ENTER NEOLIBERALISM:

TRANSFORMATION OF THE FINNISH WELFARE STATE, 1991-2007

by

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A dissertation submitted to the Graduate Faculty in Political Science
in partial fulfillment of the requirements for the degree of Doctor of Philosophy,
The City University of New York

2010

This manuscript has been read and accepted for the Graduate Faculty in Political Science in satisfaction of the dissertation requirement for the degree of Doctor of Philosophy.

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Abstract

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This dissertation examines the process of welfare state change in Finland from the end of the 1980s to the present with the purpose of finding out why and how the Finnish welfare state transformed from an egalitarian welfare state to “a competitiveness society.”

The key findings are that the economic crisis of the early 1990s, combined with the collapse of the Soviet Union, was a shock that enabled a new worldview to gain a foothold in the center of Finnish political decision-making. The neoliberal ideology, that had already gained ground elsewhere in the world through the efforts of international organizations such as the OECD, became the framework for restructuring the Finnish welfare state.

While those advocating neoliberal politics had a ready plan, support from the political left for the public sector austerity program was paramount. The Social Democrats,

traditionally the strongest advocates of the welfare state, astonished by the magnitude of the problems created were quick to decide their politics had come to the end of their road. In charge of the country, and driven by crisis consciousness they started practicing the only politics that seemed credible at the time -- essentially starting to practice their opponents' politics. Eventually, the centralized political decision-making structure and the tendency toward consensus politics in a small country help to explain why the new ideas were able to gain ground so efficiently among the country's political decision-makers.

To Sam.

Your love motivated me to work diligently on this and served as my inspiration when I would not have otherwise cared to spend yet another day working on the same project. It meant the world to me to have you care about my research, listen to me talk about it daily, and think that what I am doing is important. I know you are proud of me.

I also want to thank my advisor Lenny Markovitz for being so supportive, encouraging and kind. Despite having numerous advisees, he somehow manages to always be available. I really appreciate the years of caring about my research and guiding me on it. I also want to thank my committee members Frances Fox Piven and Christa Altenstetter for their invaluable comments. As for my friends at the Graduate Center, I want to acknowledge Maria Biskup for the years of being there for me, and Bill McKinney for being somebody I could always go to with my concerns.

I also want to express my appreciation for financial support from the Helsingin Sanomat Foundation, Finlandia Foundation and the Iida Isokääntä scholarship fund, as well as from The American-Scandinavian Foundation in the earlier part of my graduate studies. Also Prof. Hugo Kaufmann, the Director of European Union Studies at the CUNY Graduate Center offered me employment on such flexible terms that it enabled me to combine employment while working on my research.

And finally, I want to thank my parents from whom I seem to have inherited somewhat of an ambitious nature as well as an interest in collective issues and an inclination toward value considerations – the driving forces behind all this. I believe I told them as a child I would earn my doctorate one day, so here were are! I am grateful the support that I got along the years for my education.

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Chapter 1:

Introduction

In the early 1990s Finland experienced a dramatic economic crisis. This crisis helped to usher in the era of neoliberal austerity politics in Finland despite the popularity of the welfare state among the population. The depression[1] was not the reason for the particular changes in social or economic policy, but rather a facilitator that could be used to justify the new politics of reducing public responsibility. The neoliberal politics that aim at the reduction of the size of the public sector through public sector spending cuts and efficiency requirements, tax cuts, privatization of public enterprises and outsourcing of public services etc. had already gained ground elsewhere in the world pushed by international organizations like the OECD. The idea is to give more room for the operation of the private sector at the expense of the public. Soon after the crisis Finland also joined the European Union (EU), and decided to be among the first countries to introduce the common currency as well. Both membership in the EU and the European Monetary Union (EMU) helped to make the case to tighten the state budget further.

The Social Democratic Party that was in power from 1995 to 2003 ended up practicing politics that were in direct conflict with what it had stood for in the past. Instead of being the defender of the welfare state, it became the party to launch the welfare state

[1] As it is commonly referred to as in Finland.

retrenchment program in Finland. The mantra for all the policy choices was that there were no alternatives to them. In order for Finland to survive and continue to be successful, cuts had to be made and the global trends had to be followed.

Feeling hopeless in the face of the magnitude of the problems created, and fearing their own politics might have caused them, the Social Democrats in the early 1990s were so quick to embark on a new program that they in essence started practicing their opponents' politics. The only credible answer to the deficits and unemployment at the time seemed to be the neoliberal politics practiced elsewhere and advocated by the international organizations as well as already preferred by the domestic devotees of the public sector austerity program in the political trenches. However, this change in paradigm was never openly decided on, rather, the change "crept in"[2] piecemeal with each decision made.

After the initial all-across-the-board cuts in the immediate aftermath of the economic crisis, the Finnish welfare state didn't face any dramatic cutbacks. Instead social spending was gradually tightened further and further resulting in the quality of services to suffer and the benefit levels to fall in comparison to the rising prices and wages. The most obvious indicator of the change in character of the welfare state is that inequality started to grow again in 1994 after 40 years of Finland becoming more and more equal each year. The earlier goal of reducing income inequality has been abandoned,[3] and it has been replaced by economic growth as the most important goal.

[2] Borrowing Raija Julkunen's terminology.
[3] Jaakko Kiander. *Laman opetukset, Suomen 1990-luvun kriisin syyt ja seuraukset.* VATT Publications 27:5, (Helsinki: Government Institute for Economic Research, 2001), 102-103, 107.

Following the initial rounds of cutbacks, scholars argued that the character of the Finnish welfare state had been maintained. I argue that a fundamental change in character as a matter of fact, happened. But it happened gradually over many years, out of sight, *after* those initial cutbacks. The process hasn't been one of obvious assaults on the welfare state, but rather a slow deterioration in social transfers and the starving of the public services. Tax cuts, efficiency requirements and transfer of responsibility away from the public sector to individuals, businesses and the third sector are visible signs of this process.

At the same time, Finland has one of the world's highest per capita gross domestic products, and continues to rank at the top of any list comparing the competitiveness of different economies year after year. With the exception of the economic crisis of the early 1990s, Finland has been able to enjoy long periods of fast economic growth, most recently all through the second half of the 1990s, and at the turn of the millennium (see Table 1).

With a few years' exception during the economic crisis in the early 1990s, Finland clearly could have afforded to at least maintain the welfare state at the level that it was before the economic crisis. Instead an ideological shift occurred among the political decision-makers that prioritizes economic growth, and believess accumulation of wealth, as well as inequality to be beneficial for it. The new ideology therefore places the welfare state under austerity measures diminishing redistribution and reducing funding for public services, while relaxing taxation on the wealthiest. This is a full reversal of the earlier

welfare state goal of equality, and instead knowingly making policy changes that result in inequality to increase. Even as the depression hype faded, Finland continued on this new path. Any justifications, whether it is globalization or population aging, that support the necessity of cutbacks are used to maintain the austerity politics.

Table 1: Economic Growth (%) of the Gross Domestic Product in Finland 1986-2005[4]

Year[5]	**GDP Growth**	**GDP/ Capita in Euros**	**Inflation**
1986	7,6	12 579	4,8
1987	8,0	13 547	4,3
1988	13,3	15 308	7,8
1989	12,0	17 079	6,2
1990	5,9	18 000	5,8
1991	-4,5	17 092	1,8
1992	-3,1	16 470	0,7
1993	1,1	16 566	2,0
1994	5,0	17 312	1,4
1995	8,9	18 777	4,8
1996	3,5	19 368	-0,2
1997	8,4	20 929	2,1
1998	8,8	22 716	3,4
1999	4,8	23 753	0,9
2000	7,8	25 541	2,6
2001	5,7	26 945	3,0
2002	2,9	27 650	1,3
2003	1,4	27 968	-0,4
2004	4,4	29 107	0,6
2005	3.2	29 946	0.5

Yet this is all happening despite the dubiousness of claim that the welfare state needs to be cut back for the sake of economic growth.[6] If the welfare state was an impediment to economic growth, the Finnish economy would not have performed so well. Perhaps the Finnish economy (while having other benefits) is doing well precisely because of the

[4] Statistics Finland, http://www.stat.fi/tk/tp/tasku/taskus_sosiaaliturva.html; and http://www.vn.fi/stm/suomi/tao/sosmenot.htm.
[5] Statistics Finland, http://www.stat.fi/til/vtp/2008/vtp_2008_2009-02-27_tau_001_en.html.
[6] During the depression politicians called for cutting back the welfare state "in order to save the welfare state," Heikkilä 1997, 30.

advantages provided by the welfare state. Therefore it is political or psychological reasons, not economic imperatives that have shifted the course of the country.

Most special about the development of the Nordic welfare states was not their success in reducing poverty, but specifically this even more ambitious goal of an egalitarian society.[7] The aim of this study is to understand why this goal was abandoned in a welfare state that is very popular among its population, and to look into the mechanisms that enabled the neoliberal ideology to establish itself in the Finnish policy-making.

The major findings of this study are:

1) The economic crisis of the early 1990s was not the cause, but a facilitator of public sector/ welfare state retrenchment in Finland. Based on it, it was easy for the advocates of neoliberal reforms to argue that the changes were a must. (Chapters 1 & 5)

2) Welfare state retrenchment in Finland has been achieved through non-action in social benefits and the introduction of efficiency requirements in the public services, combined with contractions in fiscal policy. Instead of growing in tandem with the economy, social benefits have stayed level. Therefore, while social transfers and services have been left to lag, resulting in gradual contractions of the public sector, changes in fiscal policy have helped to direct the flow of wealth increasingly toward the top income groups in the private sector. (Chapters 1 & 2)

3) The Finnish Social Democrats made an unwise shift toward the political middle (for the future of the welfare state that they had spent decades building, and for their own

[7] Esping-Andersen (1990, 28) and for example Palme (2007, 19) in *Talouskasvun hedelmät – kuka sai ja kuka jäi ilman?,* ed. Heikki Taimio (Helsinki: Tammerpaino, 2007).

electoral success confusing voters of what they stand for). Recovering from loss of credibility has proven difficult for the Party. Nobody, including members of the party seem to know what the party currently stands for. (Chapter 4)

4) Power in Finland has shifted toward powerful civil servants and a few top politicians, especially to those at the Ministry of Finance, as is typical of the neoliberal reforms in other countries due to the emphasis on strict budget control (Patomäki 2007; Harrinvirta et at 2001). (Chapters 4 & 5)

5) And finally, the welfare state contrary to the neoliberal claims can be beneficial for the competitiveness of an economy (a comparative advantage), creating a stable reliable environment for business supported by high level of social capital and an educated and a healthy work force, while public investments in education, research, and infrastructure combined with a safety net that enables risk taking create conditions that encourage innovation. (Chapter 6)

Finland is a great case for studying welfare state change and testing out welfare state retrenchment theories because Finland has

1) One of the most extensive welfare states in the world
2) The biggest economic crisis to hit any OECD country since the 1930s until 2008
3) A traditionally strong Social Democratic Party
4) Strong popular support for the welfare state

Of all the social democratic welfare states Finland experienced the severest recession and consequent government savings program. The successful introduction of neoliberal

reforms in a social democratic welfare state that is very popular among its population during a period of fast economic growth, is a question that the existing welfare state literature does not have an answer for. Further, in a country where the Social Democratic Party has been comparatively strong, it should be interesting to see how *and why* its political program may have changed in the last two decades.

This study is structured as follows. First, in this chapter I will give an overview of the Finnish welfare state and describe it at its peak of development ca. 1990, situating Finland in the categories of welfare states. After that I will discuss the severe economic crisis that Finland endured in the early 1990s. This crisis, rather than the reason for the welfare state retrenchment in the long run, was a facilitator that that helped to push Finland's welfare state development to a new track. It was rather used as a justification for the changes that followed.

In the second chapter I will describe the new Finnish welfare state, the shifts that have occurred in priorities and in policy, as well as the consequences of them on social stratification. In Chapter 3 I will look into the explanations for the changes that the existing literature provides for the changes and in Chapter 4 I will focus on the actors in the Finnish case, namely on the transformation of the Finnish Social Democratic Party looking for reasons for its shift toward the political middle. In Chapter 5 I will explain the new set of ideas, and the associated mechanisms that have justified the new welfare society. Finally in the last chapter I will look into questions of solidarity and the future of leftist politics, and make the point that the trend of trimming the welfare state will result

in a vicious circle of cutbacks and lowering support, creating a more unequal society with lowering solidarity and social capital, all detrimental to the economic performance of Finland as well.

I. Development of the Finnish Welfare State

Finland has one of the most extensive welfare states in the world. Although a contested categorization, the Finnish welfare state can be placed in the social democratic welfare state cluster (Gøsta Esping-Andersen, 1990) alongside the other Nordic welfare states.[8] In the social democratic welfare states the principles of universalism and de-commodification of labor have been used to promote equality and individual independence. Likewise, the Finnish welfare state has been characterized by generous transfer programs and extensive public social services, the funding of which relies on everybody, both men and women alike, participating in the labor force to generate the needed tax revenue for the payment of the transfers and the services.

