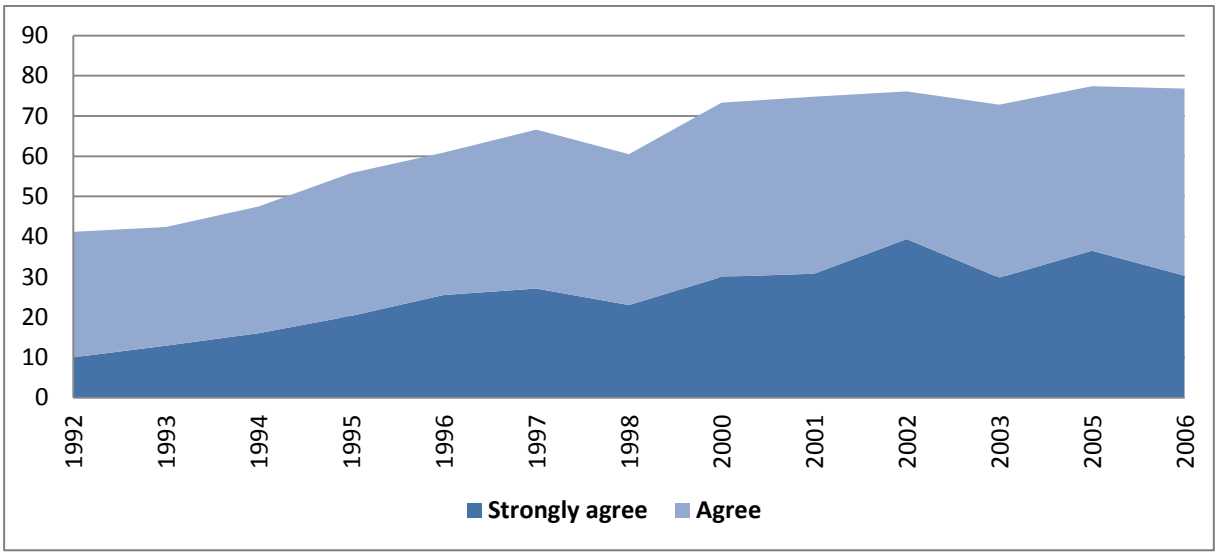
Figure 4.5.2 Public attitudes towards welfare state performance in Finland and Nordic countries. Proportion of those who agree or strongly agree that welfare benefits and services lead to a more equal society / prevent widespread poverty (%).



Source: European Social Survey, Round 4.

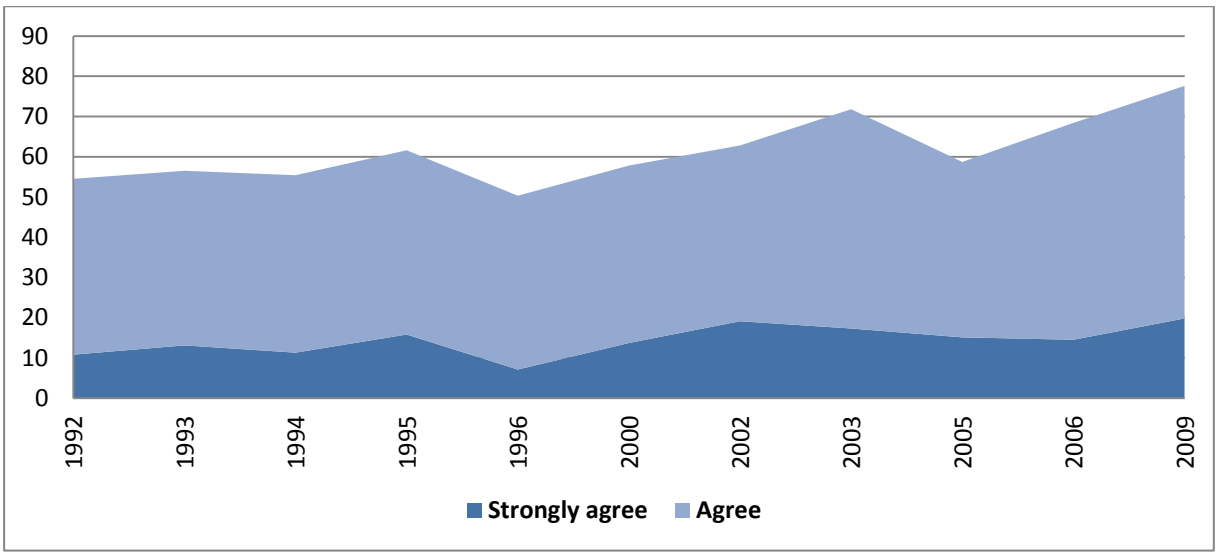
In regard to public perceptions of the causes of poverty, Eurobaromer surveys provide trends in proportion of population who perceive that poverty is caused by laziness and lack of willpower of an individual herself. From 1993 to 2009 this percentage has varied approximately between 15 to 20 percent. In Eurobarometer surveys as well as in other comparative surveys which measures popular explanations of the causes of poverty uses the standard forced-choice question on poverty perceptions. National case study provides, however, more detailed picture on Finnish perceptions of the causes of poverty. The responses to a question asking whether or not people agree with a series of statements about the causes of poverty are summarized in Figure 4.5.5. The three factors that most respondents agree with are the lack of proper money management, bureaucracy in social security and lack of opportunities. Thus, a consideration of the attributions for generic poverty provides a mixed result. While the lack of proper money management reflect individuals' capabilities, bureaucracy in social security and lack of opportunities are external factors not directly related to individuals. There is also quite substantial support for individual blame explanations, with over 40 per cent agreeing with the idea that the poor are lazy and have only themselves to blame for their economic hardship. The shares of the individualistic explanations of poverty in Finland are remarkably high especially in the Nordic comparison. This result is in line with previous studies, Finns are far more likely than their Nordic neighbors to agree with individualistic explanations (van Oorschot and Halman, 2000; Albrekt Larsen 2006; also Niemelä 2008).

Figure 4.5.3 Public attitudes towards welfare services in Finland. Proportion of those who agree or strongly agree with the statement: Municipalities should rather increase than decrease the supply of public services in the future (%).



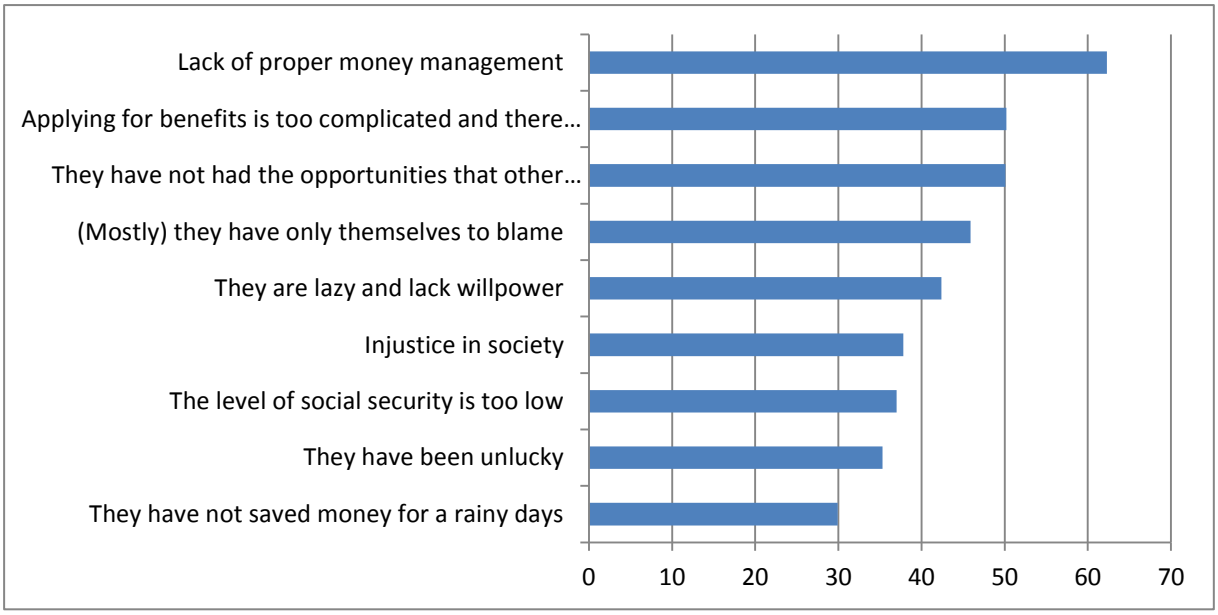
Source: Kunnallisalan kehittämissäätiö, Kunnallisalan ilmapuntari.

Figure 4.5.4 Public attitudes towards the welfare services and taxation. Proportion of those who agree or strongly agree with the statement: Compared to the supply and the level of municipal services the municipal tax-rate is at the decent level (%).



