
The Politics of Poverty in Finland

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The article reviews the politics of poverty in Finland. In comparison to many other Western countries, poverty rates in Finland are low and the country has been able to perform relatively well as measured by social and economic indicators. First, this article will give a short description of the Finnish welfare state and outlines how poverty and inequality are placed on the public policy agenda. Second, the article presents the Finnish authorities and research institutions that measure and monitor poverty rates. The latest key figures on poverty in Finland are provided from a national perspective as well as from a comparative perspective by summarising statistics provided by the OECD and UNICEF. In addition, key figures on the subjective financial well-being and the demographics of social assistance recipients are presented to broaden the understanding on economic disadvantage. In the end, some of the challenges and future prospects of poverty reduction in Finland are outlined.

Introduction

The eradication of absolute poverty has been one of the most important achievements of well-developed welfare states. From a comparative perspective, the Nordic countries¹ have been the most successful nations in providing equal opportunities for all citizens regardless of their socio-economic background. Moreover, the relative poverty rates in the Nordic countries are among the lowest in cross-national comparisons (UNICEF 2012; OECD 2011b).

Finnish social policy has been based on the universalistic principles of providing social protection for all and protecting citizens against various social risks, such as unemployment, old age, and work disability (NOSOSCO 2011; Niemelä & Salminen 2006). These policy measures have not been aimed specifically at poverty reduction but to provide protection to the citizens against social risks that can lead to poverty (Kangas & Saari 2007).

Finnish Welfare State

The constitution of Finland states that 'those who cannot obtain the means necessary for a life of dignity have the right to receive indispensable subsistence and care' (Ministry of Justice 1999). The current institutional base of the Finnish welfare state was formed through a gradual process after the Second World War (Kangas & Palme 2009). However, it would be inaccurate to claim that the Finnish welfare state (or any other Nordic welfare state) is a result of thoughtful design and planning. Kautto states that the Nordic welfare states are 'the result of political bargaining, step-by-step reforms, and their imperfect implementation' (2010: 588). Over the decades, new benefits and services were incorporated to the Finnish

welfare system (Niemelä & Salminen 2006). These reforms have made the system more comprehensive but also rather complex for citizens to utilise, and to be aware of benefits they are entitled to receive. The complexity of the Finnish social security system is especially visible in autobiographical narratives written by low-income citizens (e.g. Larivaara et al. 2007).

Along with the other Nordic countries, Finland has been able to attain high levels of economic and social performance despite the relatively high tax rate, generous social benefits, extensive public services, and universal policies including tax-funded higher education (Andersen et al. 2007). According to various economic and social indicators, Finland ranks among the top countries in the world. For instance, Saari (2011) has reviewed Finland's ranking on some of the well-known international indexes measuring different aspects of social and economic development, such as the Prosperity Index (1st in 2009), the Sustainable Society Index (5th in 2010), the Satisfaction with Life Index (6th in 2006), and the Competitiveness Index (7th in 2010).

The resistance of the Finnish welfare system was tested when the country suffered a major recession and mass unemployment in the 1990s (Kiander 2005). As a consequence of the macro-economic crisis, numerous spending cuts were made in the public sector. However, the foundations of the welfare state survived and Finland was able to bounce back to good overall economic competence. Finland's relatively fast recovery from a deep recession has been seen as proof that the Nordic welfare model can be sustainable also when facing economic downturns (Kangas & Palme 2005). Nevertheless, the recession left unemployment rates slightly higher as

compared to the rate before the economic decline and left a portion of citizens in social exclusion and in long-term unemployment. Jutila (2011) argues that the economic crisis in the 1990s was an accelerator of welfare state retrenchment in Finland, for instance, the crisis was used to justify cuts in social programmes. The most recent global financial crisis in 2009 has been noticeable also in Finland but the effects have been minor when compared with the crisis in the 1990s (Ministry of Finance 2012a).

Despite Finland's fast recovery from the 1990s recession and relatively good economic and social performance, income inequality and relative poverty have increased during the past decade. Finland had the fastest growing income inequalities among the OECD countries in 1995-2000 and the Gini coefficient increased from 21.7 to 26.7 (OECD 2008; Statistics Finland 2009). The incomes of the top one per cent of the population have more than doubled between 1992-2000 (Riihelä 2009). In the 2000s, income inequality continued to rise and the Gini coefficient in Finland was 28.2 in 2010 (Statistics Finland 2012d). However, income inequality in Finland is still lower than in many other OECD countries, which had an average Gini coefficient of 31 in the mid-2000s (OECD 2008: 51). Increases in income have concentrated on the highest income decile as the redistributive effect of taxes and transfers has decreased. For instance, the level of minimum social assistance in Finland has grown slower than the general wage trend. Empirical analyses show that the adequacy and effectiveness of social assistance in terms of poverty reduction has decreased in Finland and in other Nordic countries during the past 20 years (Kuivalainen & Nelson 2012). This has increased relative poverty, especially among single parents and the long-term unemployed without earnings related benefits (Moisio et al. 2011).