The post-war normative core of the Nordic welfare states consisted of the ideas of equality, full employment, universal social rights, and specifically the public sector's key role in the provision of wellbeing.[9] According to the first professor of social policy (appointed in 1948[10]) in Finland Heikki Waris (1978)[11] the main purpose of social policy

[8] The preferred term in the countries in question is "Nordic Welfare States/ Societies" or just "the Nordic Model." I prefer to use the term "social democratic" for the descriptive instead of the geographic nature of the term.
[9] Pekka Kosonen, "Pohjoismaisten hyvinvointimallien murokset 1990-luvulla" in *Riskit, instituutiot ja* tuotokset, ed. Veli-Matti Ritakallio et al., Sosiaalipoliittisen yhdistyksen tutkimus nro 59, (Painosalama Oy, 2003), 45.
[10] Keijo Rahkonen, "Sosiaalipolitiikasta yhteiskuntapolitiikkaan," *Yhteiskuntapolitiikka* 69 (2004)1: 319.
[11] Sirpa Taskinen, "Joulupukki vastaan Roope Ankka eli hyvinvointipolitiikan arvopohja," *Yhteiskuntapolitiikka* 70, no. 2 (2005), 206.

was to create social security and communal harmony. Esping-Andersen (1999) too, describes the *homo socialidemocraticus* who believes that he/ she will do better when everybody around him is doing better. Simultaneously then, to quote Esping-Andersen "collectivism is not pursued for its own sake, but in order to bring out the utmost in every individual soul."[12]

A laggard in welfare state development (Esping-Andersen 1990; Anttonen & Sipilä, 2000; Karisto, Takala & Haapola, 1999), the Finnish welfare state caught up to its Nordic neighbors by the mid-1980s[13] as most of the Finnish welfare state was built in the 1960s and the 1970s.[14] Finland quickly transformed from an agrarian society devastated by wars to a post-industrial economy with a social democratic welfare state, consisting of a well-to-do, educated population. Until the early 1990s creation of equality was one of the main missions of the Finnish welfare state (Saari 2006). Through progressive taxation, income redistribution and universal social services, inequality did decrease over a 40-year period following World War II as Finland industrialized and became wealthier. In the 1980s the economy was growing so fast that Finland was being referred to as "Europe's Japan." Alasuutari (1996, 2004) has described Finland having been a kind of "Finland Inc" during the period he refers to as the "second republic" between World War II and the collapse of the Soviet Union and Finland's membership in the European Union (EU) in the first half of the 1990s. This is because Finland's economy was a closed entity, protected from the world economy with tariffs, import restrictions etc. The domestic

[12] Gøsta Esping-Andersen, *Social Foundations of Postindustrial Economies*, (New York: Oxford University Press, 1999), 171.
[13] Anneli Anttonen and Jorma Sipilä, *Suomalaista sosiaalipolitiikaa*, (Tampere: Vastapaino, 2000), 77.
[14] Antti Karisto, Pentti Takala and Ilkka Haapola, *Matkalla nykyaikaan, Elintason, elämäntavan ja sosiaalipolitiikan muutos Suomessa*, (Juva: WSOY, 1999), 290.

markets followed their own rules, were supported by internal policies such as the welfare state programs and tri-partite income negotiations. Devaluation of the currency was the main tool of economic management, resorted to when the Finnish export sector was in need of a boost from a price advantage. The "corporate culture" of the "Finland Inc" included caring for all living within its borders, the idea was that everybody was in the same boat, and together worked to advance the wellbeing of this firm, or the nation. Protectionistic economic policy and corporatist governance encompassed the whole society. Decision-making was centralized, with power being concentrated around the president. Trade was dependent on political negotiations, making the business community very dependent on the political decision-making. On the other hand, business benefitted from being shielded from international competition, and always having that possibility of a devaluation to rely on for a competitive price advantage. As economic growth in the time period was combined with welfare state expansion and tri-partite wage negotiations, wages increased across the board and the income gap continuously narrowed until 1995.[15]

Fast forward 10 years, and the society that you encounter is very different. Still an extensive welfare state in global comparison, but now marked by rising inequality and poverty: new marginalized low income groups have emerged: there are the long term unemployed, the elderly poor, as well as children living in poverty. And then there are the few superrich who accumulate more and more wealth each year. To uncover why this has happened, we have to return to the 1980s to explain Finland's transition to the "third republic" (Alasuutari 1996, 2004).

[15] For instance Karisto, et al. (1999), 77-82.

II. Reforms of the 1980s

The origins of the change go back to the mid-1980s when structural reforms were started. The shift from a planned economy to a competition economy was initiated around then, although change did not pick up speed until the late 1980s and early 1990s.[16] New ideas about public sector performance that had already been popular in international dialogues had reached Finland in the 1980s through civil servants connected to their colleagues in the other Nordic countries. Later also The Organization for Economic Co-operation and Development (OECD) and European Union (EU)[17] where efficiency of the public sector was on the agenda, became important sources of the ideas for reform.

The bulk of the liberalization of the Finnish financial markets, that until then had been closed off from the outside world and heavily controlled by the national government, was carried out between 1983 and 1987.[18] The liberalization was orchestrated by a small group at the Bank of Finland who had connections with foreign experts from the OECD and the Bank of International Settlements, for example.[19] Liberalization was done behind closed doors, and as documented, carelessly without a unified plan. Each decision was treated as a separate one, not part of a unified whole. Rather they were considered technical questions that were not individually significant to the functioning of markets or

[16] Pertti Alasuutari, "Suunnittelutaloudesta kilpailutalouteen: miten muutos oli ideologisesti mahdollinen?." in Risto Heiskala and Eeva Luhtakallio, eds. *Uusi jako, Miten Suomesta tuli kilpailykyky-yhteiskunta?*, (Helsinki: Gaudeamus, 2006), 48.
[17] Ibid., 49.
[18] Heikki Patomäki, *Uusliberalismi Suomessa, Lyhyt historia ja tulevaisuuden vaihtoehdot*, (Vantaa: Dark Oy, 2007), 62.
[19] Ibid., 56-58.

relevant to democratic decision-making processes and therefore did not need to be subjected to political debate.[20]

Starting in 1987, the restrictions on foreign loans were eased as The Bank of Finland allowed low-interest loans from abroad, in effect losing its ability to control the amount of money flowing in the Finnish economy.[21] Money became readily available to anybody who wanted it as the Finnish banks competed for market shares with cheap loans, offering especially cheap loans in foreign currencies. Loans to households and businesses doubled by 1990,[22] with specifically currency loans to businesses tripling in three years from 1987 to 1990.[23] "People simply thought they had become rich,"[24] explains Konttinen (2008). "The country was doing so well that it was almost like someone had invented a machine that makes money for free."[25] At the same time the value of the stock market tripled from fall 1985 to spring 1989, and the value of housing doubled. [26] The the Finnish economy was booming [27] (see the inflation rates in Table 1), but thus resulted in overheating of the economy, and eventually to the bubble that burst.

As property values plummeted, their value as collateral evaporated,[28] and once the Finnish Markka was devalued first by 12% in 1991. Then the subsequent 1992 floating of

[20] Seppo Konttinen, *Salainen Pankkituki, kuinka velallista kyykytettiin,* (Helsinki: Kustannusosakeyhtiö Tammi, 2008), 14, 189; Jaakko Kiander and Pentti Vartia. *Suuri lama, Suomen 1990-luvun kriisi ja Talouspoliittinen keskustelu*, (Helsinki: Taloustieto), 1998, 56-57.
[21] Konttinen 2008,18.
[22] Kiander and Vartia 1998, 68.
[23] Konttinen 2008, 19.
[24] Ibid., 18.
[25] Ibid.
[26] Kiander and Vartia 1998, 69.
[27] Konttinen 2008, 18.
[28] Ibid., 20.

the Markka resulted in its value falling another 13%. The consequences were disastrous to the businesses and families that had taken foreign loans, as the currency loan amounts became unreasonable to those in debt. The banks too had given out loans for more than they could back up. Now their properties sank in value, and the loans they had given out were not being paid back due to bankruptcies etc. depleting the banks of collateral for their loans. In February 1993 the government of Finland made the decision to back up the foreign loans of the Finnish banks.[29] The banking crisis ended up costing the government an equivalent of 11 percent of the GDP in three years.[30]

III. The Economic Crisis of the Early 1990s

The economic crisis that Finland experienced in the early 1990s started with the banks and was the worst recession of any of the OECD countries since the depression of the 1930s. The crisis was caused by the careless deregulation of the financial markets in the late 1980s suddenly allowing vast amounts of cheap loans to flow into the country, overheating the economy (Kiander 2004). The collapse of the Soviet trade (over a quarter of all trade at the end of the 1980s, falling to less than 7% in 1992[31]) that Finland had heavily relied on only made things worse. The economic crisis resulted in the severest reform process of any of the social democratic welfare states with a government savings program that amounted to 12 percent of the GDP in three years from 1994 to 1996.

[29] Ibid., 60.
[30] "Suomen pankkikriisi oli yksi rajuimmista," *Talous Sanomat*, http://www.taloussanomat.fi/uutiset/2008/05/22/suomen-pankkikriisi-oli-yksi-rajuimmista/200813880/12, (May 22, 2008).
[31] Statistics Finland, http://www.stat.fi/tup/tietotrendit/tt_03_06_venajakauppa.html, and Bank of Finland http://www.suomenpankki.fi/NR/rdonlyres/D82581F0-38AA-43C8-A29B-63A1F70E9CC7/0/bon1005.pdf

From the start of the economic crisis started, the growth rate in Finland remained at zero in 1990 with the following three years witnessing negative growth with the GDP declining approximately 13 percent in total.[32] At the same time because of all the bankruptcies (exceeding 7000 businesses in 1992[33]), unemployment grew, reaching 18 percent of the Finnish working population at its worst point in the winter of 1993-1994, up from 4 percent just three years earlier.[34]

With a more carefully planned gradual liberalization of financial markets the huge crisis could have been avoided altogether, and the collapse of the Soviet trade at best would have caused a slight recession.[35][36] If government policy mistakes did not create the crisis, they at least strongly contributed to it,[37] argues John Stephens as well. "All three [Finland, Sweden and Norway] countries deregulated their financial markets in the eighties, which led to booms in consumer spending and skyrocketing real estate prices and to overheating of the domestic economy and wage inflation. With all three countries following a fixed exchange rate policy until the international currency crisis of the fall 1992, this wage inflation translated into a rise in relative unit labor costs vis-à-vis competitors and thus declining export performance. In the bust that followed the boom, property values

[32] Hannu Uusitalo, "Economic Crisis and Social Policy in Finland in the 1990s." Social Policy Research Centre Discussion paper No. 70, October 1996: 1.
[33] Statistics Finland, "Vireillepannut konkurssit velallisen toimialan mukaan, 1986–2006," (accessed April 5, 2010).
[34] Ibid., 2.
[35] Patomäki 2007, 121.
[36] Interview #9, June 12, 2008.
[37] John D. Stephens, "Economic Internationalization and Domestic Compensation: Northwestern Europe in Comparative Perspective," in *Globalization and the Future of the Welfare* State, ed. Miguel Glatzer and Dietrich Rueschemeyer, (Pittsburgh: University of Pittsburgh Press, 2005), 68.

collapsed, which caused bank insolvency and consumer retrenchment, which in turn aggravated the deep recession."[38] The bank bailouts added greatly to the deficits.[39]

The state income from taxes in Finland fell dramatically while the social expenditures rose rapidly. The budget surpluses of the late 1980s and 1990 were replaced with deficits as the state budget deficit grew to almost 12 percent of the GDP by 1993 remaining at that level for three years[40] and resulting in further unemployment due to lay-offs from the public sector. At the same time the Finnish national foreign debt increased from 14% of the GDP in 1990 to 57.8% of the GDP in 1994.[41]

Paradoxically, the free market ideology underlying the liberalization reforms that caused the economic crisis in the first place has since then been used to legitimize further free market reforms. But the depression did happen, and it changed everything. Raija Julkunen (2001) argues that it was not so much a depression as a transition to a "postexpansionary welfare state regime", transformation from a welfare state to an open competition society. Politicians emphasized that that it was not a cyclical recession, but one caused by *structural problems* of the closed welfare state that therefore needed to be reformed, justifying all the cutbacks of the too large of a public sector. The depression therefore had enduring consequences for the Finnish welfare state resulting in re-commodification of labor, re-stratification of society, and a rundown of the welfare state.

[38] Ibid.
[39] Ibid.
[40] Statistics Finland, "Suomen julkisyhteisöjen EMU-alijäämä 1975-2005," http://www.stat.fi/til/jali/2005/jali_2005_2006-09-28_tau_001.html.
[41] Statistics Finland, "Julkisyhteisöjen EMU-velka 1975-2008," http://www.stat.fi/til/jali/2008/jali_2008_2009-09-30_tau_002_fi.html.

IV. Cutbacks in the Early 1990s

Cutbacks in social spending (which in 1993 was 34.8% of the GDP[42]) seemed urgent and unavoidable. First the center-right coalition of 1991-1995 cut back benefit levels and set stricter time limitations particularly in areas of sickness and unemployment[43] while delaying service improvements, and then starting in early 1996 'the Rainbow Coalition,'[44] consisting of parties of the political left and the right,[45] made cuts especially in the benefits of those relying on minimum income, namely the worst off.[46]

PM Esko Aho (Centre Party) government[47] savings programs in 1991 included both social transfers and services.[48] The initial round of savings focused on just refraining from raises and raises that were tied to the price index, and service improvements were forgone. Of the intended 10 billion Marks' savings only 4 billion were achieved while social expenditure grew 13% from the year before.[49] The income based unemployment replacement rate was lowered from 45 to 42 % starting July 1, 1992.[50]

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[42] Statistics Finland, Retrieved from http://www.stat.fi/tk/tp/tasku/taskus_sosiaaliturva.html & http://www.vn.fi/stm/suomi/tao/sosmenot.htm.
[43] Pekka Kosonen, *Pohjoismaiset mallit murroksessa*, (Tampere: Vastapaino, 1998), 347-348.
[44] To be discussed in Chapter 4.
[45] The two parties of the left, the Greens (who left the coalition on May 31, 2002) and two parties of the right governed in coalition 1995-2003.
[46] Kosonen 1998, 349.
[47] 1991-1995, the coalition was made up of the Centre Party, the center-right National Coalition, the Swedish People's Party, and the Christian League of Finland.
[48] Virpi Kosunen, "Laskusuhdanteesta leikkauksiin," in *Leikkausten hinta: Tutkimuksia sosiaaliturvan leikkauksista ja niiden vaikutuksista 1990-luvun* Suomessa, ed. Matti Heikkilä and Hannu Uusitalo, (Stakes, Raportteja 208, 1997), 35.
[49] Ibid., 36.
[50] Virpi Kosunen, "Lama ja sosiaaliturvan muutoksent 1990-luvulla," in *Leikkausten hinta: Tutkimuksia sosiaaliturvan leikkauksista ja niiden vaikutuksista 1990-luvun* Suomessa, ed. Matti Heikkilä and Hannu Uusitalo, (45-101. Stakes, Raportteja 208, 1997), 59.