Source: Kunnallisalan kehittämissäätiö, Kunnallisalan ilmapuntari.

Figure 4.5.5 Public support for the different explanations of poverty. The proportion of population which agrees or strongly agrees with the statement (%).



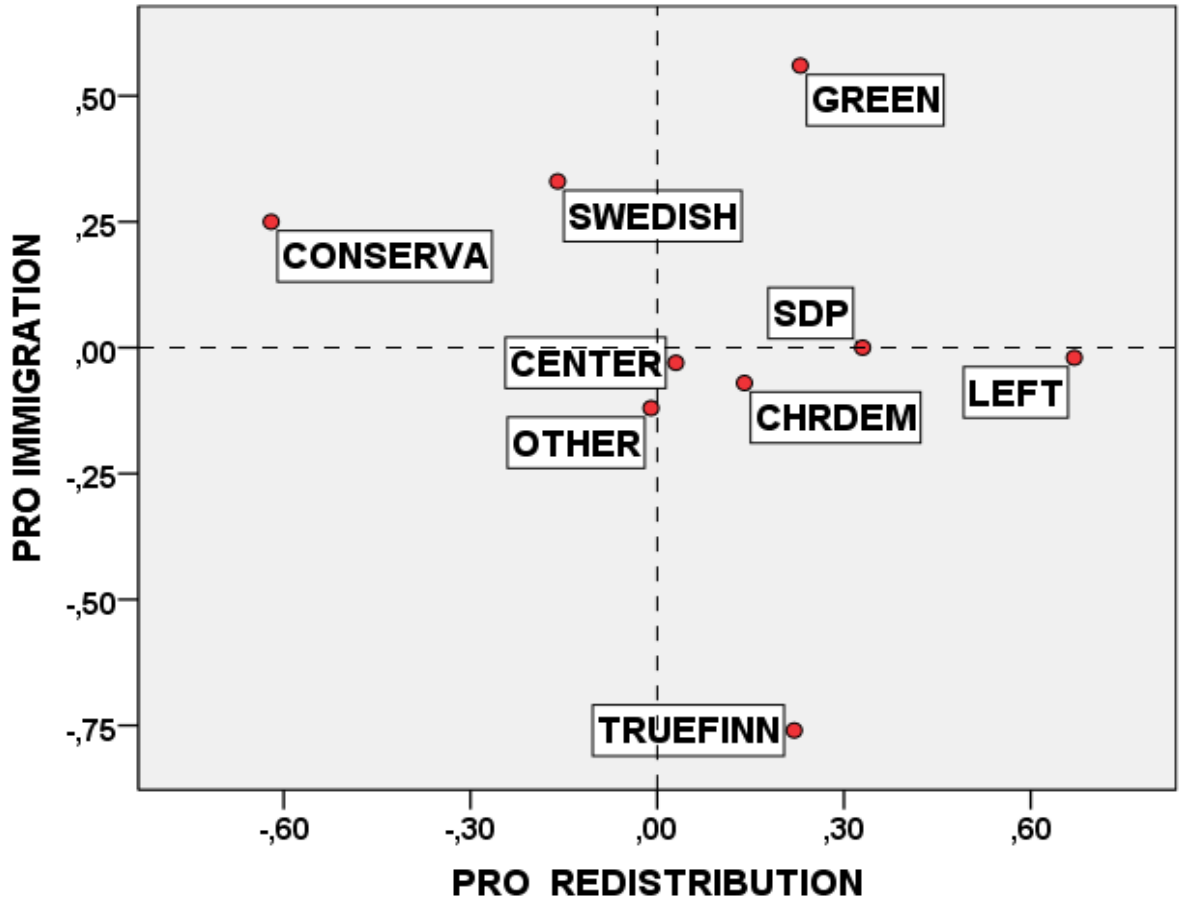
Source: Niemelä 2011.

Relationships between ethnic heterogeneity and support for the welfare state have been a hot topic in welfare state analyses. The central question has been whether it is possible to maintain support for the universal and generous welfare programs when the share of foreign-borns increases (Alesina & Glaser 2004). Increasing immigration has been seen as a serious challenge for the Nordic type of the welfare state. It has been argued that ethnic heterogeneity decreases people's support for redistributive policies. The success of the anti-immigration parties in Denmark, Finland and Norway has been regarded as a strong evidence of the correctness of the argument. However, it need not necessarily be so that strong anti-immigration attitudes erode positive attitudes on redistribution. The logics runs also in the other direction: not necessarily are those who are the most eager proponents of redistribution the strongest supporters of the redistribution that takes place through the welfare state. The question is studied in Figure 4.5.6.

The scatterplot of political parties is based on two dimensions, each of them represent the factor scores received in principal component analysis. Scores in the 'pro-immigration' dimension are based on three different questions on immigrants. 1) Immigration is bad or good for country's economy; 2) Immigrants make country worse or better place to live; 3) Country's cultural life is undermined or enriched by immigrants. In each variable the responses varied 0 (immigration is bad) to 10 (immigration is good). The analyses yielded one factor where the loadings for the three variables were very high: .859, .870 and .833, respectively. The 'pro redistribution' attitudinal dimension is based on factor scores gotten from an analysis on two questions: 1) 'For fair society, differences in

standard of living should be small' (factor loading .826); and 2) 'Government should reduce differences in income levels'. (Factor loading .827) Response alternatives were Likert-scaled.

Figure 4.5.6 The placement of Finnish political parties according to their pro-immigration and pro-redistribution attitudes 2008.



Source: ESS.

In the upper left-hand part we find the Conservative Coalition Party and Swedish People's Party that are pro-immigration but anti-redistribution. The Green party is located in the upper right-hand corner characterized by positive attitudes on immigration as well as redistribution. Center – as indicated by the very name of the party – is placed in the middle. Social Democrats and Leftists are more pro-welfare that pro-immigration. The True Finns deviate from the other parties by their commitment to redistribution that is attached to strongest anti-immigration attitudes. Thus, the policy profile of True Finns favors redistribution among the native population and their concept of social solidarity is strongly conditional in-group solidarity.

4.6 Conclusion: interdependence of inequality drivers and their cultural and political impacts

Finland was the first country to implement universal suffrage more than 100 years ago. Obviously that event is too back in history: Finns are very lazy to use their political rights. In parliamentary elections as well in municipal elections electorate turn-out has markedly deteriorated since the 1980s. Non-voting has a strong socio-economic gradient. High-income earners, well-educated, upper and upper-middle class people vote more frequently than poorer, less educated and persons in lower socio-economic positions. This means that the 'will of the people' is strongly biased in favor of the better-offs in Finnish society. The same goes for other forms of activities. Voluntary work, that is often classified to be an important element of social capital, is socio-economically conditioned in the same way as voting behavior.

The Finns prefer to have their welfare state and there is strong support for welfare policies. At the first glance there seems to be a dilemma. Despite the strong support for the welfare state, the pendulum has turned in favor of Conservatives that traditionally have been the most vociferous critics of the Nordic welfare state model. On plausible explanation to this may be the socio-economically biased electorate turn-out. The Well-off people go to vote and, as a rule, they vote for the Conservatives.

Why then the other layers of society are not eager to use their political rights? One reason may be linked to the economic crisis of the 1990s that changed attitudes on politics. In the early 1990s the first austerity measures were carried out by the Center-Right Esko Aho cabinet and the measures were heavily criticized by the leading parties in opposition, i.e., the Social Democrats (SDP) and the Left League. However, after the Social Democrat's land-slide victory in 1995 elections, both socialist parties were included in Paavo Lipponen's (SDP) 'rainbow cabinet' consisting of SDP, Left, the Swedish People's Party, and the Conservative Coalition Party. Ironically enough, the very same conservative Minister of Finance who had been the chief target of the left party criticism during his service in the Aho cabinet was nominated to be Mister of Finance also in the Lipponen cabinet. Harsh savings measures continued during the Lipponen's two consecutive cabinets (Lipponen I 1965–1999 and Lipponen II 1999–2003): social benefits were cut, indexations frozen, some basic security benefits were abolished, income differences and poverty expanded rapidly. Those voters who had set their hopes on improvements in social protection were disappointed. Furthermore, due to its 'rainbow' character and the policy content, the Lipponen cabinets blurred difference between political camps and increased frustration among the electorate: since there are no changes in the content of policy-making what that is the point to vote.

A lion's share of welfare services in Finland is run by individual municipalities. When the residents of municipalities are asked about the services some 80 percent of them want to maintain the present level of service or even increase it. They also express their willingness to pay higher taxes to reach that target. Interestingly enough, the leaders of the very same municipalities are of the opinion that services must be cut down and taxed must be lower. Thus, in the Finnish political life there are two underpinning tensions. On the one hand, there is the socio-economic divide who votes 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.