Poverty and Inequality in the Government Programme

Rising socio-economic inequalities in income and health have been seen as major challenges to the current Finnish welfare system. Tackling poverty and growing inequality have been put high on the national political agenda. For instance, the most recent Government Programme sets 'the reduction of poverty, inequality and social exclusion' as one of the government's three priority areas (Prime Minister's Office 2011: 7)². The programme explicitly states 'the Nordic welfare model, based on a high employment rate, competitive economy, equal services and care for all, has proven the best social system' (Finnish Government 2011).

The overall stance of the current Finnish Government Programme is in balancing social and economic performance, which also includes spending cuts. It highlights that the basic structures of Finnish welfare

society need to be developed and reinforced in order to combine social cohesion with economic competitiveness in the future. Recently, the Finnish government has increased the level of unemployment benefits and social assistance (NOSOSCO 2011). In the future, the adequacy of basic benefits will be evaluated every fourth year with the first evaluation being carried out in 2011 (Moisio et al. 2011).

European Union and Poverty Reduction

Finland joined the European Union (EU) in 1995, and since then European integration has had a considerable impact on Finnish national policies, especially at the economic level. Finland adopted the Euro as its national currency in 2002, while other Nordic countries preserved their national currencies. Deregulation and free market principles have been to some extent driving forces of EU policy making in the 2000s. European competition legislation is having an influence on new areas such as health care services, pharmaceutical policies, services of general interest, and various national monopolies such as state-controlled gambling (Kattelus et al. 2013).

Although the EU does not have direct power to guide national social policies, the European commission has steered policies in member states through a form of 'soft law' defined as the Open Method of Coordination (OMC) (Kangas & Saari 2007). The OMC does not aim at binding legislation at the EU level, but has included activities such as defining indicators to monitor social development, forming shared guidelines for achieving policy goals, and sharing best practices between member states³.

In 2010, the European Union adopted the Europe 2020 strategy that aims at high levels of employment, productivity, and social cohesion. The strategy also sets a target to reduce people living at risk of poverty and social exclusion by 20 million by the year 2020 in EU member states (EU 2013). The member states were advised to set their own national targets based on three available indicators that are: at-risk-of-poverty rate; the level of material deprivation; and the number of jobless households. In Finland, the Ministry of Social Affairs and Health evaluated that based on these indicators there is a total of around 900,000 citizens experiencing a risk of poverty or social exclusion. Finland has responded to the Europe 2020 strategy and set poverty reduction targets that would reduce the number of people at risk of poverty by 100,000 and improving the labour market position of 50,000 people (Ministry of Finance 2011: 2012b). However, it needs to be noted that after the current financial difficulties in the Eurozone, many have become sceptical of whether many of the goals set in the Europe 2020 strategy can be achieved.

Research on Finnish Poverty

Finland has several governmental agencies and institutions producing data on various social indicators. Statistics Finland (2011) is the most significant governmental agency measuring and monitoring poverty in Finland. As the government's official statistics agency, Statistics Finland publishes yearly income distribution statistics along with more specific and thematically focused analyses of income distribution data.

The Social Insurance Institution of Finland (Kela) is an independent social security institution with its own management and finances that provides benefits for the Finnish citizens and carries out research on social security and its implementation. The institution is supervised by the Finnish Parliament (Kansaneläkelaitos 2012).