Again in 1992 the government set 10 billion saving as the target. For this the Chief of Budget Raimo Sailas was given the task of balancing the budget, resulting in the infamous *Sailas Paper* for savings for 1993-1995. It included mostly savings from education, health and social sectors such as delaying the agreed-on day care expansion and especially tightening eligibility requirements and waiting periods for unemployment and illness benefits.[51]

By early 1993 the government debt hit a new record due to the subsidies to the banking sector, prompting the government to make a new savings program of 45 million Marks for 1994-1996 through structural reforms, including less money to the municipalities for services encouraging added efficiency, and again forgoing index revisions.[52]

The economy started to grow in 1994, and the goal now became stopping the rising of the debt, and the plan was to return expenses to their 1991 level. Again improvements to day care and dental care were postponed and qualifying criteria on various benefits were tightened.[53]

With the Lipponen government coming into office after the March 1995 elections, the focus shifted from controlling the foreign debt to lowering unemployment by invigorating domestic markets. This included added flexibility and incentives. However, in order to stop the debt from rising, transfers were cut. The government proposed additional 20 billion Marks savings in employment and illness benefits, the basic pension,

[51] Virpi Kosunen, "Laskusuhdanteesta leikkauksiin," in *Leikkausten hinta* 1997, 36-37.
[52] Ibid., 36-37.
[53] Ibid., 37.

forgoing index revisions.[54] In 1996 an additional 1.6 billion were cut and another 6 billion in 1997.[55] Overall, due to the cuts made, it is estimated that social expenditure in 2000 is 8.6% smaller than it would have been without the cuts by the Lipponen government.[56]

Despite the cuts, there are many scholars (Kantola and Kautto, 2002, Heikkilä and Uusitalo 1997) who believe that the core of the Finnish welfare state has remained intact. Hannu Uusitalo writes that "the welfare state has shown its ability to soften the harshness of dramatic economic changes."[57] J.P. Roos agrees: "There have been cuts and increasing restrictions as a well as lowering of the standards in the services but the fundamental principles… have not been fatally touched."[58] Yet, they were too quick to come to the conclusion that income inequalities did not increase.[59]

Virpi Kosunen (1997) points out that decision-making in Finland during the early 1990s was unusual in that cutbacks were highly centralized or even delegated to just one person (Sailas!), made by civil servants instead of committees set up by the government as in the other Nordic countries. She argues that the economic imperative, the severity of the

[54] Ibid., 38.
[55] Ibid., 39-40.
[56] Ibid., 41.
[57] Hannu Uusitalo, "Economic Crisis and Social Policy in Finland in the 1990s," Social Policy Research Centre Discussion paper No. 70, October 1996, 13.
[58] J.P. Roos, "The Consequences of the Crisis of 1990's to the Nordic Welfare State: Finland and Sweden," (2001), http://www.valt.helsinki.fi/staff/jproos/nordicsoc.htm.
[59] Matti Heikkilä and Hannu Uusitalo, eds. *Leikkausten hinta: Tutkimuksia sosiaaliturvan leikkauksista ja niiden vaikutuksista 1990-luvun* Suomessa, (Stakes, Raportteja 208, 1997), 3.

recession, is what helped to make that justifiable and urgent.[60] Further, while the purpose of introducing set budget frames in Finland (more in Chapter 5) had to do with restoring the health of public finances and increasing credibility in the international financial markets, it also served to transfer more political power to the Ministry of Finance. In contrast to other EU and Euro countries, the budget framing reforms in Finland were NOT initiated because of memberships in EU and the EMU, although they were conveniently supported by the membership aspirations.[61]

Social expenditure as a percentage of gross domestic product (GDP) is generally used as the means for cross-national comparisons of the welfare states. There are a number of problems with this, however, and it ought to not be solely relied on. One problem is that it does not indicate what kinds of programs the money is spent on or what percentage of the population benefits from it (eg. American health care being the costliest of all OECD countries but failing to cover 1 in 6 Americans). Further, efficiency in the social service provision will work to lower social expenditure in comparison to the other countries. Esping –Andersen writes that "by scoring welfare states we assume that all spending counts equally."[62] Yet, changes in social spending as percentage of the GDP sheds some light on the developments within a country over long periods of time. In Finland social expenditure increased from 7.7% of the GDP in 1950 to 21.1% in 1980, and 25.1% in

[60] Virpi Kosunen. "Lama ja sosiaaliturvan muutoksent 1990-luvulla" *Leikkausten hinta: Tutkimuksia sosiaaliturvan leikkauksista ja niiden vaikutuksista 1990-luvun* Suomessa, ed. Matti Heikkilä and Hannu Uusitalo, (Stakes, Raportteja 208, 1997), 45.
[61] Valtiovarainministeriö, Työryhmäraportti, "Finassipolitiikan sääntöjen ja kehysmenettelyn kehittäminen Suomessa, (February 7, 2003), 36.
[62] Gøsta Esping-Andersen, *Three Worlds of Welfare* Capitalism, (Princeton: Princeton University Press. 1990), 19.

1990.[63] One has to keep in mind however that when a country's GDP grows, social expenditure as percentage of the GDP appears to be lower even if the amount spent stayed the same. In the case of Finland for instance, the combined cost of all social expenditure in Finland in 2000 again was 25.2 percent of GDP[64], after having jumped to 34.6% in 1992 during the depression,[65] while the actual spending didn't change much (Table 2).[66] Therefore the percentages are misleading, as during hard economic times a country's GDP may fall, and social expenditures will rise due to increased unemployment etc. The percentages therefore do not reflect the type of a welfare state, changes in actual spending or necessarily the reforms of programs. Bonoli et al (2000) also point out that "many of the retrenchment initiatives adopted can be phased in only slowly"[67] therefore the effects of the reforms may only become visible years after their adoption.

Table 2: Social Spending (%) of the Gross Domestic Product in Finland 1990-2000[68]

1990	1991	1992	1993	1994	1995	1996	1997	1998	1999	2000
25.1	**29.8**	**33.6**	**34.8**	**33.8**	**31.8**	**31.6**	**29.3**	**27.3**	**26.7**	**25.2**

[63] Ministry of Social Affairs and Health, http://www.vn.fi/stm/suomi/tao/sosmenot.htm.
[64] Statistics Finland, http://www.stat.fi/tk/tp/tasku/taskus_sosiaaliturva.html; and Ministry of Social Affairs and Health, http://www.vn.fi/stm/suomi/tao/sosmenot.htm.
[65] Statistics Finland, "Sosiaalimenot pääryhmittäin," http://www.stat.fi/tk/tp/tasku/taskus_sosiaaliturva.html
[66] Statistics Finland, http://www.stat.fi/tk/tp/tasku/taskus_sosiaaliturva.html, http://www.stat.fi/tk/tp/tasku/taskus_kansantalous.html. 2001; and 1991-1992 social expenditure from Ministry of Finance, http://www.vn.fi/stm/suomi/tao/sosmenot.htm.
[67] Giuliano Bonoli, Vic George and Peter Taylor-Gooby. *European Welfare Futures, Towards a Theory of* Retrenchment, (Malden, MA: Blackwell Publishers, 2000), 29.
[68] Statistics Finland, http://www.stat.fi/tk/tp/tasku/taskus_sosiaaliturva.html, and Ministry of Social Affairs and Health, http://www.vn.fi/stm/suomi/tao/sosmenot.htm.

V. The New Path for the Finnish Welfare State

The depression pushed Finnish welfare state development on a new path. The depression, as mentioned, was not the cause of the changes but rather a facilitator that could be used as the reason for them. Some of the ideas were already there, ready to be activated when the political opportunity arose (Risto Heiskala and Eeva Luhtakallio 2006; Interviews #8, #10, #12). Esko Aho, Prime Minister 1991-1995, agrees that since the building of the welfare state had been completed in the 1980s, the depression facilitated "the necessary transformation towards a more modern, enabling approach to wellbeing away from the role of the state,"[69] admitting that without the depression the changes that some political and economic elites had wanted to bring about would have been impossible to accomplish. But now arguments calling for welfare state reductions easily gained ground. First as a matter of fact the depression was blamed on the welfare state, politicians of the center and the right claimed at that the economic crisis was caused by the big spending welfare state, therefore justifying cutbacks of the too large of a public sector. In the fall 1992, Finance Minister (1992-1996) Iiro Viinanen of the fiscally conservative National Coalition Party, for example, criticized the 1980s expansion of the welfare state, and assigned it as the culprit for the economic troubles:[70] "At the end of last decade, an inexcusable amount of improvements were made in the social protection system. Political decisions were made without a worry about the future. The bills for these reforms have now fallen to be paid with a delay. Now we must ask if Finland can afford the present social security and income systems levels."[71]

[69] Interview #11, January 9, 2009
[70] Translated from Finnish.
[71] Quoted in Kosonen 1998, 347.

And although after the depression it has become an agreed on fact that the cause of the depression was not the welfare state but liberalization of financial markets and collapse of the Soviet trade, yet the economic crisis made structural reforms possible,[72] specifically reducing the sphere of the public sector to the benefit of the private. No one seemed to remember that the public sector employs a vast number of people, educates the children, cares for the sick and the elderly etc. One cannot just simply get rid of it. By the time there would have been room for improvements again, austerity had become the natural way of being accepted by all parties, with globalization, population aging, individual responsibility etc. as its driving logics.

At the same time that the Finnish welfare state has endured significant scaling back, it has continued to be very popular among the Finnish population. As a matter of fact, the Finns are growing increasingly opposed to the growing income gap. *Taloustutkimus* survey commissioned by *Aamulehti* found that over 70% of Finns in 2006 were opposed to the increasing income gap compared to 60% in 2001[73] for example. "Saying that the state is about to go bankrupt, helps the masses to understand that changes must be made. For the system the depression was curative/ beneficial, it reformed the firms that survived,"[74] explains a politician from the SDP.

The Nordic countries indeed had succeeded in creating something very special, unusually egalitarian societies with a high standard of living for all. Now the question is why the

[72] Risto Heiskala and Eeva Luhtakallio, eds. *Uusi jako, Miten Suomesta tuli kilpailykyky-yhteiskunta?*, (Helsinki: Gaudeamus, 2006), 14.
[73] *Helsingin Sanomat*, http://www.hs.fi (May 14, 2006).
[74] Interview #10, June 24, 2008.

political decision-makers have insisted on moving away from this model? Is that really the only way for the welfare states to survive? Has the world really changed so much that this kind of system is not possible anymore? Did the Finnish political decision-makers simply suddenly become better capitalists?

The sudden developments of the early 1990s, the economic crisis and the collapse of socialism were such a rupture, a window of opportunity for new ideas to be pushed through. Getting a whole population to accept a new worldview might be difficult, but riding in reforms and austerity justified by external and circumstantial threats is more feasible. The centralized political decision-making structure in a small country and tendency toward consensus politics combined with the ideological stalling of the Social Democratic Party helped to get them on board and push the changes through.

In the next chapter, before getting into discussing the reasons for the shifts among the political decision-makers, it will be necessary to give an overview of the changes in character of the welfare state. Chapter two will focus on policy changes, showing that although shifts in priorities have been drastic, changes in policy have occurred in a subtle gradual fashion since 1995, although changing the character of the welfare state in a fundamental way.

Chapter 2:

The New Finnish Welfare State

The Finnish welfare state has undergone a profound transformation in the twenty-year period from 1990 until now. The emphasis has reversed from expanding and improving the welfare state to tightening social spending, making welfare state programs more cost-effective, and moving policy more towards activation and individual responsibility, away from public responsibility. While the country's economy has grown at fast rates, the fruits of the growth have not been distributed equitably. Rather poverty and inequality have increased.

In a country that consistently worked toward reducing inequalities, fact that the income gap widened in just a couple of years in the mid-1990s back to what it had been in the beginning of the 1970s,[75] marked a profound transformation. Not only does income inequality now increase every year, but inequality has become accepted among the political decision-makers as an unfortunate necessity for the competitiveness of the Finnish economy. At the same time the welfare state has become an outdated idea to many. Instead, Finland is now proudly being talked about as a knowledge and "competitiveness society."

[75] Statistics Finland. "Tuloerojen kehitys Suomessa." http://www.stat.fi/til/tjt/2005/tjt_2005_2007-05-16_tau_001.html, (accessed March 21, 2008).

In this chapter I will outline the relevant changes in social and economic policy, as well as the outcomes on social stratification. I will start with the bigger shifts in thinking and then explain how these shifts manifest themselves in actual policy. However, while there has been a fundamental reversal in welfare priorities particularly among political decision-makers, the shifts in policy have not been immediate and apparent reversals. Rather, welfare state retrenchment has occurred in a subtle fashion through a slow gradual weakening of social programs on one hand, and regular cuts in fiscal policy that favor the wealthier on the other. Together, these gradual changes amount to a systemic shift.

The changes in practiced policy have concrete effects on social outcomes. Therefore in the end of this chapter I will focus on how the practiced politics have created more wealth on the one hand, and more poverty on the other. What I call the politics of inequality has helped to accumulate wealth in a few hands while leaving the less fortunate increasingly to struggle on their own.

I. Shifts in Priorities

Neoliberal ideology has not been openly discussed in Finnish politics or in conjunction with the reforms. As a topic it has been somewhat of a taboo in Finland, and the reforms have purportedly had nothing to do with any kind of ideological shifts, but rather are done in the name of efficiency and savings because circumstances dictate austerity. Therefore, to find the neoliberal ideology manifesting its influence one has to look into specific shifts in Finnish politics. Here I will focus on the move in the government to

prioritize economic policy at the expense of social policy while reducing the size of the public sector, and on the changes in terminology that accompany this shift. Neoliberalism is most evidenced in permanent austerity having become the ruling condition of political decision-making in Finland. I will discuss the 'behind the scenes' influences, the new ideology and its tools such as New Public Management more specifically in Chapter 5. Here I will focus on the more overt ramifications on social and economic policy to highlight the changes on the character of the Finnish welfare state.

A. Subjugating Social Policy to Economic Goals

The goals of social politics changed in Finland in the 1990s. The function of social policy has increasingly become the creation of conditions for a well-functioning economy instead of creation of equality, like before. While social policy is being reformed in ways that increase the sphere of the private sector, education and occupational health care for instance are not talked about as subjective rights of the citizens, but as something that will contribute to economic performance of the country through having a healthy and educated workforce. "In the 1970s the purpose was much more the advancement of equality, and equalization of income distribution. Equality is still a cornerstone of the Nordic welfare model, but other goals have gained in weight: the economy must be competitive, people's abilities and capabilities must be invested in," summarizes a notable civil servant.[76] In essence, social policy has become subordinate to the economy when before they were more equal in weight.[77]

[76] Interview #7, June 11, 2008.
[77] Interview #5, June 9, 2008.

Instead of the goal of equality, social politics has become a tool for achieving goals such as employment and competitiveness of business[78] which then according to the new logic ought to contribute to the wellbeing of the population. This means that more people have to be pushed into the labor market, rights of the workers have to be weakened and the sphere of private economic activity must be increased, all to improve the profitability of private enterprise. The well-known Finnish welfare state scholar Raija Julkunen (2006) confirms that the change in paradigm can be witnessed in the institutions of the Nordic model being reformed and redefined so that they better serve the requirements of economic competitiveness, especially knowledge, innovation, communication skills, employment and capabilities. The new institutional framework like in many other advanced economies, "subordinates social welfare policies to economic considerations, such as the need for labor flexibility, the opening of new markets for the private sector, the pressures of international competition, and the imposition of limits on deficit spending.[79] Within this new framework, social welfare policies are increasingly being designed to enable more people to work and to enable the private sector to expand the sphere of activity"[80] through privatization, as well as the public sector increasingly commissioning welfare services from the private sector.