The strength of the Finnish policy-making has been that despite deep ideological differences coalition cabinets have been able to seek compromises and solve difficult economic and political dilemmas. One could describe the Finnish political decision making that it is politics without politics, it is governance and muddling through. The method has been effective device in difficult circumstance but the price has been watering-down the very role of politics which in turn is mirrored in low voter turn-outs and political frustration that was partially channeled into support for True Finns representing pro-welfare state but anti-immigration attitudes.

True Finns are the legitimate heir of the former Finland's Rural Party that made a phenomenal entry to the Parliament in 1979. The back ground for the Success of the Rural Party was analogical to the emergence of True Finns. In the 1960s Finland went through rapid transformation from agrarian society to industry and as a consequence a huge move from the country side to towns took place. In addition, more than 300 000 Finns moved to Sweden to seek their fortune there. The former Agrarian Union that had had represented interests of the rural people in the Parliament changed its name to be Center party. Lots of voters in the countryside took this as a betrayal of their interest. In this context the Rural party offered political alternative for the small people in countryside. The Rural Party was 'voice of the forgotten people'. In a similar vein the True Finns collect their votes from working-class suburbs, countryside and mostly from people hit by the great depressing and cuts in the welfare state. True Finns are a modern voice of forgotten people.

5. Effectiveness of Policies in Combating Inequality

5.1 Introduction

Despite of recent hampering trends, Finland still belongs to the Nordic regime of social democratic welfare states with a tradition of rather universal coverage and high reimbursement rates of social benefits. However, retrenchment of the welfare state has been prominent since the Great Depression of the 1990s. Needs to cut expenses in early 1990 lead to weakening of many benefits that never reached the former level even in the period of economic boost after mid-1990s until the latest financial crisis.

This period of retrenchment has also been a period of widening income inequality: the Gini coefficient of equivalised disposable income rose from 0.20 in 1990 to 0.28 in 2007, ending in a downward trend for a couple of years because of the recession of 2008–2009. The latest financial crisis and threats of long-term depression, as wells as concerns of the financial burden of population ageing have further hampered possibilities of improving the levels of social security. However, the economic downturn of 2008–2009 contributed to automatically diminishing income inequality since the recession decreased the income share of the highest income decile. The general development of growing income inequality has been fueled by globalization, by the opening of the economy to international trade, by the growing importance of the ICT sector needing high-skilled and high-paid labour force, by rising salaries of the executives of multinational corporations – but also by the actions of the political forces. Among the most important effects of political decision making have been changes in the taxation system and decisions concerning the level and coverage of social security.

5.2 Finnish wage bargaining system

There is no statutory minimum wage in Finland, but collective agreements define the minimum wage level separately for each field. Trade union density in Finland is relatively high. After the onset of the Great Depression in the early 1990's it reached the level of about 80 % of the work force but has since then come down to about 70 % (see Table 5.2.1). The main reason for trade union membership is that the possibility to receive earnings-related (instead of basic) unemployment benefits is tied to membership of an unemployment fund, and these funds are most often administered by the trade

unions. However, there is a possibility to pay contributions only to an unemployment fund, which is cheaper than full trade union membership. Union coverage rate refers to employees covered by wage bargaining agreements as a proportion of all wage and salary earners in employment with the right to bargaining. Coverage rate has risen from three quarters in 1970 to 90% in the 2000s (Table 5.2.1). Almost all employees are thus covered.

The bargaining power of trade unions has traditionally been very strong in Finland. For decades, wages, wage distribution as well as social benefits and social actions were negotiated through a procedure called "a comprehensive solution related to incomes policy" (*tulopoliittinen kokonaisratkaisu*).These tripartite discussions have been lead between employees' trade unions, employers' unions, and the government. The aim was to keep negotiations at a centralized level, with all parties around the same table. As a rule, these centralized agreements also included 'social packages' giving extra holidays, lengthening sick pay period, extending parental leave etc. However, this centralized procedure ended in 2008, and each trade union has since then had their negotiations separately. Critique of this system has fallen upon the fact that in addition to wages, trade unions and employers have had a strong power on making decisions about the future development of social benefits, including benefits targeted to children and older people, to persons facing illness and disability and to those socially excluded. This tripartite negotiation system has been criticized as being a machine pursuing the interests of those already well-off in the society, and it has hampered many efforts of improving social benefits of those less well-off. An example of this is the abolishment of property tax in 2005, which is one of the drivers towards increasing inequality. Also, trade unions have been reluctant to increase the level of basic unemployment benefits without simultaneously increasing the levels of earnings-related benefits as well. Strong voice of trade unions has thus hampered many improvements in basic social security in Finland.

Table 5.2.1 Trade union density and union coverage rates in 1970–2010.

	1970	1975	1980	1985	1990	1995	2000	2005	2010
Trade union density (%)	51,3	65,3	69,4	69,1	72,5	80,4	75,0	72,4	70,0
Union coverage rate (%)	73,0	77,0	77,0	77,0	81,0	82,2 [1]	90,0	90,0	

[1] For year 1994

Sources: OECD employment database; Visser 2011 ICTWSS database.

5.3 Taxation: debates and changes

Table 5.3.1 shows taxes and tax-like payment levied by the general government (central and local government and social security funds) as a ratio of the GDP in 1975 to 2011, showed for the most important categories and for some smaller categories important in political discussions.

Total tax rate in Finland was 43 % of the GDP in 2011. The tax rate increased in the early 1990s as a result of the Great Depression. In 2000 tax rate was 47.1 per cent. Between 2000 and 2005 the tax rate declined by 3.3 percentage points, but the level has been relatively stable since 2005. The Finnish tax rate is among the highest in OECD countries. In 2010, average tax rate in the OECD countries was 33.8% of the GDP (OECD Tax Database). Along with three other Nordic countries (Denmark, Sweden and Norway), Finland belonged to the top seven OECD countries according to tax rate. In Denmark, the rate was as high as 47.6%.

During the 1990's, taxation of labour income was tightened because of the demands of the recession. Total tax rated reached the level of 46–47 per cent during 1997–2000. During the 2000's, the total tax rate has declined to the current level of 43 per cent. Tax rate of labour income has slowly been reduced, mainly with the target of improving incentives to work.

As shown in chapter 2.1.1, the role of taxes and contributions in reducing income inequality has diminished dramatically since the 1990's. A major contributing change was the tax system reform in 1993, when taxation of capital income was changed from progressive to proportional but taxation of labour income remained progressive. After this change, tax rate of capital income has been lower than tax rate of labour income, and the change has entailed an incentive to shift income towards capital income if possible. Thus, especially the top income earners have used financial and fiscal planning to shift their income towards capital income (see Figure 2.1.1.5).

Taxes on property are small as a proportion of total tax rate but are constantly under discussion. Individual wealth tax was abolished from the beginning of 2006. This, again, had some effect on widening income inequality. Inheritance and gift tax still exists, but debates on whether or not it should be abolished are constant. Abolishment of this tax would further contribute to widening income inequality.

Table 5.3.1 Taxes and tax-like payments levied by the general government as a ratio of GDP (%) 1975–2011.

	1975	1980	1985	1990	1995	2000	2005	2006	2007	2008	2009	2010	2011
All taxes (=total rax rate)	36,6	35,8	39,8	43,7	45,5	47,1	43,8	43,7	42,9	42,8	42,8	42,4	43,3
Of which (percentage points):													
Income taxes	15,8	14,0	16,2	17,2	16,5	20,4	16,8	16,7	16,9	16,7	15,4	15,2	15,5
Income tax of households	13,9	12,6	14,7	15,1	14,0	14,4	13,4	13,2	12,9	13,0	13,1	12,5	12,7
Social security contributions	7,5	8,3	8,7	11,2	14,1	11,9	12,0	12,2	11,9	12,0	12,8	12,7	12,5
Taxes on goods and services	11,7	12,6	13,5	14,2	13,8	13,7	13,8	13,6	12,9	12,9	13,4	13,4	14,1
VAT / Turnover tax	5,7	6,2	7,3	8,4	7,9	8,2	8,7	8,7	8,4	8,4	8,7	8,5	8,9
Taxes on property	0,7	0,7	1,1	1,1	1,0	1,1	1,2	1,1	1,1	1,1	1,1	1,2	1,1
Tax on real estate	.	.	0,1	0,1	0,5	0,4	0,5	0,5	0,5	0,5	0,6	0,7	0,6
Inheritance and gift tax	0,1	0,1	0,1	0,2	0,2	0,3	0,3	0,3	0,3	0,4	0,3	0,2	0,2
Wealth tax, individual	0,2	0,1	0,1	0,0	0,0	0,1	0,1	.	.	.	.	.	.
Excise duty on alcoholic beverages	1,1	1,1	0,9	0,9	1,2	0,9	0,6	0,6	0,6	0,6	0,7	0,7	0,7
Other taxes	7,7	6,9	7,1	7,0	7,3	10,6	7,9	7,9	8,0	7,7	6,4	6,8	7,4

Source: Statistics Finland, StatFin database: taxes and tax-like payments.