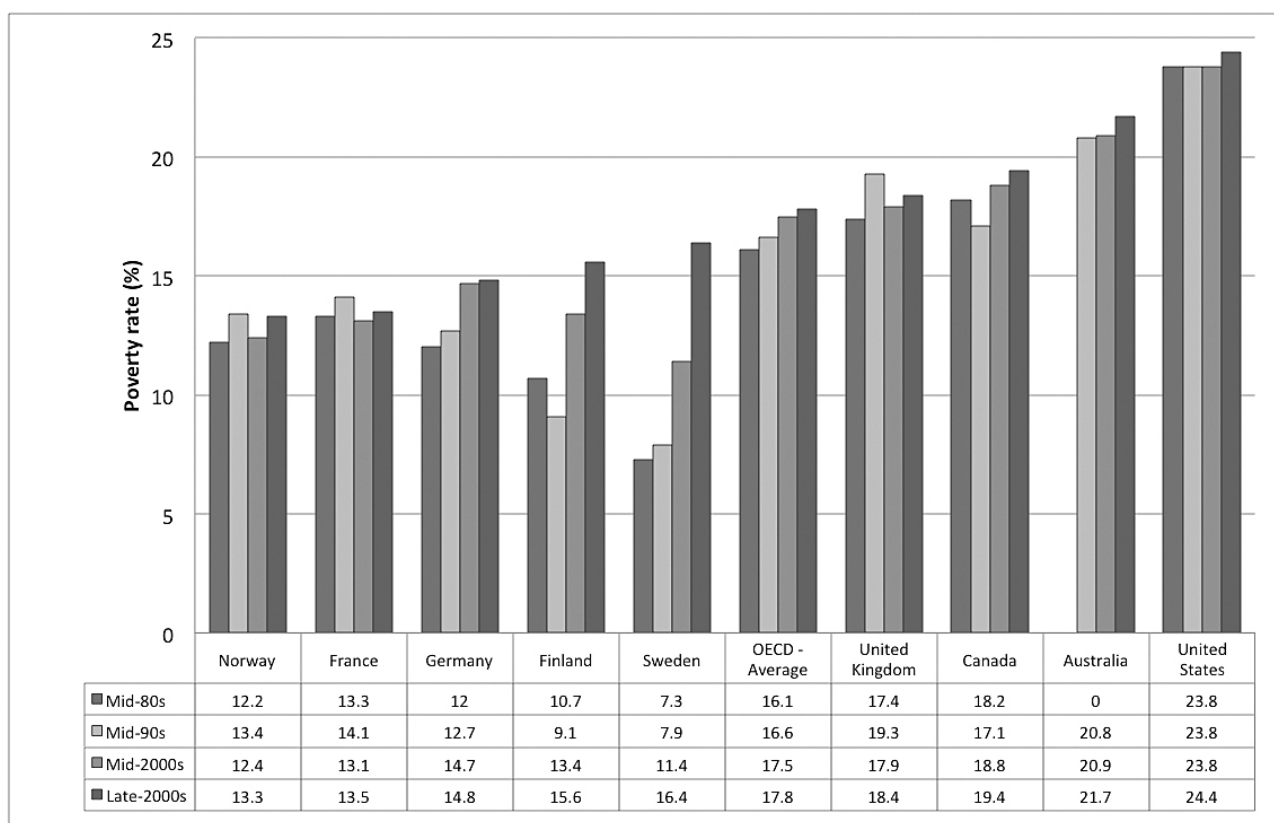
The Ministry of Social Affairs and Health (STM) aims at ensuring that 'everyone in Finland has equal opportunities for a healthy and safe life' (STM 2011). The Ministry promotes the health and welfare of Finnish citizens and monitors the adequacy of social and health services and social insurance. As a government organ, the Ministry implements the government's programme, drafts legislation, and directs the implementation of new reforms (STM 2011).

The National Institute for Health and Welfare (THL) works under the guidance of the Ministry of Social Affairs and Health to produce statistics on social welfare and health to support decision-making, development and research. The Institute publishes a range of research and statistics related to population health and welfare at national and municipality levels. Academic research on Finnish poverty is mainly carried out in various disciplines in social sciences, such as social policy, social work, and welfare sociology.

Finnish Poverty Rates from a Comparative Perspective

Poverty rates in Finland are below the OECD average (OECD 2011b). From an international perspective, the relative poverty rates in Finland are lower than in Anglo-Saxon liberal welfare states such as Australia, Canada, the UK, and the United States (see Figure 1). In the late 2000s, OECD ranked Finland 23rd of 34 nations in the extent of poverty (OECD 2011b). The number of Finnish people with income below 60% of the median has increased from 10.7% in the mid-80s to 15.6% in the late-2000s. The increase of relative poverty in Finland is significant although the country's poverty rate is still below the OECD average of 17.1% in the late-2000s.

Figure 1. Poverty Rates After Taxes and Transfers in Selected OECD Countries (Incomes Below 60% Of The Current Median Income)



Source: OECD Statistics, 2012, <http://stats.oecd.org>.