Before economic growth was needed in order to improve social policy, not the other way around. Specifically the profitability of business has gained priority over the wellbeing of

[78] Juho Saari, ed., *Suomen malli – Murroksesta menestykseen?*, (Helsinki: Yliopistopaino, 2006), 40-41.
[79] Neil Gilbert. *Transformation of the Welfare State, The Silent Surrender of Public Responsibility*, (New York: Oxford University Press, 2004), 43.
[80] Ibid.

the people. Government programs, the Lipponen I (1995) coalition[81] for example, under the heading "social policy" discusses mostly the problem of unemployment. Actual social policy only gets a few mentions, such as "the government will attempt to secure the basic services" and "will not reduce the benefits of the worst off", the point being that cuts and structural changes have to be made, while "adding incentives" and "removing inflexibilities". Here it is very obvious that encouraging work/ activating the unemployed has become the priority with equality having been reduced to a complementary role. As for employment, the same coalition government program calls for personal responsibility, flexibility, and reduction of taxes to encourage economic growth. And surprisingly this was a Social Democratic headed government. Kautto et al. (2002) too note that the social policy goals of Lipponen II have been advanced through means other than the traditional social policies, instead "improving employment is the best social policy."[82]

At the same time that economic growth has gained in importance, the goals of social policy have become less ambitious. "Before the system had to be universalistic. The idea was that if something happened, by group effort, one would be taken care of, by helping them over the rough times, helping them back to equality. Those well off were eligible as well since they were the ones paying for it. Today we focus on personal responsibility, but how can a child have a personal responsibility? We know that there are professionals

[81] *Lipponen I*, 1995-99; *Lipponen II*, 1999-2003. The Social Democrat Paavo Lipponen chosen as the Prime Minister in 1995 formed the governing coalition consisting of the Social Democratic Party (SDP), the center-right National Coalition (NCP), as well as the smaller Left Alliance, The Greens, and The Swedish People's Party, named "Rainbow Coalition" for consisting of parties covering the whole political spectrum.
[82] Matti Heikkilä and Mikko Kautto, eds. *Suomalaisten hyvinvointi 2002*, (Jyväskylä: Gummerus, 2002), 168.

that can fix these problems before they grow to be much bigger,"[83] explains a former Minister of Social Affairs and Health. "Before it would have been out of the question that somebody could not get the medicines and treatments that they need, because they could not afford them."[84]

Other than reducing costs and the number of recipients, social policy now is not about grand goals such as increasing equality or reducing poverty anymore, but rather about providing minimal assistance to those needing it. For those who have the misfortune of not benefiting from economic growth, social policy increasingly is there *not* to compensate for it, but rather to use carrots, and sticks, to encourage those individuals to participate in the labor market to provide for themselves and their families. People are subjected more to the whims of the markets. The public sector isn't there to provide a safety net to the same extent as before. The purpose of social policy therefore is not to help, but to encourage certain kinds of behavior, mainly to accept work or to retire at a later age, but also to care for children at home, acquire training etc. Activation of the unemployed, like in many other countries, has become the focus. Participation in rehabilitation or retraining has become a precondition for unemployment benefits for the long-term unemployed for instance (Ala-kauhaluoma et al, 2002, Ala-kauhaluoma 2005, Hiilamo et al 2004).

Ultimately, as Raija Julkunen points out, establishing new social rights isn't considered successful social policy anymore, rather reductions in numbers of those using and

[83] Interview #10, June 24, 2008.
[84] Interview #3, June 5, 2008.

needing social policy is.[85] This in a universalistic welfare state constitutes a profound reversal. Next I will compare the government coalition mission statements of two Social Democrat headed coalitions to highlight the shifts in priorities.

B. Coalition Mission Statements as an Example of Changing Times

Examination of the Coalition Government Mission Statements of two consecutive long-time Social Democratic Chairmen, and Prime Ministers twelve years apart (Kalevi Sorsa 1983 and Paavo Lipponen 1995), reveals the change in ideology. The stated goals changed from 'advancing equality' to a slightly more pessimistic, 'reduction of inequality'[86]; from building a universal and comprehensive welfare state to improving economic growth. Of course one does have to take into consideration that the first one was written in a time of economic growth and the other immediately following an economic crisis, but that alone does not sufficiently explain the huge contradictions between them. Below is a chart contrasting some of the differences on some key topics.

Whereas the Sorsa 1983 program specifically states that public sector will grow, although moderately, and that *public responsibility will be increased*, Lipponen 1995 program in direct contrast emphasizes citizens' own efforts and ambitions, as well as lowering of taxes (i.e. the public sector source of funding). The shift in terminology (that I will discuss in the next section) from welfare state to society of wellbeing is also very prominent.

[85] Raija Julkunen. *Kuka vastaa? Hyvinvointivaltion rajat ja julkinen vastuu*, (Vaajakoski: Gummerus Kirjapaino Oy, 2006), 69.
[86] Sosiaali- ja terveysministeriö (Ministry of Social Affairs and Health) Julkaisuja 2006:1, *Sosiaaliturvan suunta 2005-2006*. Helsinki 2006, 40.

Table 3: Coalition Government Programs 1983 and 1995

Sorsa IV Government Program 1983	**Lipponen I Government Program 1995**
Public sector grows, but moderately Public responsibility will be increased	Citizens own efforts and ambitions
Public sector to revive the economy Purchasing power must be improved Inflation must be slowed down	
Unemployment Increasing staff at employment agencies	*Employment* Flexibility
Taxes won't be raised by much	*Taxes* will be lowered · fiscal policy that encourages work and enterprise and supports economic growth · competitive taxation as an objective · lowering of income tax
Efforts to not raise employer social security payments	Unemployment insurance payment and hiring costs will be lowered
Social security, welfare state The general level of social security will be maintained, social security improvements will be sought with focus on families with children in most difficult positions · Age limit for child allowances will be raised (18) · The term for parental allowance will be extended · care services will be expanded · access to health services will be improved · dental care will be improved	*Welfare society, wellbeing* The basic services of the welfare society will be attempted to secure, requires structural changes, and cutting expenses Incentives, removal of inflexibilities The security of those worst off will not be weakened Subjective right to day care to children below the school age

Kalevi Sorsa[87] was one of the most important politicians in Finland in the 1970s and 1980s. He served as prime minister four times,[88] for a total of ten years, as well as the

[87] Kalevi Sorsa passed away January 16, 2004.
[88] 1972-1975, 1977-1979, 1982-1983, 1983-1987.

chairman of the Social Democratic party 1975-1987[89] in the period that the Finnish welfare state was built.[90] In 1992 Sorsa defined social democracy to consist of a combination of values of *freedom and solidarity, a compromise between equality and economic efficiency*, consensus democracy founded on *collaboration and negotiation of different social and economic forces*, and an international orientation.[91]

In contrast to the values emphasized by Sorsa, former Prime Minister (1995-2003) and SDP Chairman Paavo Lipponen (1993-2005) is more pragmatic; he is not concerned with what he would consider soft values. After leaving office he has often chastened his party of producing "red-green concoction."[92] Rather, Lipponen states that "the most important goal of the welfare state must be full employment,"[93] a standard Social Democratic goal. Just his way of achieving it is not the typical one that has to do with improving the rights and the standard of living of workers. "The Finnish approach to reducing unemployment", he advocates, instead is through lowering taxes especially on small and middle incomes, as well as through policies that reduce the cost of labor.[94] When it comes to social policy, Lipponen holds that in addition to lowering taxes, social security needs to be reformed in ways to encourage employment.[95] Clearly, Lipponen is not concerned with equality or improved social rights as goals but rather with weakening the power of the workers, getting them onto the job market and off the back of the public sector.

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[89] Also serving as the SDP party secretary 1969-1975.
[90] In 1989-1990 he served as the speaker of the Parliament.
[91] Kalevi Sorsa, *Uusi itsenäisyys*, (Keuruu: Otava, 1992), 212.
[92] "Mössö." Column: "Mahdollisuuksien taito." *Turun Sanomat*, http://www.ts.fi/online/mielipiteet/kolumni/65907.html (August 7, 2009).
[93] Ibid.
[94] Paavo Lipponen, *Kohti Eurooppaa*, (Helsinki: Kustannusosakeyhtiö Tammi, 2001), 207; and *Teema* article, September 9, 1998.
[95] Ibid.

As late as in 2001 when the depression was long gone, Lipponen explained that "funding the Nordic welfare state to the same extent as before has become impossible. The welfare state itself, the services produced by it and the level of security, are not the cause of the finance crisis, but rather the causes are global political and economic developments and the insecurities caused by them."[96] Also, "the age structure in the European countries and the dependency [employed to unemployed] ratio are changing in the way that pension and social security levels cannot be sustained without changes to the systems" [97] (these validity of these causal factors will be examined in Chapter 3). Therefore, he concludes that "reforms and savings to strengthen the base of the welfare state must be made."[98] Presumably this was not in opposition to the welfare state, but clearly Lipponen's agenda is to reduce the size of the public sector.

Erkki Tuomioja (b. 1946), Doctor of Social Sciences from the University of Helsinki (1996), and a career politician (first Minister of Trade and Industry in Lipponen II Coalition 1999-2000, and then Foreign Minister, 2000-2007; member of the parliament since 1970, known to be generally to the left of the official party line) explains: "The big change in government mission statements was that the 1995 government was formed under a gloomy depression atmosphere. The last Sorsa coalitions had been economic growth governments, so the economic circumstances did affect it, but it is true that an ideological change had happened there, without ever discussing or making any official

[96] Lipponen 2001, 161. Speech given at the Nordic municipal workers' unions' conference in Turku on 14 June, 1995.
[97] Ibid., 162.
[98] Ibid.

statements about it. Here we surrendered to neoliberalism."[99] While the neoliberal project has shifted responsibility from the public sector to the private and third sectors as well as to individuals, a supporting transition in terminology has occurred as well. Next I will focus on that.

C. From Welfare State to "Society of Wellbeing"

Telling of the ongoing changes is the shift in welfare state terminology. Politicians and policy-makers in general (academics tend to make an exception) have stopped talking about the welfare state ("hyvinvointi*valtio*"), substituting a term that in English translates as "welfare society" or rather "a society of wellbeing" (hyvinvointi*yhteiskunta*) allowing a shift in responsibility away from the public sector in terminology as well. Easing this transition in terminology, and taking away some weight from it, is that in the Finnish, and in the Nordic context in general, the terms state and society have often been used interchangeably.[100]

The use of the new phrase became gradually commonplace during the 1990s, becoming even somewhat of a buzzword. A similar change in terminology had taken place for example in Denmark as well where the conservatives in 1981 invented the slogan "from welfare state to welfare society" specifically in an effort to transfer responsibility over the welfare state functions from the public sector to the civil society. The shift therefore has originated elsewhere and slowly gained ground in Finland as well. Robert Henry Cox discusses how the change in terminology was part of the process of transforming the

[99] Interview #12, January 9, 2009.
[100] Julkunen 2006, 34-35.

Danish welfare state towards an achievement oriented welfare state from a more solidaristic one.[101]

The concept of wellbeing in Finland by now has become a cliché that doesn't really mean anything specific, notes a famous civil servant in answer to my question on how this shift manifests itself in public policy-making. Juho Rahkonen (2006) also writes that the term "wellbeing society" is vague because it does not say anything about how this society of wellbeing is to be achieved, while allowing a shift in responsibility away from the public sector in terminology. Rahkonen defines the term "welfare state" is a means toward the end, which is the society of wellbeing.[102] The Social Democrat Erkki Tuomioja would agree: "The hidden difference is that while some are talking about wellbeing society, and others about welfare state (including himself and now the SDP in official documents), that does not mean that the state, the public sector, should take care of everything, but rather that it is the state / public sector decision-making (i.e. politics), and legislation as a whole, that determines whether in Finland there is a wellbeing society or not. It will not be created by itself, he explains, but specifically it is the result of political will and the exercise of it.[103]

A later transition is politicians simply talking about "wellbeing" instead of "wellbeing society", the meaning of which is also far from clear. The convenient matter to a politician of course is that each reader/ listener can attach their preferred meaning to it,

[101] Robert Henry Cox, "Social Construction of an Imperative, Why Welfare Reform Happened in Denmark and the Netherlands but Not in Germany," *World Politics* 53, no. 3 (2001): 478.
[102] Juho Rahkonen. "Printattu hyvinvointivaltio. Sosiaali- ja terveyspoliittisten aiheiden käsittely Ilkassa, Aamulehdessä ja Helsinginsanomissa 1986, 1996, ja 2006" in *Yhteiskuntapolitiikka* 71, no. 5 (2006): 460.
[103] Interview #12, January 9, 2009.

and will be able to agree with the politician when he/ she is in support of “wellbeing”. The way the word is used today seems to refer to economic growth, meaning economic growth fueled by technology and innovation, and to high employment that enables people a good standard of living, dependent on the market (re-commodified wellbeing). The term therefore, may have nothing to do with social policy depending on the user. The usual connotation, however, is to welfare state programs, the role of which at best in these cases, is to support the smooth functioning of the economy through education and training for instance, and policies that encourage job creation in the private market (for example through lowering payroll taxes that employers have to pay). This I therefore find to be a tool that while pushing thinking to a new direction also helps the policymakers speak to two opposing constituents at the same time: Who is opposed to wellbeing especially when everybody is free to determine its meaning as they find best? Those in support of welfare state programs can agree, and those in favor of transferring responsibility to the markets and individuals will conveniently all agree as well, but when transferred to actual policy decisions in the name of “wellbeing” they might strongly oppose one other.

D. Competition/ Competitiveness Society

As the welfare state has become an outdated idea to many in Finland; competiveness society has instead become the new buzzword. Finland is now proudly being talked about as a knowledge society (Castells) and “competiveness society.” Everything, including social policy, has started to be justified and evaluated from the point of view of

competitiveness,[104] the essence of which comes from the vast knowledge professions within Finland. While being competitive does improve employment, and hi-tech creates well-paying jobs,[105] they also work to strengthen social policy by paying for it and by reducing the need for it.

Yet much of all that is wishful thinking. Not that the Finnish economy isn't competitive (usually ranks in the top 5 in global comparisons) or isn't made up of people with highly specialized knowledge, but much of it goes in the category of PR, trying to influence the direction that our societies take, by saying that we are already somewhere, even when we are not, or not fully. That helps to take steps in policy as if these conditions were already a fact, in effect making them self-fulfilling prophecies.

This kind of thinking tries to focus only on the positive at the expense of addressing or thinking about the negatives. Finland may have the most competitive economy, the best elementary education, and still the most equal income distribution in the world, but at the same time the problems of inequality, poverty and social exclusion have been created that before were close to being eradicated. Along with the terms "knowledge society" and "competitiveness society" that celebrate "the greatness" of Finland, it has become forbidden to point out the (growing) class differences in Finland. The utopia achieved in some social segments' minds might suffer from this reality check that the success may not have come without costs or perhaps making the point that it could have been achieved more equitably.

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[104] Risto Heiskala and Eeva Luhtakallio, eds. *Uusi jako, Miten Suomesta tuli kilpailykyky-yhteiskunta?*, (Helsinki: Gaudeamus, 2006), 11.
[105] Jorma Sipilä, "Äiti, koti ja isänmaa kilpailuvaltiossa," *Yhteiskuntapolitiikka* 71, no. 4 (2006): 411.

At the same time, the OECD comes out with reports that outline how Finland's economy can and ought to work toward becoming more competitive by reducing social expenditure. Yet the same organization simultaneously produces reports that state that in no other countries has inequality grown as fast in the 1990s as in Finland (and Sweden). Characteristic of this state of competition advocated by OECD and accepted by Finnish political elites, is that no level of success is ever enough. Rather, one has to strive at all times to be even more competitive, even if it requires sacrificing all other aspirations at its altar. This cycle has no end to it.

Savings in social spending has been ever present on the political agenda in Finland for the past 20 years. Having described the shifts in thinking about the welfare state, I will now turn to how the austerity mentality has affected actual policy.