A curiosity in the Finnish tax debate has been changes in alcohol taxation. In 2004, the parliament decided to decrease the level of the excise duty on alcoholic beverages in order to boost alcohol trade in Finland. Reasons behind this were that in 2004 the limits of import of alcohol from EU countries were abolished, and in the same year the neighbouring country Estonia – with easy availability of cheap alcohol – entered the EU. Cuts in alcohol taxation were decided against the advice of many epidemiologists, since implications of increases in alcohol-related illness and mortality were foreseen. As predicted, domestic tax reductions, along with simultaneous abolishment of import limits, lead to an increase in consumption as well as to a clear increase in alcohol-related mortality and other alcohol-related harm. This, again, contributed to increasing socio-economic differences in health since alcohol-related illnesses fall more upon those in lower social positions. Afterwards, the parliament has raised the level of alcohol taxation in 2008, 2009 and 2012.

Changes in the VAT of food have also been under vivid debate. In 2009, VAT of food was reduced by a couple of percentage points. Even though levels and changes in VAT do not contribute to measured income inequality, they directly contribute to consumption possibilities and consequences of economic hardship of those living on low incomes. Also in Finland, debate goes on whether VAT actually is rather a regressive tax (consumption demands a higher share of income of the poor) or a progressive tax (the rich consume more and thus contribute more to tax revenues).

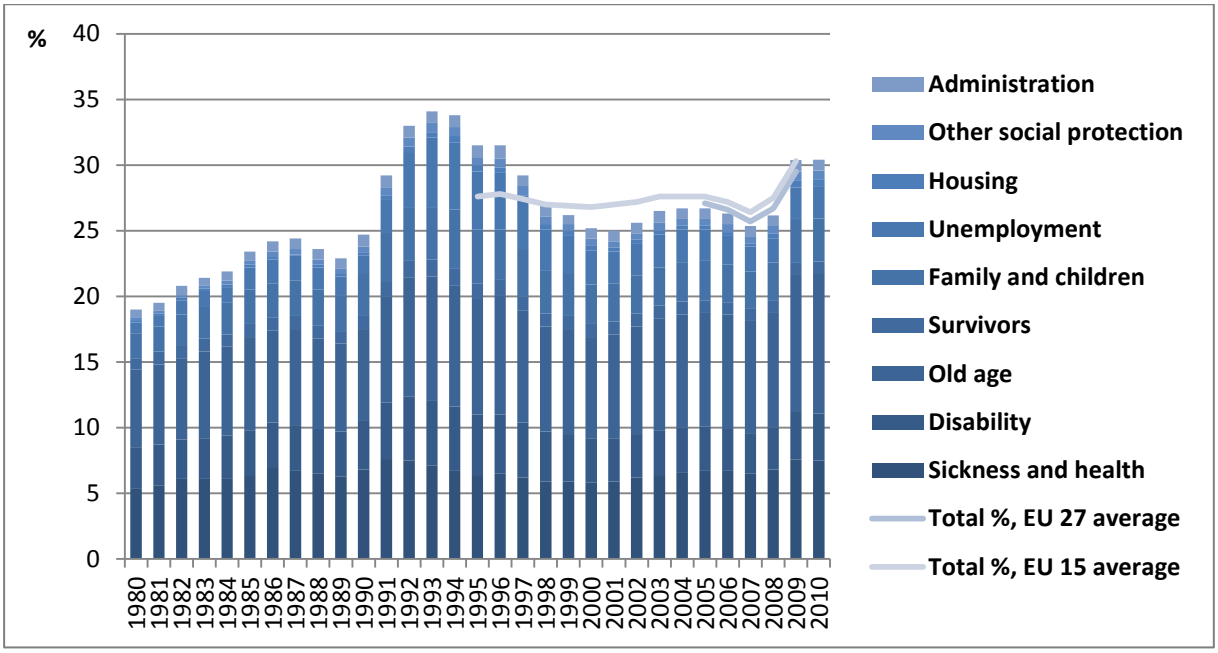
5.4 Social expenditures

Public social expenditures include cash benefits such as pensions, sickness insurance compensations, disability benefits, unemployment allowance, income support for families with children including parental allowance, housing allowance and social assistance income support, as well as benefits in kind, meaning costs related to providing health and social services (Niemelä & Salminen 2006; Institute for Health and Welfare 2012). Out of pocket payments of clients are not included in social expenditures. Furthermore, financial aid to students is not counted in social expenditures, even though it is a form of income security, but is instead counted in education expenditures (see chapter 5.5).

Social expenditures constituted 30.4 per cent of GDP in 2010 (Figure 5.4.1, see also Appendix Table 3 for percentages by function) and amounted to 54.6 billion euros in 2010 – about 10 000 euros per capita (Figure 5.4.2). The share of GDP is among the highest in OECD countries (OECD 2011a) but is near the EU 27 average (Appendix Table 3). It increased especially during the recession in early 1990's, after which in early 2000's it came down to 25–26 per cent of GDP. The new financial crisis starting in 2008 lead to a new increase to over 30 per cent in 2009–2010. Increases in GDP shares during recession years are due to simultaneous substantial decreases of GDP and increasing expenditures on social and health related services and benefits (see Figure 5.4.2).

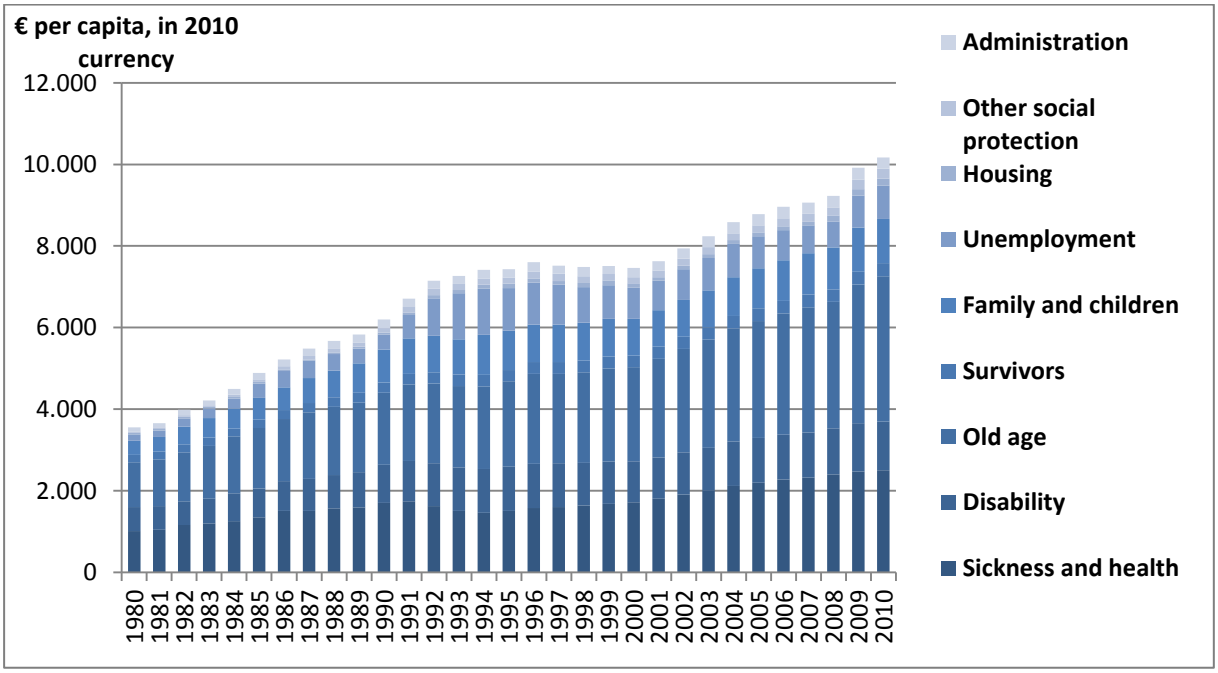
The function demanding most resources is the category old age. It includes both pensions and institutional care and home care services for the elderly, and constitutes alone more than a 10% share of the GDP, one third of all social expenditure. Also, its increase has been most prominent among the categories 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, number of persons entering pensions has increased rapidly. In 1980, there were about 610 000 recipients of an old-age pension, just under 740 000 by 1990, 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. (Institute for Health and Welfare 2012.)

Figure 5.4.1 Public social expenditure by function as a share of GDP in 1980–2010, %.



Sources: Institute for Health and Welfare: Social Protection Expenditure and Financing 2010; Eurostat, Population and social conditions; OECD Social expenditures database.