Calculations based on EU-SILC 2009 data show that deprivation rates for European children (aged 1 to 16) living in single-parent families are the lowest in Norway (4.1%), Sweden (4.3%), Iceland (4.4%), and Finland (6.8%) (UNICEF 2012). For a wider comparison, child poverty rates in developed countries are listed in Table

Table 1. Child Poverty by Different Relative Poverty Lines in the Late 2000s

Country	Poverty level at 60%	Poverty level at 50%	Poverty level at 40%
Norway	11.3	6.1	3.1
Finland	11.9	5.3	1.5
Sweden	12.7	7.3	3.7
Germany	14.9	8.5	4.6
France	16.8	8.8	3.7
Australia	17.6	10.9	4.3
United Kingdom	20.8	12.1	5.6
Canada	21.9	13.3	7.3
United States	31.1	23.1	16.6

Source: UNICEF 2012. Measuring Child Poverty: New League Tables of Child Poverty in the World's Rich Countries. Innocenti Research Centre, Report Card 10, Innocenti Research Centre, Florence

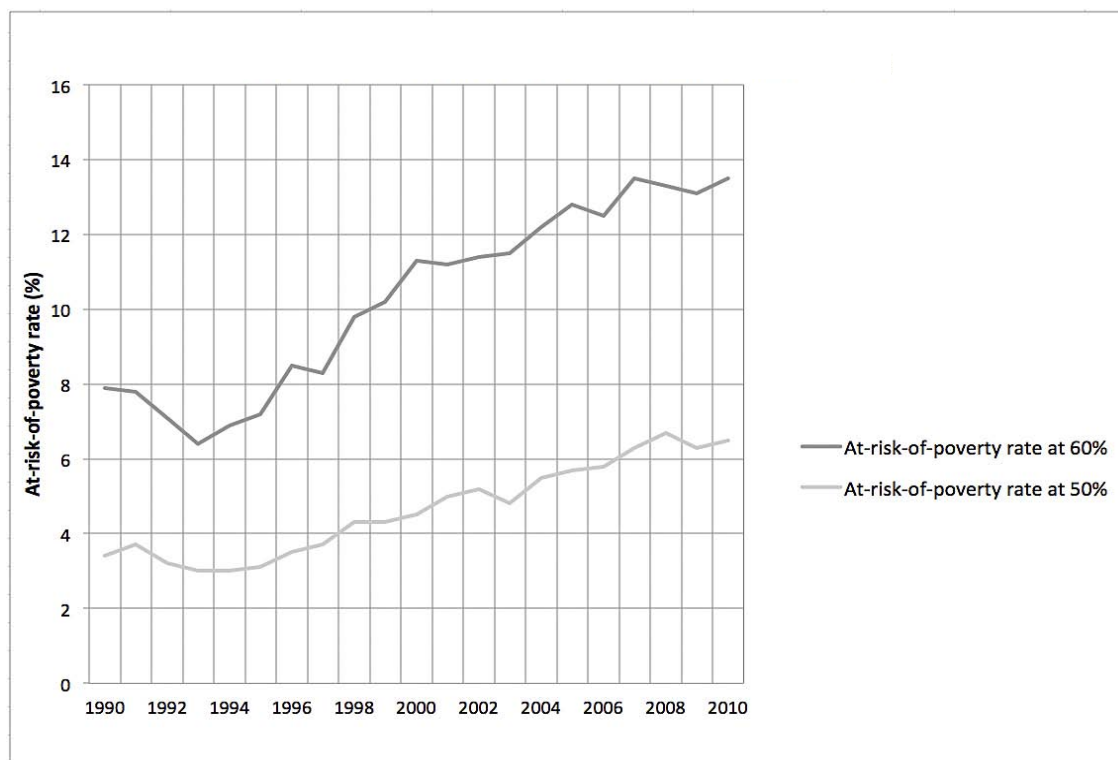
1. The most plausible explanation for low child poverty rates is that these Nordic countries provide generous benefits to families with children and have implemented dual-earner family policies to support female participation in the labour force (Kangas & Palme 2009).

National Perspectives on Poverty

According to the Statistical Office of the European Communities (Eurostat), people whose incomes fall 60% below the median income are defined to be at risk of poverty (Eurostat 2009). In 2010, 13.3% of the Finnish population lived below the poverty line at 60% of median equivalised income (Statistics Finland 2012b). A Finnish person living alone was defined as a low-income earner if his or her monthly income was less than 1,228 Euros (i.e. the low-income limit per consumption unit was 14,741 Euros per year in 2010).