II. Changes in Policy

The new society of increasing inequality hasn't been created through drastic cuts in social programs as one would expect. Rather, after the initial cuts around the mid-1990s in the level and criteria for qualifying in order to balance the budget, the main method of retrenchment has been to *not raise* social benefits to keep up with the rising cost of living and wages, therefore letting them wither further, on the one hand, and on the other through tax policy that has benefited those with the highest incomes the most, therefore letting the rich get richer while guaranteeing that there are no resources for social improvements. This has created a huge gap in disposable incomes. At the same time funding for services have been made tighter, and user fees and efficiency requirements

have been added to them, while most the surpluses have been spent in additional tax cuts and lowering of national debt. Therefore to study welfare state retrenchment in the case of Finland, one will not uncover the truth by just looking for actual cutbacks in social spending.

These above-mentioned movements combined have resulted in a drastic reversal in the trend in income inequality in Finland, allowing the wealthiest to get wealthier and accelerating the fragmentation of society, therefore changing the course of the Finnish welfare state from one that works towards equality to one that helps to produce inequality. Following Paul Pierson's argument, cutting back universal benefits is very difficult because the number of the recipients is so vast. But not raising benefits will rarely have to face organized opposition, and finding groups to vehemently oppose tax cuts that claim to benefit all tax payers is not likely either. Another reason for this type of retrenchment is the limitations brought by path-dependency. Hugh Heclo writes that "policy invariably builds on policy, either in moving forward with what has been inherited, or amending it, or repudiating it,"[106] meaning that political decision-makers' policy choices in current time are limited by already existing policy. Many contribution based benefits, such as pensions, that people have future entitlements to cannot suddenly be erased for instance. The existing political institutions will therefore have an effect on what is possible in current time, and will result in national variations (Swank 2002).

[106] Hugh Heclo, Modern Social Politics in Britain and Sweden, From Relief to Income Maintenance, (New Haven: Yale University Press, 1974), 315.

I will first look into trends in social policy and then into changes in taxation. Following this I will focus on how the nature of practiced policy has changed to RE-commodifying labor by making it more vulnerable to market forces. In the end of the chapter I will show some data on inequality, poverty and wealth to describe the effects of these policy changes on the Finnish society.

A. Trends in Social Policy

In the aftermath of the depression social transfers in Finland were cut across the board. After that a more drastic yet concealed change in the welfare state has been achieved in real terms by not raising benefits along with the cost of prices and wages, and by tightening eligibility, as well as by adding user fees and lowering quality of services and/or adding efficiency requirements for services, gradually worsening the purchasing power of the transfers and draining the public services of funding, resulting in a very different kind of welfare state.

When studying social policy cutbacks, one will be misled by looking at actual spending only. In the case of Finland for example, social expenditure has continued to increase slightly during the past decade[107], despite the various "cost-containment" and "recalibrations."[108] This increase is the result of rising demand – mostly due to larger numbers of elderly people, adding to pension and health care costs, more high-technology

[107] STAKES, http://www.stakes.fi/FI/Tilastot/Aiheittain/Sosiaalipalvelut/sosiaalimenot.htm.
[108] Pierson 2001.

medicine[109] and rising price levels. Therefore just looking at the money spent, one could conclude that cuts were not made.

An estimated 10% was cut from social spending in Finland in the 1990s.[110] Not raising benefit levels has affected the groups generally with the lowest incomes the most. The groups living in poverty in Finland tend to be students, young families, especially single parents with children; and pensioners[111]. The benefits for these groups have also been the ones that have been left to lag, as wages and prices have risen. For instance, the student benefits for university students were not raised since 1992 (until August 2008). Rather, they were lowered in 1995. Child allowances were last raised in 1994 (other than the raise of 10€ for a third child starting in 2009), but were lowered in 1995. As a result, student benefits for university students in relation to wages lowered 35.1% from 1994 to January 2009 (and 19.2% since 2000), child allowances for the first child lowered 40% since 1994 (and 22% from 2000), as the child care benefit for a single parent fell behind 53.2% since 1994 and 19.4% since 2000. At the same time the full basic pension, although tied to the index, for a single person fell behind 28.2% since 1994 and 16.0% since 2000. And the supplementary means tested income support in relation to wages lowered 28.2% since 1994 and 16.0% since 2000.[112] Clearly the incomes of those found to be the poorest in society have been left to lag.

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[109] Giuliano Bonoli, Vic George and Peter Taylor-Gooby. *European Welfare Futures, Towards a Theory of Retrenchment*, (Malden, MA: Blackwell Publishers, 2000), 1.
[110] Interview #7, June 11, 2008.
[111] *Helsingin Sanomat.* "Kotitalouksien toimeentulo ja tuloerot 1990-luvulla; Pienituloisia on jo yli 700 000," http://www.hs.fi (January 1, 2009); and Marjut Lindberg, Column: "Köyhyys kasautuu lapsiperheisiin," *Helsingin Sanomat,* (May 24, 2009).
[112] Elli Aaltonen. "Sosiaaliturvauudistus – linjaukset." Presentation in Jyväskylä, May 5, 2009, 13.

As for funding of the services, the municipalities in Finland are in charge of providing the services to their residents, from day care and health care to education. As the state's share of funding to the municipalities has lowered, the municipalities have been forced to try to provide the services without raising municipal taxes. The idea has been to increase efficiency, privatization and outsourcing, as well as encouraging municipalities to band together into bigger entities. Often however the result has been poorer quality of services, increased waiting times, and increased user fees, driving those who can afford to the private sector. In the budget for 2008 for instance Ministry of Health and Social Affairs state transfers to municipalities in 2007-2011 were reduced by yet another 60 million Euros. The amount will be made up by increasing the user fees of health and social services[113] in the municipalities.

While the depression ended in 1994, cutbacks continued throughout the decade.[114] Those making the cuts argued that it was not necessarily a value shift, but that cutbacks had to be made.[115] Yet, when it came time to raise the benefits back up, there was always a reason why that could not be done.

As the Finnish economy started performing well (there was a huge surplus and low national debt still in 2008), the problems facing the welfare state became ones that look into the future and anticipate potential problems that *may* emerge therefore necessitating austerity measures in case of a rainy day. The Ministry of Finance specifically has acted

[113] Hanna Kaarto, "Valtio vie terveyskeskusmaksujen korotushyödyn kunnilta," *Helsingin Sanomat,* http://www.hs.fi/kotimaa (July 31, 2007).
[114] Interview #7, June 11, 2008.
[115] Interview #3, June 5, 2008.

as a jealous guardian against any increases in spending, paying back the national debt and "preparing for the future" having been more important. The austerity politics now legitimized have continued long after the budget had been balanced in 1998 making cutbacks in the public sector justified both during downturns AND during periods of economic growth.[116] The result has been a continuous welfare state retrenchment project over a period of approximately twenty years, although the reasons and justifications for it have varied.

The welfare state has been made leaner through trimming social policies and lowering of taxes. But since the 1980s a lot of structural changes have also been made in governance, decentralizing and dispersing power through privatizing formerly publicly owned institutions[117], through subjecting everything to efficiency-control and evaluation, by reforming the state-municipality relations (in 1993), and by privatizing health, educational and social services. From an institutional point of view, what has happened in Finland is a move from government to governance, a shift from state resource guidance to guidance by markets,[118] reducing the sphere of the public sector. Instead of budget allocations for a particular purpose performed by the public sector employees, now demand from customers is critical, reinforced by fees, vouchers etc. for determining what services are provided. Often many of the services are outsourced to third parties, to organizations and private service providers.[119]

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[116] However during the latest downturn we seem to have changed course, there have not been any immediate cutbacks, and the government has tried to stimulate construction projects for instance.
[117] Law 627/1987 "Laki valtion liikelaitoksista."
[118] Pertti Alasuutari, "Suunnittelutaloudesta kilpailutalouteen: miten muutos oli ideologisesti mahdollinen?," in *Uusi jako, Miten Suomesta tuli kilpailykyky-yhteiskunta?* ed. Risto Heiskala and Eeva Luhtakallio, (Helsinki: Gaudeamus, 2006), 43.
[119] Ibid., 43-44.

Another way of reducing the reach of social policy is through what Hacker calls "policy drift," meaning "changes in the operation or effect of policies that occur without significant changes in those policies' structure."[120] "The major cause of drift in social welfare field is a shift in the social context of policies, such as the rise of new or newly intensified social risks with which existing programs are poorly equipped to grapple. The hallmark of change of this sort is that it occurs largely outside the immediate control of policymakers thus appearing natural or inadvertent. The questions for policymakers becomes whether and how to respond to growing gap between original aims of a policy and the new realities that shifting social conditions have fostered." [121] An example of this in the Finnish case would be family support not keeping up with diversifying family types, or the changing work relations of formerly atypical work relations becoming more common, while the welfare policy has been build for fulltime and continuous work relations therefore leaving more and more workers outside any security systems and political decision-makers doing nothing about it. "Merely by blocking compensatory interventions designed to ameliorate intensified risks, they (the opponents of expanded state responsibility), can gradually transform the orientation of programs,"[122] Hacker argues.

At the same time that benefits have become increasingly inadequate, income distribution more unequal, and the public services poorer harming those worst off in the Finnish society, taxes have been cut in a way that benefits the wealthiest.

[120] Jacob S. Hacker. "Privatizing Risk without Privatizing the Welfare State: The Hidden Politics of Social Policy Retrenchment in the United States." *American Political Science Review* 98, no. 2 (May 2004): 246.
[121] Ibid.
[122] Ibid.

B. Shifts in Fiscal Policy

The other side of the coin for the process of widening income gap in Finland has been changes in fiscal policy. Income inequality has increased 1) through decisions to not raise social benefits along with the rising cost of living and wages, or failure to modify them to correspond to new needs, and 2) especially through tax policy that has benefited those with the highest incomes the most. There are four main categories of taxes in which this change has happened: capital gains, state income, municipal taxes as well as the tax on wealth.

First in 1993 the *capital gains tax* was made a flat tax that is taxed at a lower level than earned income tax. This is generally held as the turning point in the growth of income inequality in Finland,[123] enabling the take-home incomes of the wealthiest to skyrocket. This is because the wealthiest tend to make their money from investments and not from salaries, and even then because of the lower tax, there has been a tendency of converting salaries into bonuses that are taxed at the lower rate. Those living off salaries (the majority of the population), still pay the progressive income tax.

With the exception of two years, the *progressive state income tax* has been reduced every year (for a total of 7%[124]) since 1995[125], also leaving proportionally more in the hands of

[123] See for example Matti Tuomala, STT, "Suomalaisten kahtiajako syvenee," http://www.iltalehti.fi/uutiset/200711026801269_uu.shtml, (November 3, 2007).
[124] 1995-2007, according to Jaana Kurjenoja (The Taxpayers Association of Finland chief economist) in Pauliina Pulkkinen, "Nousukausi hyödytti myös keskituloista," *Helsingin Sanomat.* https://www.hs.fi/tulosta/1135231494139, (November 1 2007).
[125] Taxes were lowered in every year except 1998 and 2005 starting in 1996.

the wealthiest, resulting in income inequality to widen. The progressive state taxes have lowered on average from 37.5% to 30.2% in 12 years.[126]

At the same time the emphasis has been shifted toward *the municipal flat tax*, which again benefits the wealthiest (being lower than the highest progressive tax), and also varies according to the municipality. Municipal tax is what pays for all the services from health care to education in a municipality and is therefore important. The poorer the population of the municipality (rural, elderly, ill etc.), the higher the tax for accumulating the necessary funds for the higher-than average need for social services; and while the wealthier the population, the lower the flat tax, such as in the small expensive town of Kauniainen (16% in 2006, with the most common municipal tax being 19%) right next to Helsinki. Much as decentralization has been commonplace elsewhere (Suleiman, 2003), in Finland there has been a tendency to move responsibility away from the state towards the municipalities. As mentioned before, the state's share of funding to municipalities have been lowered therefore adding upward pressures on the municipal tax. Much of the responsibility has also been transferred to the customers (formerly residents) in the form of user fees. These again hit the poorest the hardest, taking a larger proportion of their smaller incomes. Also, starting in 2006, the government abolished the *tax on wealth*, and in 2007 the inheritance taxation was relaxed.

As a result, when in 1999 the 1000 with the highest incomes paid 56% in taxes, in 2007 they paid 47%. And as mentioned, the wealthiest have also shifted their income towards

[126] The Taxpayers' Association of Finland president Teemu Lehtinen (Vero 2007-event) quoted in Juha-Pekka Raeste, "Tuloverotus laskenut seitsemän prosenttiyksikköä vuodesta 1995," *Helsingin Sanomat*, http://www.hs.fi/tulosta/1135224547506, (January 24, 2007).

capital gains, the tax on which has fallen from 32% to 29%.[127]. "Fiscal policy not only has failed to level income equalities, it has exaggerated them"[128] by lowering progressiveness of taxation, affecting those at the opposite ends of the income scale the most.[129]

Poverty may increase because of the lowering actual levels of social transfers, but the increasing inequality has been created by fiscal policy that specifically allows the wealthiest to get wealthier, and through that widening the income gap and creating a society of unequals. As the post-transfer incomes are becoming more unequal and the lowest incomes now sentence one to live in poverty, the idea specifically has been to make it not be comfortable to live on the income transfers, even if it is due to no fault of one's own. Next we will return to the idea that social policy should encourage behavior compatible with the competition society.

C. Social Policy: The Enabling State

In this new world dominated by markets and strictly controlled state budgets the role of the remaining social policy has become to be one that supports the performance of the economy and influences how people behave. The concept of "enabling state" is "a term that has been used to illustrate the essential character of change in the United States and England" and "is captured by the tenet of public support for private responsibility- where

[127] "Tuloeliitille vuosituhannen isoimmat paaomavoitot," *Helsingin Sanomat,* http://www.hsoline.fi (November 4, 2008).
[128] My translation.
[129] Heikki Taimio, ed. *Talouskasvun hedelmät – kuka sai ja kuka jäi ilman?*, (Helsinki: Tammerpaino, 2007), 13.

private responsibility includes individuals, the market, and voluntary organizations."[130] Neil Gilbert (2004) argues that "the evidence indicates that a basic shift has occurred in the institutional framework for social protection… most prominently in the United States and England, with the other advanced industrialized nations moving steadily in the same direction.[131] This seems to be the direction that Finland is headed as well. The 2007 center-right Coalition Government program for instance sounded much like Bush's "compassionate conservatism", focusing on "encouraging" people, offering "incentives" (stick, not carrot, it appears) and on "personal responsibility", while the title of the whole program is "Responsible, Compassionate and Encouraging Finland."