Figure 5.4.2 Public social expenditure by function per capita (€ in 2010 currency) in 1980–2010, %.

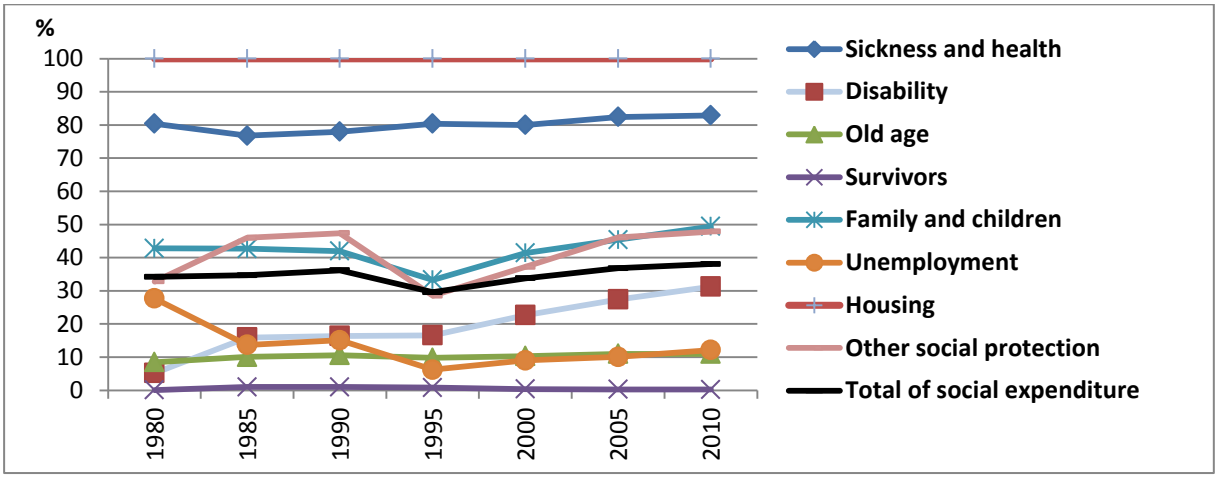


Sources: Institute for Health and Welfare: Social Protection Expenditure and Financing 2010; Statistics Finland.

The relative shares of benefit costs and service costs vary by function. Figure 5.4.3 shows the development in 1980–2010. In the categories sickness and health, old age, survivors and housing there has not been much change in these proportions since 1990's. In the categories of

unemployment as well as family and children , the recession in early 1990 meant that the importance of cash benefits increased, but since then the balance has slowly has shifted more towards services.

Figure 5.4.3 Share of benefits in kind (services) of all social expenditures by function type (%) 1980–2010.



Source: Institute for Health and Welfare 2012.

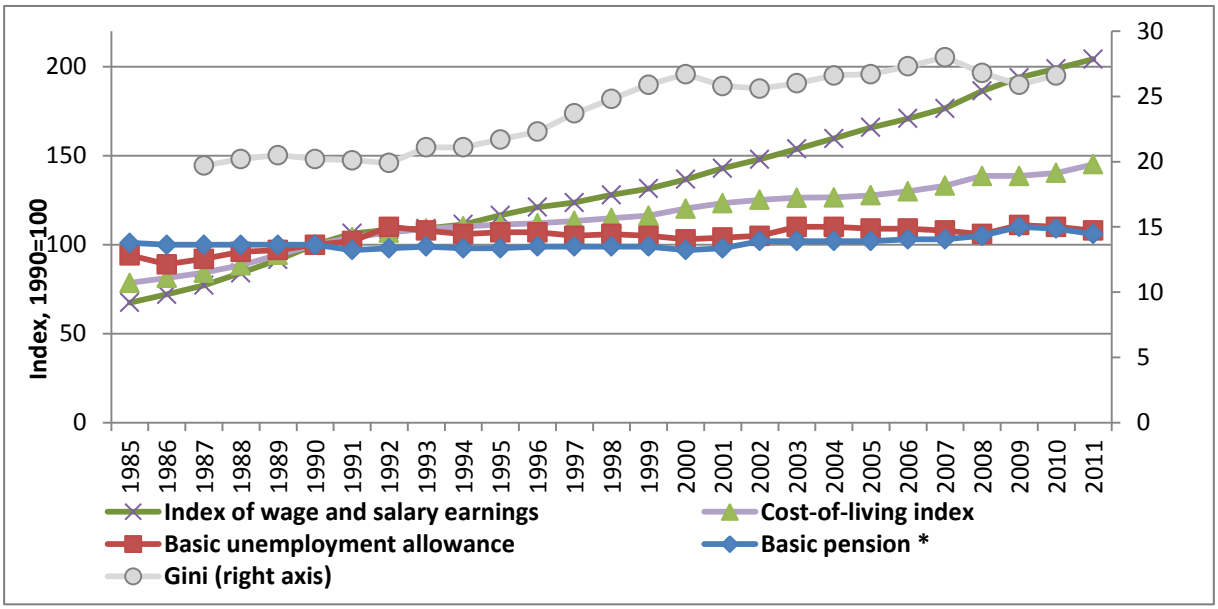
Finally, figure 5.4.4 shows how the level of basic security allowances has been left behind relative to the development of earnings. Compared to the level of year 1990, the real growth in basic unemployment allowance and basic pension has been almost negligible – in the period 1990–2011 earnings have more than doubled in real terms, whereas these basic allowances have grown only by 6–8 per cent.

One of the most frequently used indictor of the welfare state effort and also the generosity of the welfare state is social spending as a percentage of gross national product (GDP). The Finnish history from the beginning of the 1990s sheds some light on that issue. If we look at social spending in relation to GDP, the hay day of the Finnish welfare state was 1992 to 1996 when spending exceeded 30 percent of GDP. Therefore there was a decline to the 'normal' level of 25 percent. However, if we look at spending per capita, we can see that there was a constant increase up to the year 1993 whereafter development stagnated. Since the beginning of the 2000s there has been a steady increase in absolute spending. By 2010 Finland used 30 percent of its GDP to social purposes what is somewhat higher than in most other EU countries.

The cuts in social benefits that were carried through are visible in per capita spending that decreased; benefits were worsened but due to increase in the number of welfare clients the GDP share expanded. The opposite is true for the development in the late 1990s when social spending in absolute terms increased and some improvements took place, whereas in relation to the GDP social

spending fell. The Finnish pattern nicely points out the problems of using the GDP share as the only indicator of the quality of social policy.

Figure 5.4.4 Indexes of the real development of earnings, costs of living and some basic level social security allowances, 1985–2011 (1990=100).



Sources: Institute for Health and Welfare 2011; Statistics Finland, wages; income distribution statistics.

* In March 2011, the level of minimum pension increased with the introduction of a new form of pension, guarantee pension, that is payable on top of other pension benefits so that a certain new minimum amount of pensions is guaranteed. Therefore, if guarantee pension is taken into account, the level of minimum pension has risen in 2010–2011.

What was discussed already earlier, most 'basic' benefits were lagging behind which was either due to freezing the benefits or poor indexation towards wage increases what is displayed in the figure above. In order to correct this, the Center-Right cabinet set a special committee – SATA committee – to inspect the level of basic benefits and to prepare a total reform in them. The aim was ambitious, but the timing of the suggestions the committee made was poor. The report came out when the 2008 recession began. Therefore, only a few reforms were carried out. Among those reforms was improvement of minimum pensions by the introduction of guarantee pension that is payable on top of other pensions so that the minimum level reaches 714 euros in 2012.

5.5 Education policies

In Finland, all education from primary school to university degree has historically been – and still is – free of charge. Education expenditures consist of costs of organizing educational services as well as

financial aid for students. Students' financial aid (means-tested) seeks to ensure subsistence during periods of studying and can be paid for full-time studies after comprehensive school level, i.e. upper secondary school studies, vocational education and higher education degree studies (Niemelä & Salminen 2006).

Total public expenditure on education was 6.4% of the GDP in 2010 (Table 5.5.1). The share is slightly above the EU 27 average, which was 5.4% in 2009 according to Eurostat. The proportion of those in education among people aged 18 was 94 per cent in Finland in 2010 – higher than the EU27 average (79%) and among the highest in Europe. The role of the free-of-charge educational system up to the university degree level has been important in ensuring equality of opportunity in Finland. However, social inheritance of education can be observed also in Finland (see Chapter 3.10).

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Table 5.5.1 Expenditures on regular education divided by function (%), 1995–2010.