Between 2007-2010, the Finnish at-risk-of-poverty rate fluctuated between 13.1% and 13.5%, making the number of low-income earners to be around 700,000 citizens (Statistics Finland 2012d). The level of relative poverty rose rapidly along with increased income inequality from the 1990s to the late-2000s. However, the at-risk-of-poverty rate did not increase in 2009, and in 2010 the upward trend continued (Figure 2).

Figure 2. Percentage of People at-Risk-of-Poverty in Finland 1990-2010: 50% and 60% of the median equivalent income of all households

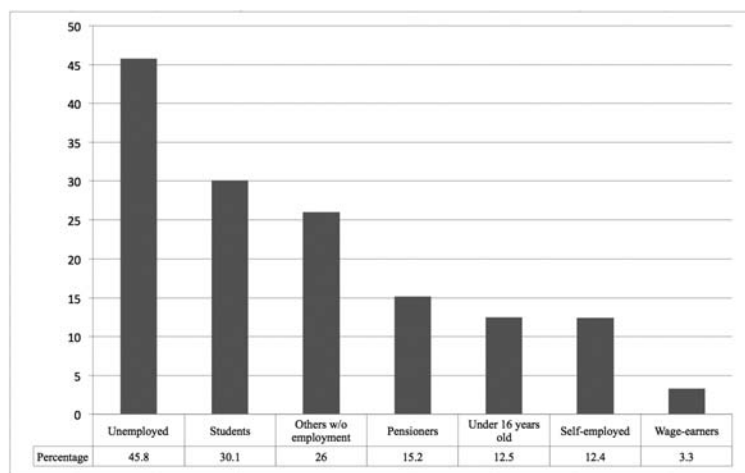


Source: Statistics Finland 2012a⁴.

The most recent income distribution statistics (Statistics Finland 2012b) show that the child poverty rate (persons aged 0-17) was 12.4% in 2010, making for 134,904 children in total. The low-income risk for young adults (aged 15 to 24) was 26.5% and for elderly (aged 65 or over) the rate was 13.5%. The number of people considered as working poor is lower in Finland than in many other EU countries (Lehto 2010). So far only a few Finnish studies have analysed in-work poverty; however, it can be concluded that currently Finnish wage earners have a very low risk of poverty (3.4% in 2007). On the other hand, the risk of poverty is considerably higher among self-employed persons (12.5% in 2007) (Lehto 2010).

Figure 3 shows that 45.8% of unemployed are low-income earners; many of them rely on minimum social assistance (Statistics Finland 2012c). The second largest group of low-income earners is students (30.1%); but their situation is often seen as less alarming because of the temporary nature of student status and their increasing earning potential in the future. Of the other groups, the risk of poverty is high among the long-term unemployed who do not receive earnings-related benefits. On the other hand, wage earners and people on earnings-related benefits are unlikely to live under the poverty line.

Figure 3. Percentage of Finnish Citizens At-Risk-of-Poverty in Various Socioeconomic Groups, 2010



Source: Statistics Finland (2012c).

As a relative measure, the at-risk-of-poverty rate can give only a limited outlook to the extent of economic disadvantages. For instance, in Finland the relative poverty rate was very low during the recession in the mid-1990s, but at the same time, the number of people being unemployed, receiving social assistance, and experiencing income difficulties peaked (THL 2011b). Growing inequality has been associated with growth in the capital market and decreasing inequalities have been associated with the downward trend in the capital market. Although relative indicators have their value,

other indicators are needed in order to have an accurate view of the situation of the economically disadvantaged.

Subjective Financial Well-being

Subjective poverty measures are useful for greater understanding of the level of financial difficulties in everyday life. According to the OECD's data from the Gallup World Poll, 11% of Finnish people find it difficult or very difficult to live on their current income; the OECD average is 24% (OECD 2011a). In Finland, the percentage of people experiencing financial difficulties had increased 3% between 2007 and 2010, which is the same as the increase in the OECD average.

Based on subjective evaluations, in 2010, the percentage of Finnish households experiencing 'major difficulties' was 3.2% and experiencing 'difficulties' was 5.2% (Statistics Finland 2011). Certain population groups experienced minor or major difficulties in order to make their ends meet more often than average, such as households with unemployment (62.1%), student households (48%), and single career households (50.9%) (Statistics Finland 2011).