By building on this principle of the enabling state, social welfare arrangements are increasingly designed to enable people to work and to enable the market and the voluntary sector to assume an expanding role in providing social protection." [132] For social benefits, one is increasingly required to do something in return whether that is to participate in re-training or to accept work. In essence, the emphasis has shifted from work as a right to work as duty. The reforms specifically make people more dependent on the market forces to the benefit of the private sector by making social benefits conditional, by forcing people to accept work they otherwise would not accept, and by forcing them to acquire additional training to fit the new needs of the employers, ultimately expanding the pool of workers available to employers. "The welfare state as we knew it is being replaced in many nations by new arrangements under which social provisions are

[130] Neil Gilbert, *Transformation of the Welfare State, The Silent Surrender of Public Responsibility*, (New York: Oxford University Press, 2004), 16.
[131] Ibid., 15.
[132] Ibid., 16.

transferred through work incentives, tax benefits, purchase of service contracts, and other measures designed to offer public support for private responsibility."[133] The latter includes increasing the private provision of social protections in order to reduce public costs and increasing quality.[134] While the sphere of the public sector is reduced, taxes on businesses are lowered, and private companies are allowed to expand to areas that before were covered by the public sector, the welfare state. The methods of privatization, according to Gilbert, fall into five categories: encouragement though tax incentives, requiring fees for service, mandating through legislation, providing public benefits by private delivery through cash or vouchers, and by purchase-of-service arrangements.[135]

According to Gilbert "none of the countries has left the club of countries belonging to the Nordic welfare model despite the adverse national economic performance in Finland and Sweden and the significant changes in the surrounding world." [136] Yet, he poses the question whether "the advent of a *new* social democratic welfare model" signals "a fundamental change in course."[137] I argue that this is the case. Making people more dependent on the market forces for their well-being is the direct opposite of the core social democratic welfare idea of de-commodifying labor, of reducing people's dependencies on the market.

[133] Ibid. 17.
[134] Neil Gilbert, "The "Enabling State?" From Public to Private Responsibility for Social Protection: Pathways and Pitfalls," *OECD Social, Employment and Migration Working Papers 26 (2006),* 5.
[135] Ibid.
[136] Gilbert 2004, 13.
[137] Ibid.

D. From Decommodification to Recommodification[138]

A big shift in social policy has to do with the emphasis having been placed on an activating employment policy away from reducing people's dependencies on the market. According to Esping-Andersen (1990), the social democratic welfare states were characterized by their decommodifying effects on the labor force, meaning that people's dependency on the markets for their well-being was reduced. "By providing a source of income outside the market exchanges, welfare benefits in the past have contributed to the decommodification of labor."[139] Decommodification "occurs when a service is rendered as a matter of right, and when a person can maintain a livelihood without reliance on the market."[140] In the 1990s this core idea of the social democratic welfare states has changed with the emphasis shifting from decommodification towards re-commodification. "To the extent that social welfare benefits are now tied to the incentives and packaged in ways that increase the compulsion to work in order to meet one's basic needs, the recent policy reforms can be said to promote recommodification of labor" [141] which is the reversal of the decommodification process and restricts "the alternatives to participation in the labor market, either by tightening eligibility or cutting benefits."[142] This is a fundamental change, shifting the balance of power between employers and unions[143] that aims at "dismantling those aspects of the welfare state that shelter workers from market pressures, forcing them to accept jobs on employers' terms." [144] This clearly has been the

[138] Terminology originally from Polanyi.
[139] Gilbert 2004, 45-46.
[140] Gøsta Esping-Andersen, *Three Worlds of Welfare Capitalism,* (Princeton: Princeton University Press. 1990), 21-22.
[141] Gilbert 2004, 46.
[142] Paul Pierson, ed., *The New Politics of the Welfare State*, (New York: Oxford University Press, 2001), 422.
[143] Ibid.
[144] Ibid.

case is Finland. The Finnish Ministry of Health and Welfare report on the direction of welfare from year 2006 for example, specifically states that "social insurance should rather encourage employment than offer ways out of employment."[145]

This process in the long run will pave the way for a very dramatic welfare state change in the social democratic welfare states when the norm of reducing the workers' dependence on the market has changed to "encouraging" work in effect making workers more dependent on market forces. The SATA Committee[146] on reforming social policy emphasizes that the purpose of social politics is not to make staying outside the labor force easy, but above all to support lengthening one's employment. That means according to the Committee that one's abilities and environments must be shaped in a way that diminishes the harm caused by illness, disability or age, and social policy must be improved in a way that it will enable opportunities and taking advantage of them.[147] Robert Henry Cox finds similar processes taking place in Denmark and the Netherlands where "instead of building a strong safety net for those who leave the workforce, social policy now emphasizes keeping people in the labor market."[148]

Increasing personal responsibility and making people more dependent on the market forces may have helped the economy grow, but it has not been without social costs. I will next focus on the income inequalities that have been created as a result.

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[145] *Sosiaaliturvan suunta 2005-2006*, 46.
[146] The Sata Committee was appointed shortly after the 2007 parliamentary elections for the overhaul of the Finnish social security system.
[147] Sosiaaliturvan uudistamiskometean (SATA) esitys sosiaaliturvan kokonaisuudistuksen keskeisistä linjauksista." January 27, 2009, 27.
[148] Robert Henry Cox, "Social Construction of an Imperative, Why Welfare Reform Happened in Denmark and the Netherlands but Not in Germany," *World Politics* 53, no. 3 (2001): 466.

III. Outcomes

A. Income Inequality

As competitiveness and economic growth have become the focus of public policy, inequality and poverty in Finland have been allowed to grow. Until the 1980s the focus had been on controlling societal divisions and reducing inequalities,[149] but in the aftermath of the early 1990s depression the goal of reducing income inequality was given up.[150] As a result Finnish society has become more polarized.[151] By the end of the 1990s the income gap deteriorated to what it had been in the beginning of the 1970s.[152] And this process has not slowed down since. As mentioned before, of all the OECD countries, income inequality in the last 10 years has risen the fastest in Finland and Sweden. The OECD report agrees that this is because social benefits in Finland have not been raised along with wages, and because the income taxes have been lowered. Where I disagree is that the report seems to think this is a natural process of the anomaly of high equality correcting itself as countries converge,[153] whereas I would like to underline the man-made decisions that have resulted in this outcome.

As the income gap started widening in 1993, the income of the lowest ten percent remained nominally the same throughout the 1990s, while the income of the wealthiest 10 percent rose by 45%.[154] And from 1995, when the economy started to grow to 2006,

[149] Saari 2006, 11.
[150] Jaakko Kiander. *Laman opetukset, Suomen 1990-luvun kriisin syyt ja seuraukset.* VATT- Publications 27:5, (Helsinki: Government Institute for Economic Research, 2001), 107.
[151] Interview #3, June 5, 2008.
[152] Statistics Finland, "Tuloerojen kehitys Suomessa," http://www.stat.fi/til/tjt/2005/tjt_2005_2007-05-16_tau_001.html (accessed March 21, 2008).
[153] Olavi Koistinen, "Rikkaat ovat vaurastuneet eniten," *Helsingin Sanomat,* http://www.hs.fi/tulosta/1135222610997 (accessed October 27, 2006).
[154] Ibid.

the average income of the bottom 10% rose by 10 %, while the incomes of the top 10% rose by 65.9% and of the top 1%, by an astonishing 125.6%.[155]

As a result, in 2006 the bottom 10% of earners earned 3.7% of all the country's income, while the top 10% earned 23.9%. The incomes were higher at the top of that tenth as well. The top 5% earned 14.7% of all income, of which the top 1% earned 6.7% of all income. This is almost twice the income of the lowest 10%. In 1995 these numbers had been 4.5% for the lowest 10%, 19.7% for the top 10%, 11.9% for the top 5%, and 4% for the top 1%,[156] so proportionally the situation has worsened for the worst off, and improved for the wealthiest since.

Interestingly enough, Finns are growing increasingly opposed to the growing income gap. Taloustutkimus survey commissioned by the newspaper *Aamulehti* found that over 70% of Finns in 2006 were opposed to the increasing income gap compared to 60% in 2001.[157]

1. The Wealthiest

The *Helsingin Sanomat* newspaper has followed the income and taxes of the 1000 with the highest income and capital earnings in Finland since 1999. These 1000 represent just 0.02% of the tax payers in Finland. In 2006 the cutoff for capital earnings was over 490

[155] Statistics Finland. "Yleinen tuloerojen kehitys," http://www.stat.fi/til/tjkt/2006/tjkt_2006_2007-12-21_kat_001_fi.htmll, (accessed December 9, 2008).
[156] Ibid.
[157] *Helsingin Sanomat*, http://www.hsonline.fi, (May 14, 2006).

000€, and for income over 359 000€.[158] In 2007 the top 1000 capital gains earners on average earned 27% more than in 2006 (191 181€).[159] In 2008-2009 these incomes due to the global recession have got smaller in many cases, with the number of those having wealth over a million dollars falling by a quarter to 19 700 Finns.[160]

In 2007 there were 21 individuals with combined income and capital gains income over 10 million, only 2 of them over 25 million (67 and 81 mill), and 162 individuals with income between 2 and 10 million, and an additional 460 individuals that made between 1 and 2 million. There is some movement, of the top 50 in the capital gains earners, 21 were not in the top 1000 the year before, and neither were 8 of the top 50 salaries.[161]

In comparison to the year 2001 (the first year that taxes were reported in Euros), six years earlier, there were only 11 (compared to 21 in 2007) individuals with combined income and capital gains income over 10 million, also 2 of them over 25 million (26.9 and 52.6 mill).[162] Six years later, taking generational change into consideration, 5 of the top 20 earners are the same. [163]

As the wealthiest are the groups who have reaped the benefits of economic growth, they are also the groups that that have benefited the most from the tax cuts, from the abolition

[158] Tuomo Pietiläinen, "Eliitin ansio- ja pääomatulot kääntyivät nousuun ja verotus keveni. " *Helsingin Sanomat* , http://www.hs.fi/tulosta/1135231493880, (November 1, 2007).
[159] *Helsingin Sanomat,* "Tuloeliitille vuosituhannen isoimmat pääomavoitot." http://www.hsonline.fi, (accessed November 4, 2008).
[160] Capgemini and Merrill Lynch study cited in *Helsingin Sanomat,* "Tutkimus: Rikkaiden määrä väheni Suomessa tuhansilla," http://www.hsonline.fi, June 24, 2009.
[161] *Helsingin Sanomat*, http://www.hs.fi/verotiedot/list.do (accessed November 3, 2008).
[162] *Helsingin Sanomat*, https://www2.helsinginsanomat.fi/ extrat/talous/vero2002/verotiedot.jsp (accessed November 26, 2002).
[163] Ibid. and *Helsingin Sanomat*, http://www.hs.fi/verotiedot/list.do (accessed November 3, 2008).

of wealth tax to lowering on income and capital gains taxes. Whereas is the poorest groups in Finland, students, young families with children, pensioners and the unemployed who have suffered from the social benefits not being raised.

2. Poverty and Means Tested Income Support

While the wealthiest have been getting wealthier, the number of low income people (60% of the median income) has doubled since 1993. Through great strives, poverty in Finland lowered from 18% in 1966, and 12.2% in 1981 to only 6.4% in 1993. Twelve years later, in the 2005, 12% of the Finns were considered low income (making less than 12 500€/ a year),[164] and even during fast economic growth, before the global recession, the number of those considered low income in 2008 rose to 13.6%.[165] Those making less that 50% of the median income are considered poor, and currently that number is about 5% of the population.[166]

As poverty has increased, the number of Finns receiving the last-resort means-tested benefit Income Support has rose from 314 000 recipients in 1990 to 610 000 in 1996, and still in 2005 there were 380 000 recipients.[167] That means that 8% of families receive it, even though an estimated 40% of those that qualify do not apply.[168]

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[164] Statistics Finland, "Pienituloisten lukumäärät ja osuudet 1966-2006," http://www.stat.fi/til/tjt/2006/tjt_2006_2008-05-16_tau_003.html, (accessed Dec 9, 2008).
[165] *Helsingin Sanomat*, "Pienituloisia jo yli 700 000," http://www.hs.fi, (January 19, 2009).
[166] *Helsingin Sanomat*, "Köyhyys vahenisi tehokkaimmin toimeentulotuen nostolla," http://www.hs.fi (March, 2009).
[167] Saari 2006, 15.
[168] Matti Heikkilä, "Toimeentulotuki jää monelta hakematta," http://www.iltalehti.fi, (November 12, 2007).

B. Politics of Inequality

The process of growing inequality in Finland isn't an accident. The political decision-makers have chosen to make decisions that benefit the wealthier while neglecting the weaker. Child poverty for instance has tripled from 1995 to 2007 as child and family benefits have reduced from 13% to 11% of all social expenses from 1995 to 2006.[169] The political decision-makers instead are catering to the powerful voices speaking on behalf of the benefits of inequality for economic growth. The Chairman of Insurance Company Sampo, Björn Wahlroos, for example, one of the wealthiest people in Finland and an ardent spokesperson on behalf of free markets (also found to hold the most power in the Finnish corporate boardrooms[170]) holds that an economy is not doing well, if the income gap *is not* widening, and that lowering taxes is always the right policy.[171] This is exactly what the governments in Finland, regardless of the political leanings, have done in the last two decades.

What is interesting is that the claim that "the class society has come to an end" has been invented at the time when Finland has become more unequal than anybody can remember. It is a reasonable notion in the sense that the welfare state project, with the purpose of increasing equality, has brought people's living standards closer to one other than decades before, but the idea of class as a taboo did not emerge when equality was at its highest, but rather after a deep turn for the worse. This kind of assertion instead is used to

[169] Marjut Lindberg, Column: "Köyhyys kasautuu lapsiperheisiin," *Helsingin Sanomat*, http://www.hs.fi, (May 24, 2009).
[170] *Helsingin Sanomat*, http://www.hs.fi/tulosta/1135245831745, (May 9, 2009).
[171] In *Prima* interview, December 2007.

justify the government lack of focusing on equality creation, and instead has allowed politics that result in inequality growing.

While it is a fact that people do not define themselves by their socio-economic status as before, the political right has been able to monopolize and use to its advantage the idea that the old division to the left and the right (or the "proletarian" and "bourgeois parties" as they are still talked about in Finland) does not apply under the globalized world and the postindustrial identities. "The time of (class) antagonisms/ dichotomies is over" as an election slogan by the conservative National Coalition Party (in 2006 Presidential and 2007 parliamentary elections) surprisingly worked. The political right wing was able to make the political left look old fashioned in still believing in class divisions, and instead attracting voters to itself.

I found in my conversations that talking about class is uncomfortable or undesired. Those that did not brush it off said that that is because that would admit the existence of classes as a social problem and reveal the man-made character of inequality.[172] It is easier to present misfortune as the personal fault of each because that frees one from responsibility of having to do anything about it. Doing otherwise would question the politics practiced by those in power. The idea is to emphasize individual responsibility to conceal that society creates class divisions. "Mixing up old patterns of thinking helps to create the idea that there are inequalities. It is an attempt to conceal that inequalities are the result of

[172] Interviews #5, June 9, 2008 and #10, June 24, 2008 for instance.

political decisions. Instead, the new idea is that 'each creates their own fate,"[173] explains a labor union director.

Another easy escape of course is to say that the poor have not got poorer, it is just that the rich have been getting richer.[174] And not just that but that increasing inequality was inevitable, as inequality has increased in all industrialized countries, a famous civil servant explains. This contention of course is not taking in to consideration that public policy making has had a large part in that process in lowering taxes and letting the social transfers and services suffer, instead it is treated as a natural development.