	1995	2000	2005	2010	2010, % of GDP
Pre-primary education	0,0	1,3	2,9	2,7	0,2
Comprehensive school education	38,9	37,2	36,9	35,7	2,3
Upper secondary general education	7,0	6,8	6,5	6,0	0,4
Vocational education	19,0	12,6	12,8	14,0	0,9
Apprenticeship training	0,5	1,3	1,4	1,5	0,1
Polytechnic education	2,4	7,1	7,6	7,8	0,5
University education and research	15,5	18,6	18,1	18,7	1,2
Other education	4,3	4,1	3,9	3,8	0,2
Administration	2,3	2,2	2,1	2,1	0,1
Financial aid for students	10,0	8,8	7,9	7,6	0,5
Total	100	100	100	100	100
Expenditure on education as a percentage of GDP, %	6,4	5,6	5,9	6,4	
Expenditure per capita, € in 2010 currency	1 935	2 082	2 154	2 145	
Expenditure per student, € in 2010 currency	7 800	7 800	7 900	8 300	
Expenditure per student, comprehensive school educ.	6 600	6 800	7 200	7 600	
Expenditure per student, university education and research	11 700	12 900	11 700	12 800	
Participation rate in education among 18-year-olds (%)		87,3	93,6	93,6	

Sources: Statistics Finland: educational finances; Eurostat.

5.6 Conclusion: Finnish policies and their success in combating inequality

Up to the early 1990s, income inequalities diminished in Finland and at the political level there was a great deal of welfare optimism. The 'great depression' changed the political landscape and the context of policy-making. During the economic crisis of the 1990s GDP fell in three consecutive years, unemployment sky-rocketed (from less than 4% in 1990 to 16% in 1995) and social spending expanded from 25% to 35% of GDP in the respective years. The public budget that used to be positive ran into deficit, and the public debt accelerated from virtually zero in 1990 to 60 percentage of GDP in 1996.

These 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' as will be seen (cf. Pierson 1994). The general plan to muddle through the crisis was to "plane" a little from everything and to avoid bigger structural reforms.

Instead of optimism and belief in possibilities to improve social protection the persistent austerity became the mantra. Politicians wanted to move from the 'politics of redistribution' to the 'politics or responsibility'. The latter de facto meant cuts in social protection and cuts in tax rates in order to improve work incentives and to increase the consumption capacity of the population. Due to severe economic crisis there were cuts in social benefits and basic benefits, i.e. those benefits that were aimed to help claimants without sufficient work record were severely hit. In addition, since the economic recession, the key idea behind social policy instruments was active social policy which meant that the main aim for social policy was to create work incentives. Consequently, the level of social benefits started to lack behind from the development of average earnings. Since the mid-1990s governments emphasised tax relief for payroll taxation, particularly for low and middle-income households. This meant that the taxation of wages decreased and thanks to tax reliefs, Finland reached the average European level in terms of wage taxes for people in the below-average income bracket (Kurjenoja 2004). However, tax reliefs did not include social benefits, which are also – with some exceptions – under the tax liability. Hence, taxation policy together with other active social policy measures meant rising difference between employed and those who are outside of the labour markets.

To properly understand the logic of the Finnish socio-political policy-making and its consequences, a short historical overview is warranted. Up to the late 1980s the struggle over the welfare state in Finland was between the two main political forces, the Social Democrats (SDP) and the Agrarian Party

(*ML*, and since 1966 the *Center*) and their alleys. On the Social Democratic agenda, adequate income loss compensation was given priority and the strategy was concerned with insurance for workers and not particularly with the other socio-economic groups. On the ML agenda, universal flat-rate benefits were prioritised. National insurance covering the total population, including unpaid agricultural family workers and home-making wives, and providing flat-rate benefits were more preferable for the rural population, who were still living in a subsistence economy, than income-graduated allowances.

Up to the mid-1960s the Agrarians had an upper hand in Finnish politics and the precedence of social policy reflected that situation. Since then the emphasis shifted towards industrial workers', more generally speaking employee's interests; when developing social policy in the 1960s income-graduated benefits were in focus. In many social policy issues the Social Democratic agenda was supported by trade unions that had negotiated the issue with the employer federation. Often the Conservatives and the Swedish People's Party agreed upon these pacts. Political dualism is reflected in the institutional set up of the Finnish income transfer system. All major 'basic security benefits' are administered by the public authorities, mainly by the National Social Insurance Institution (Kela), while all important employment-related – with the exception of sickness insurance which is under Kela – benefits are organised via the labour market and administrated by social partners. Hence, the Finnish institutional design is characterised by a great deal of dualism and a strong element of corporatism.

The corporatist element has been fortified by centralised wage negotiations and as a rule income policy agreements have included "social packages" where the state, employer and employee organisations have agreed upon social policy issues. The strength of this kind of semi-corporatist policy-making has been that difficult and painful decisions are carried through. The flip-side of the coin is that it easily blurs the ideological lines and the character of policy-making is day-to-day practical administration, a-political management. Therefore, the sense of political alienation is wide-spread in Finland. Since a change of political decision-makers do not change the goals or contents of politics, voters do not see point to vote which is reflected in low electorate turn-outs in parliamentary, local and EU-elections. Low voting activity favours the bourgeois parties whose constituency is more active to vote. Consequently, the political pendulum is turning in favour of the Conservatives. Political discourse has also fundamentally changed. Up to the mid-1980s social policy was seen to contribute to economic growth. Positive circle between social protection and productivity was taken for granted. Now a vicious circle is the norm. More and more, stronger and stronger voices are demanding further cuts in taxation, lowering wages and social benefits – to compete in the global market, to make people more enterprising and to make people to take more responsibility by themselves. The stronger position of the employers vis-à-vis representatives of the

employees contributes to that. Instead of speaking of redistribution and social justice the legitimate political vocabulary more often contrast 'politics of redistribution' against ´politics of responsibility', demands for social justice are equalled with envy, collective responsibility is replaced by individualism. An overall consequence of this has been that the equalising effects of the tax system, income maintenance programs and social services – as discussed in Chapter 2 – have lost some of their redistributive effects.

Given the increase in income inequality in Finland, it is fair to ask whether the passion for equality is on the wane. The Finnish welfare model today is less universal, less generous and more conditional than it was twenty years ago. However, the Finnish welfare model is still distinct and fares well in comparison with other welfare state models on most dimensions of welfare. Poverty and inequality rates are comparatively low, income mobility – be it short-term or inter-generational – is high, and all this is combined with high level of subjective wellbeing. This is very much in line with the basic Nordic ideas of how the state should work: it should provide individuals with resources to master their own lives.

Finland went through a rough period as a consequence of a deep economic recession in the early 1990s. The budgets went from clear surpluses to deficits of 10 % of GDP and public debts increased rapidly. The dark economic prospects increased crisis awareness both among all political parties and among the population, and fortified political consensus to accept welfare cuts that were regarded as necessary to put the economy on its feet again. Virtually all social programs were subject to changes: sickness, maternity and unemployment benefits were cut. As a consequence of all these measures, public finances are in a better shape than in many other EU countries. Moreover, the economic performance in Finland has been much stronger than the OECD average. These facts can be interpreted in different ways. For critics of the welfare state, this is evidence that they were right: more cuts entail that the countries are doing even better, whereas the defenders of the model say that the cuts were marginal and they cannot explain the recovery.

However, the 1990 crisis showed that the universal and advanced Finnish welfare state is able to absorb macro-economic shocks and stabilize living conditions when needed. Despite skyrocketing unemployment and rising factor income differences, differences and disposable incomes and poverty did not change that dramatically. Imagine what would have happened in a meager and meaner welfare state if unemployment had risen from four to eighteen and GDP had fallen by one fifth. Against that background, the Finnish record was fairly decent and the model passed the survival test caused by the deep recession.

The large differences in employment rates between those with primary education and other groups reflect the effect of economic globalization. Jobs with lesser qualifications tend to move to countries where labour costs are lower. As a small export oriented country without sizeable natural resources, Finland is very vulnerable to such influences. Maintaining educational equality is a challenging task. As opposed to Denmark and Sweden, the private school system plays only a minor role in Finland. Socio-economic differences in health have not been significantly reduced in Finland, although income inequality declined substantially in the golden period of the welfare states in the 1970s and 1980s. It seems that socio-economic differences in health have been increasing over the last 20 years. At present they pose perhaps the most imposing challenge for the Finnish welfare state.

Demographic changes are perhaps the biggest challenge to the Finnish welfare model. Because the model is heavy on services and has a wide range of universal cash benefits the need for everybody in work is pertinent. With ageing population the need increases for more social and health services at the same time as there are fewer persons in their active age who can staff and finance those services. Already now municipalities who are largely responsible for the social services witness their elderly care workers retire and their tax base diminish due to not only economic crisis but also relative fewer working aged. In Finland as in all the Nordic countries there is a trend towards marketization and privatization of public services. With the motivation of choice, quality and efficiency private kinder-gardens and schools, private hospitals and elderly care institutions are gaining ground. The question is about the delicate balance between economic profit and good care.