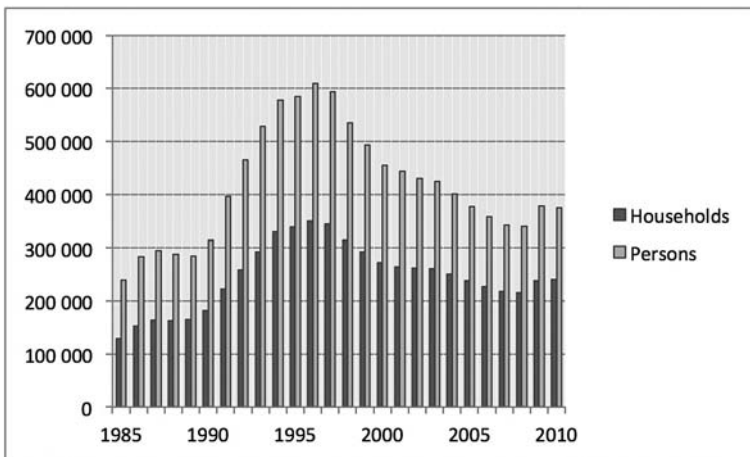
Social Assistance Recipients

In the Finnish social security system, social assistance is a last-resort financial assistance paid by a municipality when a person is unable to attain income that is required for ensuring minimal living needs. As a last-resort social security, the level of social assistance recipients is related to the extent of income poverty, the unemployment rate, and various forms of social deprivation. In 2010, the number of individuals who received social assistance at least once was 375,000, which accounted for 7% of the Finnish population (THL 2011a). Many recipients belonged to the same household, and the number of households receiving social assistance was 240,000 in 2010. The percentage of households receiving social assistance on a short-term basis was 39% (3 months or less) and on a long-term basis 28.5% (10-12 months) in 2010 (THL 2011a). People receiving social assistance are a heterogenic group of people with mixed backgrounds. Of all social assistance recipients, 71% belonged to a one-person household and 21% were households with children, of which 55% were lone parents (THL 2011a). The Finnish recession in the 1990s significantly raised the total number of social assistance recipients, but the effect of the 2008 financial crisis was less severe (see Figure 4).

Future Prospects

Numerous factors have an influence on the future prospects for poverty reduction in Finland. In general, some of the main challenges are related to maintaining an adequate level of social security and to ensuring the provision of high quality health and welfare services for all

Figure 4. Finnish Households and Persons in Receipt of Social Assistance 1985-2010



Source: THL 2011a.

socio-economic groups. The success of poverty reduction in the future will be associated with Finland's ability to maintain a high employment rate and a healthy working aged population. Achieving this goal would meet the goal of preventing exclusion from education and employment opportunities among younger generations.

The future of the Finnish welfare state is constantly debated among policymakers and researchers. For instance, Hiilamo et al. (2010) have formulated three possible scenarios on the future of the Finnish welfare state. Their first scenario is the retrenchment of the Finnish welfare state associated with stagnant income supports and benefits (e.g. basic unemployment allowance and labour market subsidy) that do not follow the general wage trend. Their second scenario includes incremental and minor increases in social security and moving the Finnish social security system increasingly towards means-tested benefits. In both of these scenarios, the level of earnings-related benefits would rise faster than non-earning relates benefits. The third, and the most optimistic, future scenario includes systematic increases in minimum social benefits that further improve the relative position of citizens at risk of poverty in the lowest income brackets.

Conclusion

In a globalised world, national goals are linked to many global macro-economic trends that influence national economies. Finland has adopted the Euro as its currency which ties the country's economic policies closely to economic developments in other European countries. As a relatively small national economy, Finland is highly dependent on active export markets. At a more general level, global pressures towards increased tax competition might lead to decisions that reduce the redistributive effect of the Finnish tax system. This would most likely increase economic inequality by raising capital incomes in the top

income brackets. Furthermore, equitable policies are required to manage new challenges related to an ageing population and increased immigration. In conclusion, Finland is a well-developed welfare state with relatively low poverty rates, but continuous efforts and political determination at the national level are also needed to ensure a favourable social and economic situation in the future.

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Footnotes

1. The Nordic countries consist of Denmark, Finland, Iceland, Norway, and Sweden (including the territories of the Faroe Islands, Greenland and Åland).
2. Two other priorities of the current Finnish government are 'consolidation of public finances' and 'enhancing sustainable economic growth, employment and competitiveness'.
3. European Commission: <http://ec.europa.eu/social/main.jsp?catId=753&langId=en>.
4. The Statistics Finland and the OECD use different statistical units to measure at-risk-of-poverty rate, which explains slightly lower relative poverty rate measured by the Statistics Finland compared to the OECD.

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