Social Democratic MP Erkki Tuomioja thinks that the current political paradox is that public policy is built on the idea that the wealthy need to be encouraged with more money, while the poor need to be encouraged with stick. And as Tommi Uschanov (2008) points out, if we were to follow the argument of work always having to pay off, we should then raise the capital gains tax heavily in relation to the income tax.[175] And if receiving money without having to work for it is corruptive to the human work ethic, then logically the inheritance tax should be raised to 100%,[176] Uschanov adds. Rather it clearly is politics that favors the wealthier at the expense of the weakest in society.

Having introduced the changes in the Finnish welfare state politics in the past twenty years, and shown the inequality that has been created, in the next chapter I will turn to the

[173] Interview #5, June 9, 2008.
[174] Interview #9, June 12, 2008.
[175] Tommi Uschanov, *Mikä vasemmistoa vaivaa?*, (Helsinki: Kustannusosakeyhtiö Teos, 2008), 176.
[176] Ibid.

explanations that the existing literature offers for the welfare state change. Most of the causal factors I find are not sufficient, but rather partial explanations or something that has more of a perceived than real value, but might be presented as such. Ultimately I will argue that there was no external force that dictated the outcome, rather these were (informed or not) political decisions that will have long term consequences for not just the Social Democratic Party but the country as well.

Chapter 3:

Reasons for Change

The 1990s marks a transition in the political rhetoric as well as in the actual welfare state development in Finland away from the social democratic norms of equality and collective good. Even the largest party on the political left, the Social Democrats, abandoned the ideas of the Keynesian demand economy and started pushing for tax cuts and reducing the size of the public sector. In this chapter I will look into the reasons that the existing literature offers for the shift. Although all of the reasons are presented as compelling factors forcing some welfare state change, none of them are so fundamentally world changing that they ought to push a political party not to modify, but to reverse its politics.

Since the 1990s there have been external forces that require welfare state adjustments, but to the extent that they were used as threats in Finland were political choices and politically charged arguments. Although the relevancy of those causal factors can be contested, what really matters in the end however is that those threats were used and believed in by enough people to force a change not only in the Finnish Social Democratic Party, but as a result, in the Finnish welfare state. In the next chapter I will look more specifically in the circumstances surrounding the Finnish SDP shift specifically, arguing that stunned by the changes happening around them, the Finnish SDP as a party lost faith in its own program and instead of reformulating it to match its ideology, it started

practicing its political opponent's politics. First however, I will turn to the global developments and the trend of welfare state cutbacks in most Western democracies, and to the reasons that the comparative welfare state literature offers for the retrenchment politics.

I. Global Welfare State Retrenchment Politics

Starting as early as with the oil crisis in 1973, welfare states everywhere became targets of harsh criticism for interfering with free functioning of the markets. By 1990 most were also strained by budgetary constraints variously described as "welfare state crisis," "welfare state restructuring," "dismantling of the welfare state" etc. The causes of the budget deficits were many, ranging from globalization and economic integration to changes in family structures and the aging of the populations, from welfare state maturity to structural changes in production that occurred with the transformation to post-industrial economies causing unemployment. Regardless of the causes, the crisis of the welfare states became apparent, at least in the level of public discourse. Further, moral arguments against the redistributive practices were used giving further justifications for retrenchment politics.

A. Diverging Views in a Social Democratic Welfare State

Strong labor unions and social democratic parties have explained the growth of the universalistic welfare states in the Nordic countries, and with the role of the unions and

the Social Democratic Party not diminishing in Finland during the 1990s[177], and the economy recovering quickly after a huge shock, the welfare state in Finland should not have been in decline. At the same time, however, the welfare state has been cut back and the role of the Social Democratic Party was paramount in the process despite the contrast to the earlier social democratic party goals. As further evidence of this, an examination of the opinions of labor leaders and top members of the Finnish Social Democratic Party reveals a shift in their views toward giving more reign to the market mechanisms in the name of efficiency and economic growth in the 1990s (Kantola, 2002) suggesting that even the traditionally strongest advocates of the welfare state in the political arena started to view the welfare state in a different light.

As the welfare state continues to be very popular among the Finnish population, the gap between the opinions of the political decision-makers and the majority of the population towards the welfare state in the 1990s seems like a major topic of concern, yet has not been sufficiently addressed in the study of welfare state restructuring. The interesting problem is that while political decision-makers, democratically elected representatives of the population, insisted on and made cutbacks, the opinion polls consistently showed the population to be in support of improvements in welfare state programs, even willing to pay higher taxes in return. Notable here is that the line between different opinions was not drawn between the opposite sides of the political spectrum, but rather between the elites and the population, regardless of their political alignment.

[177] Torben Iversen, Jonas Pontusson and David Soskice, eds. *Unions, Employers, and Central Banks, Macroeconomic Coordination and Institutional Change in Social Market Economies*, (New York: Cambridge University Press, 2000).

Empirical studies in the case of Finland confirm the gap in opinions. For example, in his study on stability and change of welfare state opinions in 1992 and 1996 in Finland,[178] Pauli Forma found that not only were there clear differences between those of the elites (defined in his study as the leaders of biggest companies, top civil servants, members of the parliament, researchers and journalists) and the general public, but that the differences among these two groups were actually growing wider in that time period. Blomberg and Kroll's findings for the same time period were similar. In comparing the differences in attitudes between the population and the municipal elites - who are in charge of providing the public services in Finland - they found that rather than approaching each other, the differences remained substantial over the first half of the 1990s.[179] While both the proportion of population resisting reductions in services, and the proportion of population preferring services to be expanded increased between 1992 and 1996,[180] the municipal elites were critical of both "raising municipal taxes in order to preserve the existing level of services" and especially of "the idea of increasing services."[181]

These studies were done specifically during the recession and at a time when the cutbacks were taking place, but later studies have found similar evidence. In a 2009 study by *Finnish Business and Policy Forum EVA*, it was found that 82% of Finns surveyd agreed with the statement "although maintaining a high level of social security and other public services costs a lot, the Finnish welfare state is always worth the cost (38% very much

[178] Pauli Forma, *Interests, Institutions and the Welfare State. Studies on Public Opinion Towards the Welfare State*, (Helsinki: STAKES, 1999).
[179] Helena Blomberg and Christian Kroll, "Who Wants to Preserve the 'Scandinavian Service State'? Attitudes to Welfare Services among Citizens and Local Government Elites in Finland, 1992-6," in *The End of the Welfare State?*, ed. Svallfors, Stefan and Peter Taylor-Gooby (New York: Routledge, 1999), 71.
[180] Ibid., 64-65.
[181] Ibid., 66.

and 44% agree).[182] A total of 79% further thought that the current market economy does not sufficiently take the weakest in society into consideration.[183] *The Association of Finnish Local and Regional Authorities* study in the same year likewise found that half those surveyed prefered raising municipal taxes over cutting municipal services, while 20% were opposed to it.[184]

In Anu Kantola's study[185] on the opinions and rhetoric of the Finnish political decision-makers in 1995, she found surprising unanimity in their assessment of the economic circumstances and the necessary courses of action. Kantola found that most decision-makers were very market oriented in their thinking,[186] and that rather than party affiliation, the elites' role in the decision-making process was much more significant. Further, she found that the political decision-makers very clearly saw themselves as being rational while they viewed the electorate to have irrational expectations and demands.

Political decision-makers turn toward neo-liberal ideology unlike the population seems to be the case in other social democratic welfare states as well. In the case of Sweden, even though the Swedish welfare state has fared much better since the early 1990s than its Finnish counterpart, Stefan Svallfors (1999) found a gap between the opinions of the political decision-makers and the majority of the population. Svallfors argues that "judging from the elite debate, as conducted in editorial columns, TV debates or expert

[182] Ilkka Haavisto and Pentti Kiljunen, "EVAn arvo- ja asennetutkimus 2009: Kapitalismi kansan käräjillä," *Finnish Business and Policy Forum EVA*, (Yliopistopaino, 2009), 33.
[183] Ibid., 21.
[184] "Puolet kannattaa kuntaveron korotusta palveluiden turvaamiseksi," *Helsingin Sanomat*, http://www.hs.fi/tulosta/1135243625849, (February 18, 2009).
[185] Anu Kantola, *Markkinakuri ja managerivalta, Poliittinen hallinta Suomen 1990-luvun talouskriisissä*, (Tampere: Pallas, 2002).
[186] Ibid., 83.

judgments, it is also in these elite groups that we find greater support for neoliberal ideas and ideals… while the impact of these ideas in the population at large has been small. The impact of such neo-liberal turn within the public debate may have had more influence among political decision-makers than among a wider public."[187]

But why have the political decision-makers' opinions drifted so far from those of the population? Why do they perceive the need to cut back the welfare state and give the markets more free reign? In trying to explain the difference, Raija Julkunen (2001) points out two reasons why the elites opinions may differ from the population: 1) The elites are in positions of responsibility (for balanced budgets for example), and therefore are generally more informed, and 2) the elites tend to be wealthier and more privileged than the average citizens,[188] and through that have differing personal preferences. Yet, the population has elected them presumably to represent their opinions in the political decision-making processes. Most welfare state literature just takes the elite shift in direction as a given, not questioning the validity of it, or trying to answer why it has happened. Yet, it seems to be the fundamental reason for the changes in the Finnish welfare state.

II. Problems Regarding the Current Welfare State Retrenchment Literature

The existing welfare state literature hasn't been helpful in explaining welfare state change in Finland. On one hand, the political spectrum in Finland to begin with does not look as

[187] Stefan Svallfors and Peter Taylor-Gooby, eds., *The End of the Welfare State?*, (New York: Routledge, 1999), 48.
[188] Raija Julkunen, *Suunnanmuutos, 1990-luvun sosiaalipoliittinen reformi Suomessa*, (Jyväskylä: Vastapaino, 2001), 83.

simplistic as much of the comparative welfare state literature would have it (power resources), since all the parties are supporters of the universalistic welfare state to one degree or another. Secondly, what has happened since the depression of the early 1990s is that the Social Democratic party itself has taken a few steps to the right, becoming a party in support of neoliberal economics, including tax cuts and shrinking of the public sector, certainly not acting how a social democratic party should according to current welfare state literature (Esping-Andersen, Huber and Stephens), especially during periods of fast economic growth. According to the logic of the New Politics (Paul Pierson) literature, it would rather make sense that the political left wing in a social democratic welfare state should have remained more supportive of the welfare state because of popular support. Even the convergence arguments that claim that the welfare states have come to the end of their roads because of global competition, do not make sense because then the welfare states should have been retrenched much more, but instead they have shown remarkable resilience, not to mention that the economies of the large welfare states have continued to perform very well exposed to global competition. The particular matter that does not make sense, and remains unexplained is the Social Democratic neoliberal shift in the case of Finland.

The severity of the depression provides an explanation for the austerity politics, but firstly there *were* alternatives: The national debt could have been paid back at a slower rate since it was nowhere near threatening the EMU criteria (not to mention most the other EMU countries constantly breaking the rules – more later in the chapter), or the surplus money could have been used for active employment policies for example. Tax

cuts could have been fewer or structured differently, or the smallest income transfers could have been raised to boost the purchasing power of the lowest income groups etc. The recovery politics in Sweden in contrast did not result in inequality to grow as much,[189] although the recession in Sweden wasn't quite as severe. Secondly, if it was only the economic imperative that forced the austerity program, after the economic conditions had improved, one would think that the Social Democrats would have tried to return to the old course.

Therefore the power resources school (Walter Korpi etc.) assumption of the left and the right in relation to the welfare state is called into question in the case of Finland. No party has been consistent enough to be strictly categorized as an opponent or a defender of the welfare state. The division is simplistic and does not correspond to the current day actual Finnish politics. Differences between parties do remain. The right wing parties may want to make the welfare state programs more targeted and "encouraging", than the left wing, but not dismantle it; while it was the Social Democrats that were in charge of running down the Finnish welfare state, and currently as a party are in agreement of the need of added efficiency and further privatization of services.

While partisan politics were important in determining what kind of welfare state a country would develop (Huber and Stephens, 2001) there is absolutely no empirical evidence in the case of Finland that left wing parties would have cut back less than the

[189] Sweden instead, not being in the Eurozone, opted to increase its national debt for most of the 1990s substantially above the Stability and Growth Pact requirements (Jaakko Kiander, "Julkisen talouden kehitys 1995–2004 ja sopeutuminen verokilpailuun," in *Kymmenvuotiskatsaus 2005*, Statistics Finland (http://www.stat.fi/tup/julkaisut/isbn-952-467-461-0_kiander.pdf), 63.
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right wing parties would have during an economic crisis. It is reasonable to believe that they might actually have cut even more if the cuts weren't so unpopular.

Fiona Ross (2000) argues that parties do matter, but that rather their role is "counterintuitive"[190] with the left parties being able to do more than the right when it comes to social policy cutbacks, because "voters do not trust rightist parties to reform the welfare state whereas they assume that leftist parties will engage in genuine reform rather than indiscriminate and harsh retrenchment."[191] This is the "Nixon goes to China" logic which suggests that "the capacity for leadership is the highest where the feared course of action is considered the least likely."[192]

All we know is that a coalition with the Social Democrats in a defining role for a period of 12 years did not just let the welfare state deteriorate during an economic downturn but also during a consecutive period of economic growth. We cannot know what the right wing would actually have done, or if they would have attempted to cut more. But it may be that the Social Democratic Party indeed was in a better position to usher in Neoliberalism in Finland, as the Nixon goes to China logic predicts. Given its history, the voters wouldn't be suspicious of the Social Democrats intentions regarding the welfare state. What needs to be explained, however, is why the Social Democrats did not defend the welfare state, as they would have been expected to and instead embarked on the program of cutting back the welfare state.

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[190] Fiona Ross, ""Beyond Left and Right": The New *Partisan* Politics of Welfare," *Governance: An International Journal of Policy and Administration* 13, No. 2 (April 2000): 156.
[191] Ibid., 164.
[192] Ibid., 162.

While in the existing welfare state retrenchment literature, the two main approaches, the "power resources" (Walter Korpi etc.) and the "new politics" approach (Paul Pierson etc.) both address the role of political cleavages in the process of welfare state retrenchment, neither analysis attempts to look at or explain the changed views of the political decision-makers.

The power resources approach (most famous for explaining the growth of the Swedish social democratic welfare state) focuses on class conflict that is played out through partisan politics of left against the right. It starts from the assumption that the working class is at a disadvantage in the capitalist system but that in the social democratic welfare states it has been able to overcome much of the disadvantage through organizing into unions and left or socialist parties[193] which then have successfully pushed for redistributive policies.

The power resources approach argues that welfare state retrenchment, like development, can be understood as a distributive conflict that involves changing power relations between major interest groups[194] in a process of remaking the postwar social contract that was based on the idea of a full employment welfare state.[195] The political power of the left may have weakened in the last ten years but it certainly does not explain why the views of the decision-makers of the left have shifted heavily towards the political right,

[193] Sven Steinmo, review of *The Democratic Class Struggle* by Walter Korpi, *European Sociological Review* 2, no. 1 (May 1986): 71.
[194] Walter Korpi, and Joakim Palme, "New Politics and Class Politics in the Context of Austerity and Globalization: Welfare State Regress in 18 Countries, 1975-1995," *American Political Science Review* 97, no. 3 (August 2003): 441.
[195] Ibid., 425.

especially while they were in charge of the country. The left itself seems to have surrendered, given in, even starting to represent the ideas of the political right. The theory does not address why this has happened or why the left wing has actively participated in weakening the welfare state when in power.