Ethnicity issues make up another set of demographic challenges, i.e. integration of persons from other countries, migration flows and levels of solidarity in national population. There are problems integrating immigrants into the labour markets. There are also signs that educational attainments and educational skills among immigrant children are substantially lagging behind of those of natives. There has been debate on whether the universal, generous benefits would attract people from other countries interested in such benefits at the same time as making insiders in the Finnish labour market move abroad to avoid high(er) taxes to finance the social benefits. In fact, populist parties using anti-immigration banderols took a substantial share of votes in most recent parliamentary and municipal elections. Thus, in the years to come, Finland may need to invest more on the integration of certain groups of immigrant children in kinder gardens, preschools and schools so that emerging inequalities are not to expand.

One central aspect of the Finnish welfare state design is the division of labour between the central government and the municipalities. The state is responsible for the governance and partial financing of general income transfer schemes - it covers about ¼ of all social costs. Social, health and educational services as a rule are under the competence of the municipalities, which have right to

collect revenues through municipal taxation that comprise approximately one fifth of all financial sources. The state subsidizes these services substantially. Up until 1993, the grants for social and health services were earmarked: they were linked to individual services and were inversely correlated with municipalities' "carrying capacity", that is, amount of wealth. In 1993, the system was revised (and re-revised in 1996) so that the state could give grants to municipalities on the basis of population structure, disability, unemployment and other similar factors that are structural by nature. This reform has strengthened the autonomy of municipalities but also forced them to take responsibility for a significant proportion of planning.

It has been argued that an important trademark of the Nordic welfare state is a high public share in the financing of social spending. In the early 1960 about 70% of revenues in Finland came from public sources. The introduction of income related pensions has gradually changed the situation and the share from employers has increased. To relieve the lot of employers, emphasis has shifted towards payments by the insured themselves. As a consequence of the afore-mentioned change in the division of labour between the central government and municipalities, the municipal burden has also increased and the representatives of the municipalities have complained that the state has solved its financial crisis by imposing more and more tasks on municipalities without providing sufficient fiscal means. Consequently, municipalities have run into economic problems, and experience difficulties in offering their residents all the services that the central government demands. This has fortified the divide between crisis-stricken municipalities not able to offer proper services and more wealthy municipalities that can afford to take care of their residents and provide services needed which, in turn, may widen further socio-economic gaps in health. By international standards, those gaps are wide in Finland.

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Appendix

Appendix Table 1 Log table Finland: Changes in inequality and changes in social, cultural and political conditions.

	1970-1980	1981-1992	1992-2002	2002-2007	2007-2011	Source
Gini of equivalized disposable household income	↘	→	↗	↗	↘	Figure 2.1.1.2.
Unemployment	↘	↘	↗	↘	↗	Figure 1.1.
Indebtedness rate	↗	↗	↘	↗	→	Figure 2.1.2.4.
Wealth inequality			→	↗		Figure 2.1.2.7.
Poverty, women 18–64		→	↗	↗	↗	Figure 2.2.4.
Poverty, men 18–16		→	↗	↗	↗	Figure 2.2.4.
Poverty, women 65+		↘	↗	↗	→	Figure 2.2.4.
Poverty, men 65+		↘	↗	↗	↘	Figure 2.2.4.
Poverty, children		↗	↗	↗	→	Figure 2.2.4.
Difficulties in making ends meet			↘	↘	→	Table 3.2.1.
Receipt of social assistance			↘	↘	↗	Figure 3.3.1.
Social cohesion				↗	→	Figure 3.4.1.
Total fertility rate	↘	↗	↘	↗	→	Figure 3.5.5
Increase in life expectancy, 1st quintile		→	↗	→		Figure 3.6.1.
Increase in life expectancy, 5th quintile		↗	↗	↗		Figure 3.6.1.
Property crimes			→	↘	→	Figure 3.8.2.
Perception of threat		→	↗	↘	↗	Figure 3.8.5.
Satisfaction with life			↘	↗		Figure 3.9.1.
Inheritance of poverty			↗	↗		Table 3.10.5.
Social mobility	↗	↗	↗	→	↘	Chapter 3.10.
Electoral turn-up	→	↘	↘	→	↗	Table 4.2.1.
Votes for the conservatives		→	→	↗	↘	Table 4.4.1.
Votes for the Socialist parties		↘	→	↘	↘	Table 4.4.1.
Votes for the True Finns		↘	↘	↗	↗	Table 4.4.1.
Voluntary work				→	↗	Figure 4.2.2.
Trust			↘	↗		Figure 4.3.1.
Public services should be increased			↗	→		Figure 4.5.3.

Appendix Table 2 Indicators of the macroeconomic, population and social conditions in Finland, 1980–2011.

Macroeconomic indicators	**1980**	**1981**	**1982**	**1983**	**1984**	**1985**	**1986**	**1987**	**1988**	**1989**	**1990**	**1991**	**1992**	**1993**	**1994**	**1995**
GDP per capita at current prices, €	6 958	7 831	8 763	9 701	10 791	11 691	12 537	13 497	15 244	16 979	17 912	16 997	16 462	16 563	17 374	18 807
GDP volume annual growth (%)	5,1	0,9	2,5	2,4	2,6	2,9	2,3	3,2	4,9	4,7	0,1	-6,5	-4,0	-1,3	3,2	3,6
Social expenditure as a share of GDP (%)	19,0	19,5	20,7	21,5	22,0	23,4	24,1	24,4	23,4	23,0	24,6	29,2	33,1	34,2	33,7	31,5
Unemployment rate (% among those aged 15-64)										3,1	3,2	6,7	11,8	16,5	16,7	15,5
Employment rate, females aged 15-64										71,5	71,4	68,4	63,8	59,6	58,8	59,1
Employment rate, males aged 15-64										77,0	76,7	71,5	65,7	61,5	61,1	63,1
% of employed working in the primary sector (agriculture, forestry, fishing, mining) [1]										9,3	8,9	8,9	8,9	8,9	8,7	8,1
% of employed working in the manufacturing and construction sector [1]										30,3	30,3	28,7	27,4	26,5	26,2	27,3
% of employed working in the service sector [1]										60,4	60,9	62,4	63,7	64,6	65,1	64,5

Macroeconomic indicators (continued)	**1996**	**1997**	**1998**	**1999**	**2000**	**2001**	**2002**	**2003**	**2004**	**2005**	**2006**	**2007**	**2008**	**2009**	**2010**	**2011**
GDP per capita at current prices, €	19 344	20 892	22 631	23 680	25 539	26 848	27 621	27 917	29 124	30 009	31 477	34 003	34 944	32 276	33 336	35 150
GDP volume annual growth (%)	3,2	5,9	4,8	3,7	5,1	2,1	1,6	1,8	3,8	2,6	4,0	4,9	-0,2	-9,0	2,9	2,3
Social expenditure as a share of GDP (%)	31,4	29,1	27,0	26,2	25,1	24,9	25,7	26,6	26,7	26,7	26,2	25,4	26,2	30,4	30,4	
Unemployment rate (% among those aged 15-64)	14,6	12,7	11,4	10,3	9,8	9,2	9,2	9,1	8,9	8,5	7,8	6,9	6,4	8,4	8,5	7,9
Employment rate, females aged 15-64	59,5	60,3	61,3	63,5	64,3	65,4	66,2	65,7	65,5	66,5	67,3	68,5	68,9	67,9	66,9	67,4
Employment rate, males aged 15-64	64,2	65,4	66,9	68,4	69,4	70,0	69,2	68,9	68,9	69,5	70,5	71,3	72,3	68,8	68,7	69,8
% of employed working in the primary sector (agricul	7,5	7,1	6,5	6,3	6,3	5,9	5,6	5,4	5,2	5,1	4,8	4,7	4,7	4,9	4,7	4,5
% of employed working in the manufacturing and cor	27,3	27,4	27,7	27,8	26,6	26,3	26,0	25,4	24,9	25,0	24,9	24,9	25,0	23,7	23,0	22,7
% of employed working in the service sector [1]	65,2	65,5	65,8	65,9	67,2	67,8	68,4	69,1	69,9	69,9	70,3	70,3	70,3	71,4	72,4	72,8

Population indicators	**1980**	**1981**	**1982**	**1983**	**1984**	**1985**	**1986**	**1987**	**1988**	**1989**	**1990**	**1991**	**1992**	**1993**	**1994**	**1995**
Population, millions	4,788	4,812	4,842	4,870	4,894	4,911	4,926	4,939	4,954	4,974	4,998	5,029	5,055	5,078	5,099	5,117
% aged 0–14	20,2	19,9	19,7	19,5	19,4	19,4	19,3	19,3	19,4	19,3	19,3	19,2	19,2	19,1	19,1	19,0
% aged 15–64	67,8	67,9	68,0	68,1	68,2	68,0	67,9	67,8	67,5	67,4	67,2	67,2	67,1	67,0	66,8	66,7
% aged 65+	12,1	12,2	12,3	12,4	12,4	12,6	12,8	12,9	13,1	13,3	13,5	13,6	13,8	13,9	14,1	14,3
Dependency ratio [2]	47,5	47,2	47,0	46,9	46,7	47,0	47,3	47,6	48,2	48,5	48,7	48,8	49,1	49,3	49,7	49,9
Total fertility rate	1,63	1,65	1,72	1,74	1,70	1,64	1,60	1,59	1,70	1,71	1,79	1,80	1,85	1,81	1,85	1,81
Life expectancy at birth, females	77,8	78,1	78,6	78,3	78,8	78,5	78,7	78,7	78,7	78,9	78,9	79,3	79,4	79,5	80,2	80,2
Life expectancy at birth, males	69,2	69,6	70,2	70,2	70,4	70,1	70,5	70,7	70,7	70,9	70,9	71,3	71,7	72,1	72,8	72,8
Infant mortality rate, ‰	7,6	6,5	6,0	6,2	6,5	6,3	5,8	6,2	6,1	6,0	5,6	5,9	5,2	4,4	4,7	3,9

Population indicators (continued)	**1996**	**1997**	**1998**	**1999**	**2000**	**2001**	**2002**	**2003**	**2004**	**2005**	**2006**	**2007**	**2008**	**2009**	**2010**	**2011**
Population, millions	5,132	5,147	5,160	5,171	5,181	5,195	5,206	5,220	5,237	5,256	5,277	5,300	5,326	5,351	5,375	5,401
% aged 0–14	18,9	18,7	18,4	18,2	18,1	17,9	17,8	17,6	17,5	17,3	17,1	16,9	16,7	16,6	16,5	16,5
% aged 15–64	66,6	66,7	66,9	66,9	66,9	66,9	66,9	66,8	66,7	66,7	66,5	66,6	66,5	66,4	66,0	65,4
% aged 65+	14,5	14,6	14,7	14,8	15,0	15,2	15,3	15,6	15,9	16,0	16,5	16,5	16,7	17,0	17,5	18,1
Dependency ratio [2]	50,0	49,9	49,6	49,4	49,4	49,5	49,6	49,7	50,0	49,8	50,5	50,1	50,3	50,6	51,6	52,9
Total fertility rate	1,76	1,75	1,71	1,73	1,73	1,73	1,72	1,76	1,80	1,80	1,84	1,83	1,85	1,86	1,87	1,83
Life expectancy at birth, females	80,5	80,5	80,8	81,0	81,0	81,5	81,5	81,8	82,3	82,3	82,8	82,9	83,0	83,1	83,2	
Life expectancy at birth, males	73,0	73,4	73,5	73,7	74,1	74,6	74,9	75,1	75,3	75,5	75,8	75,8	76,3	76,5	76,7	
Infant mortality rate, ‰	4,0	3,9	4,2	3,6	3,8	3,2	3,0	3,1	3,3	3,0	2,8	2,7	2,6	2,6	2,3	2,4

Social indicators	**1980**	**1981**	**1982**	**1983**	**1984**	**1985**	**1986**	**1987**	**1988**	**1989**	**1990**	**1991**	**1992**	**1993**	**1994**	**1995**
Voting activity in parliamentary elections				75,7				72,1				68,4				68,6
% votes to social-democratic or left-wing parties in the parliamentary elections				40,2				33,5				32,2				39,5
% one-person households						28,2	28,8	29,4	30,3	31,1	31,7	32,4	33,1	33,8	34,5	35,2
% with higher education of those aged 15+	13,2					15,4		16,4	16,8	17,2	17,9	18,5	19,1	19,7	20,3	20,9
% citizens with foreign nationalities											0,5	0,7	0,9	1,1	1,2	1,3

Social indicators (continued)	**1996**	**1997**	**1998**	**1999**	**2000**	**2001**	**2002**	**2003**	**2004**	**2005**	**2006**	**2007**	**2008**	**2009**	**2010**	**2011**
Voting activity in parliamentary elections				65,3				66,7				65,0				67,4
% votes to social-democratic or left-wing parties in the parliamentary elections				33,8				34,4				30,2				27,2
% one-person households	35,6	36,0	36,5	36,9	37,3	37,9	38,4	38,8	39,2	39,7	40,1	40,4	40,6	40,7	41,0	41,2
% with higher education of those aged 15+	21,5	22,1	22,5	23,0	23,4	23,8	24,2	24,6	25,0	25,4	25,8	26,2	26,9	27,3	27,8	
% citizens with foreign nationalities	1,4	1,6	1,6	1,7	1,8	1,9	2,0	2,0	2,1	2,2	2,3	2,5	2,7	2,9	3,1	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.

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 3 Social expenditure as a share of GDP by function 1980–2010, %.

	1980	1981	1982	1983	1984	1985	1986	1987	1988	1989	1990	1991	1992	1993	1994	1995	1996	1997	1998	1999	2000	2001	2002	2003	2004	2005	2006	2007	2008	2009	2010
Sickness and health	5,4	5,6	6,1	6,1	6,1	6,4	7,0	6,7	6,5	6,3	6,8	7,6	7,5	7,1	6,7	6,4	6,5	6,2	5,9	5,9	5,8	5,9	6,2	6,4	6,6	6,7	6,7	6,5	6,8	7,6	7,5
Disability	3,1	3,1	3,0	3,1	3,3	3,4	3,4	3,5	3,4	3,4	3,7	4,3	4,9	5,0	4,9	4,6	4,5	4,2	3,8	3,6	3,4	3,3	3,3	3,4	3,4	3,4	3,2	3,1	3,2	3,6	3,6
Old age	5,9	6,1	6,2	6,6	6,8	7,1	7,0	7,3	6,9	6,7	7,0	8,1	9,0	9,4	9,2	8,8	9,1	8,5	8,0	8,0	7,7	7,9	8,2	8,5	8,6	8,7	8,7	8,6	8,8	10,4	10,6
Survivors	0,9	1,0	1,0	1,0	0,9	1,0	1,0	1,0	1,0	0,9	1,0	1,1	1,3	1,3	1,3	1,2	1,2	1,1	1,0	1,0	1,0	1,0	1,0	1,0	1,0	0,9	0,9	0,9	0,9	1,0	1,0
Family and children	1,9	1,9	2,3	2,4	2,4	2,6	2,6	2,7	2,7	2,8	3,2	3,8	4,1	4,0	4,5	4,1	3,8	3,6	3,3	3,2	3,0	2,9	2,9	2,9	3,0	3,0	2,9	2,8	2,9	3,3	3,3
Unemployment	0,8	0,8	1,1	1,2	1,2	1,7	1,8	1,9	1,7	1,4	1,4	2,5	4,2	5,3	5,1	4,4	4,3	3,8	3,1	2,9	2,6	2,4	2,4	2,5	2,5	2,4	2,2	1,9	1,8	2,4	2,4
Housing	0,2	0,2	0,2	0,2	0,2	0,2	0,2	0,1	0,2	0,2	0,2	0,3	0,4	0,4	0,5	0,5	0,4	0,3	0,4	0,4	0,4	0,3	0,3	0,3	0,3	0,3	0,3	0,2	0,4	0,5	0,5
Other social protection	0,2	0,2	0,2	0,2	0,3	0,3	0,4	0,4	0,4	0,4	0,5	0,6	0,7	0,7	0,7	0,6	0,7	0,7	0,6	0,5	0,5	0,5	0,5	0,6	0,5	0,5	0,6	0,5	0,6	0,7	0,7
Administration	0,6	0,6	0,7	0,6	0,7	0,7	0,8	0,8	0,8	0,8	0,9	0,9	0,9	0,9	0,9	0,9	1,0	0,8	0,8	0,7	0,8	0,8	0,8	0,9	0,8	0,8	0,8	0,8	0,8	0,9	0,8
Total	19,0	19,5	20,7	21,5	22,0	23,4	24,1	24,4	23,4	23,0	24,6	29,2	33,1	34,2	33,7	31,5	31,4	29,1	27,0	26,2	25,1	24,9	25,7	26,6	26,7	26,7	26,2	25,4	26,2	30,4	30,4
Total %, EU 27 average																										27,1	26,6	25,7	26,7	29,5	
Total %, EU 25 average																					26,5	26,7	26,9	27,3	27,2	27,2	26,8	25,9	26,9	29,7	
Total %, EU 15 average																27,6	27,8	27,4	27,0	26,9	26,8	27,0	27,2	27,6	27,6	27,6	27,2	26,4	27,5	30,3	
Total, OECD	15,6					17,3					17,6					19,4					18,9					19,8	19,5	19,2			

Sources: Institute for Health and Welfare: Social Protection Expenditure and Financing 2010; Eurostat, Population and social conditions; OECD Social expenditures database.