Further, while continuing to emphasize the importance of class and partisan politics in welfare state retrenchment, the power resources approach does not recognize that the working class itself has changed. Why does the working class not fight for the social rights won in the past now being taken away by its own representatives? Or why does the working class not identify as belonging to a working class? One answer could be that traditional working class representation was concerned only with the old fashioned full time (male) blue collar jobs, and does not include most of the working class today which has very varied and always changing employment situations, not to mention more varied identities. Maybe the institutionalized representation of working class interest has lost the allegiance of those who sell their labor (under changed circumstances) and therefore is lacking their support, and hence labor organizations do not have the same weight that they used to. But this still does answer why the left wing politicians have walked away even from blue collar interests, right into the arms of the capitalists.

The “new politics” approach does look into the evolving voter interests and into the pressure that voters put on politicians. But the conclusions it reaches are wrong in the Finnish case as well. Because according to this logic, politicians should be trying to build a stronger welfare state.

The new politics approach, in contrast to the power resources approach argues that "the politics of mature welfare states differ fundamentally from the politics of expanding welfare states," and that "the theoretical frameworks devised to explain welfare state expansion (such as the power resources school) are of limited utility for understanding the new brand of politics."[196] While "welfare state expansion involved the enactment of popular policies in a relatively undeveloped interest-group environment," welfare state retrenchment in contrast "generally requires elected officials to pursue *unpopular policies* that must withstand the scrutiny of both voters and well-entrenched networks of interest groups,"[197] making these two processes altogether different. The theories of welfare state expansion therefore cannot be suitable for studying welfare state cutbacks.[198]

The "new politics" perspective therefore takes into consideration that the welfare state itself has modified class structures and identities. The "new politics" perspective points to the role of new types of interest groups that have emerged as a product of welfare state expansion as beneficiaries and employees of the welfare state. In a universalistic welfare state all citizens, and their family members, are beneficiaries of the welfare state programs during their life-spans. These groups cut across classes including most families through one policy or another, and they are considered to be well organized and in a position to successfully resist any welfare state cutbacks, tying the hands of the political decision-makers, who are also constrained by "institutional stickiness" of policy legacies.

[196] Diane Sainsbury 2001, 257.
[197] Paul Pierson,"The New Politics of the Welfare State," *World Politics* 48, no. 2 (1996): 142-143.
[198] Ibid.

Implicit in this approach is the fact that the interests of the political decision-makers and the population may not correspond i.e. the abovementioned requirement of "elected officials to pursue *unpopular policies.*" Therefore the political decision-makers under electoral pressure will be forced to respond to the demands of the voters, and might have to make more moderate cutbacks instead. Pierson argues that "the unpopularity of retrenchment makes major cutbacks unlikely except under conditions of budgetary crisis, and radical restructuring is unlikely even then."[199]

Pierson brings to the table the important points of welfare state supporters in social democratic welfare states voting for parties all across the political spectrum, and that among the parties, not one single party is seen as the advocate or opponent of the welfare state. Rather, "governments generally seek to negotiate consensus packages rather than to impose reforms unilaterally, which further diminishes the potential for radical reform."[200] That explains, Pierson states, why reform in the social democratic welfare states has been "negotiated, consensual and incremental."[201] This was very much the case in Finland where a government coalition made up of all ends of the political spectrum got together and enacted a series of welfare state cutbacks. The case of Finland proves however that there are more indirect ways to cut back social spending and public responsibility than direct cutbacks. After the economic crisis provided the grounds for actual and direct cutbacks, the method in Finland has been slow deterioration of social transfers and services, while the government has been active in boosting economic growth that has disproportionately benefited the wealthier segments of the Finnish society.

[199] Pierson 1996, 156.
[200] Ibid.
[201] Pierson 2001, 455.

But Pierson's theory does not reach far enough is to explain *why* the political decision-makers feel the need to enact these policies that require circumventing the pressures from the voters in the first place. He also does not talk about differences between the parties or even mention the neoliberal shift of the social democratic parties. The approach just assumes that the voters want better welfare state programs and the decision-makers perceive the need for cutbacks. In not addressing why the views of the political decision-makers have shifted, or why they choose to go against the wishes of the electorate, the author seems to agree that the welfare states are have come to the end of their roads and that the politicians are correct to react this way.

In the next section I will examine the possible reasons for the political decision-makers' reversals in thinking, looking for answers in circumstances that would fundamentally affect the program of a party and the understanding of the voters to the degree that there would be an almost automatic shift in the politics of a country, that are so obvious that they do not even require much debate making voters' preferences (ie. improvements in healthcare or raises in student benefits) unrealistic wishful thinking, even to themselves to the extent that they would not penalize politicians for letting them deteriorate. Basically, did the world suddenly change so much that it was undeniable to everybody that public spending had to be limited regardless of preferences?

III. Causal Factors for Finnish Welfare State Change

A. Maturation of the Welfare States/ The Welfare State Project Nearing Completion

One of the reasons offered in the welfare state literature for welfare state development slowing down, is the maturation of welfare states. As the programs that have been envisioned have been built, the speed of welfare state development is likely to slow down. This was the case in Finland when the economic crisis of the early 1990s hit, with the late-blooming Finnish welfare state just having caught up to those of the other Nordic countries. The timing of the depression could just have happened to coincide with the peak of Finnish welfare state development. Therefore one could argue that the ideology practiced by the Social Democratic Party remained the same at the core, but since many of the original goals had been achieved, and the limits of public finance had been reached, the Finnish Social Democrats too were in the position to revise or update their political platform.

Perhaps the case of the SDP is similar to that of the Swedish Social Democrats. Gøran Therborn describes how by 1986 the Swedish labor movement was ideologically exhausted. The 1986 LO congress had "concluded that the construction of the welfare state was coming to its finishing stage and that the next stage was to develop its effectiveness;" [202] on that point, however, the report had little to say.

However, the changes in goals of the Finnish Social Democratic Party are so great and in many case total reversals (e.g. increasing personal responsibility instead of increasing

[202] Göran Therborn, "Swedish Social Democracy and the Transition from Industrial to Postindustrial Politics," in *Labor Parties in Postindustrial* Societies, ed. Frances Fox Piven, (New York: Oxford University Press, 1992), 117.

public responsibility), that just the level of welfare state development cannot explain them. Whereas older members of the Social Democratic Party claim that Finland "surrendered to neoliberalism,"[203] newer members such as Anneli Kiljunen (1957-), a Social Democratic Member of the Parliament since 2003, hold instead that the SDP "hasn't got stuck in old times, its basic values are still the same, but they have been adjusted to the times",[204] she offers as the reason for why the Party's politics appear so different now. Let us explore changes in the surrounding environment than might have necessitated such changes.

B. Economic Crisis and Unemployment

The Nordic welfare states weathered through particularly severe recessions in the early 1990s with Finland's economy suffering the most. In 1990 the growth rate in Finland remained at zero with the following three years witnessing negative growth with the gross domestic product declining approximately 13 percent in total.[205] At the same time unemployment grew, reaching 18 percent of the Finnish working population at its worst point in the winter of 1993-1994, up from just 4 percent three years earlier.[206] Yet, starting in 1994 the economy started to again grow at fast rates, and the following year the Social Democrats won a landslide victory in the Parliamentary elections, holding on to power in coalition governments for the next 12 years.

[203] Interview #12, January 9, 2009.
[204] Interview #2, June 4, 2008.
[205] Hannu Uusitalo, "Economic Crisis and Social Policy in Finland in the 1990s," *Social Policy Research Centre Discussion paper* No. 70, October 1996: 1.
[206] Ibid., 2.

Although the depression clearly was an unusual situation that necessitated austerity measures and some welfare state cutbacks, it is certainly not the only, or even the main reason for the cutbacks. While the crisis was severe, it was short, and soon (in 1994) replaced by fast economic growth. Rather the depression was something that eased population accepting austerity measures and speeded up the process of transformation from one kind of society to the next. And with the Social Democrats in power, they ought to have been able to not only stop the austerity measures as the economy was rescued, but to fix the earlier damages done if they had chosen so. Instead the Social Democrats have pointed to the changes in the world that necessitate different kind of politics form before.

Before continuing to the changes in the policy environment, it is necessary to discuss a matter that throughout decades has had a huge impact on Finnish politics, and although not discussed I conjunction to welfare state change, have had a huge impact on the development of Finnish state and society at all turns. That is the communist superpower right next door, Soviet Union, and its collapse in the end of 1991.

C. Collapse of the Soviet Union

Particular to the Finnish case is the influence of the Soviet Union in internal affairs. During the Cold War Finland was not free to carry out its domestic affairs as it wished, Moscow was ready to step in whenever developments in Finland did not suit it. However, Finland got away with reforms as long as they could be justified as being similar to those in the other Nordic countries. Especially after Gorbachev came into power in the Soviet

Union, Finland became freer to not just be like the Nordic countries but also to follow the developments in the OECD countries and the EU.

From the geopolitical and historical point of view, it was important to follow in the footsteps of the Nordic countries and Western Europe when they started to deregulate in order for the frame of reference not to be the Eastern bloc.[207] With the collapse of the Soviet Union there seems to have been a mental race to the West, with the EU and EMU memberships (to be discussed later), and Finland quickly establishing itself as a "model student" of them, but also wanting the country to be most innovative, the most competitive, the best of everything that appears advanced and western, including cutting taxes and privatizing services, to draw the boundary between Finland and the Soviet history even wider instead of focusing on and being proud of what makes Finland unique. This mental background served to ease the obstacles to reform. This aspect will be discussed further later in the chapter in conjunction with the European unification process.

D. Changes in the Policy Environment

Other than the economic crisis in Finland in the early 1990s, the policy environment was determined rather universally to have changed. Jaakko Kiander and Henrik Lönnqvist's 2002 book for instance starts with "the policy environment of the welfare state has changed in the last 10-15 years, not just in Finland but elsewhere."[208] The change in the policy environment is always presented as a fundamental and world-changing fact

[207] Pertti Alasuutari, "Suunnittelutaloudesta kilpailutalouteen: miten muutos oli ideologisesti mahdollinen?," in *Uusi jako, Miten Suomesta tuli kilpailykyky-yhteiskunta?*, ed. Risto Heiskala and Eeva Luhtakallio, (Helsinki: Gaudeamus, 2006), 60-61.
[208] Jaakko Kiander and Henrik Lönnqvist, *Hyvinvointivaltio, sosiaalipolitiikka ja taloudellinen kasvu.* Sosiaali- ja terveysministeriön julkaisuja 2002:20, Helsinki 2002. 1.

involving a brand new set of circumstances. These changes are due to global integration, the change from industrial to service economies combined with ageing populations and family structures diversifying, causing the politicians to take clues from where they can (OECD etc.) on how to act in the new environment. What is remarkable about this change is that it is perceived and presented to have been very fundamental and sudden instead of part of the normal ongoing gradual evolution of the world.

As circumstances and /or the ideas about them change, parties adjust to the new ones and the Social Democrats could be argued to be in a position of perhaps trying to achieve their past goals through new means under new circumstances. This is what Paul Pierson refers to as recalibrating: rationalizing (modifying old programs in order for them to work better under new circumstances) or updating (responding to new problems emerging due to the changes in circumstances),[209] and Peter Hall calls second order changes.[210]

Whereas the first order changes in policy consist of changes in levels or settings of the policy instruments as a result of past experience and new knowledge, and do not involve changing of the policy goals or the policy instruments, the second order policy change consists of alteration of the basic techniques used to achieve the established goals. The instruments and settings of policy are changed based on dissatisfaction with past experience, yet the overall goals remain the same. Whereas first and second order change can be viewed as "normal policymaking", according to Hall, third order change "is likely

[209] Paul Pierson, "Coping with Permanent Austerity," in *The New Politics of the Welfare State*, ed. Paul Pierson, (New York: Oxford University Press, 2001), 425.
[210] Peter A. Hall, "Policy Paradigms, Social Learning, and the State: The Case of Economic Policymaking in Britain," *Comparative Politics* 25, no. 3 (April 1993): 281-283.

to involve the accumulation of anomalies, experimentation with new forms of policy, and policy failures that precipitate a shift in locus of authority over policy and initiate a wider contest between competing paradigms."[211] This may well characterize the circumstances in Finland in the early 1990s, when the full-employment, high spending welfare state, which had undergone deregulation of financial markets, did not work as it should have and rather resulted in mass unemployment and massive budget deficits forcing the political decision-makers to accept a new policy paradigm. Instead of pinpointing the problem to the careless deregulation of the financial markets, the Social Democrats went along, accepting that the welfare state had to be trimmed.

Conceptions of appropriate policy choices are affected by changes in perceptions of "the governing context" that may result in "choice reversal"[212] explains Fiona Ross (2000). "The old alternatives consistent with an age of redistribution and interventionism are no longer perceived to be appropriate for an age of market liberalism. While leaders' preferences may not have changed, their choices are restricted by a "logic of appropriateness" (March and Olsen 1989)." [213] "Jones[214] explains that "changes in choice are caused not so much by changes in preferences as by sensitivity to contextual cues. Humans are sensitive to contextual cues because they are not just preference maximizers, they are also problem solvers and problem solving is related to changes in one's task

[211] Hall 1993, 280.
[212] Ross 2000, 160.
[213] Ibid.
[214] Jones, B.D. *Reconceiving Decision-Making in Democratic Politics: Attention, Choice, and Public Policy,* (Chicago: University of Chicago Press), 13. Quoted in Ross 2000, 160.

environment."[215] Therefore, "as perceptions of the governing context change, so do conceptions of what constitutes a viable policy option." [216]

Ross does note as well, that preferences and values do matter. "Context may affect how leaders evaluate the "appropriateness" of their preferences, but preferences also influence how leaders interpret contextual cues." [217] The result has been, as Huber and Stephens discuss, after "the Golden Age" of the welfare states that ended in the 1980s, governments in advanced industrial democracies "*reluctantly* made choices that they perceived to be the only alternative as the result of the growing hegemony of neoliberal economic theory."[218] In Finland they find the partisan effects virtually disappeared[219] due to all parties' allegiance to this new doctrine. They find that in the Nordic countries in the 1990s "both the left and right were more constrained" than before, "the right because the welfare state was popular and the left because, once the unemployment crisis set in, the economic situation prevented new social policy innovation"[220] and later the political left has come to accept that global competition has put limits on what a country can do.[221] Below I will look in to some of the new ongoing circumstances in more detail.

[215] Ross 2000, 160.
[216] Ibid.
[217] Ibid.
[218] Evelyne Huber and John D. Stephens, *Development and Crisis of the Welfare State, Parties and Policies in Global Markets*, (Chicago: University of Chicago Press, 2001), 304.
[219] Ibid., 306-307.
[220] Ibid., 305.
[221] Ibid., 309.

1. Population Aging

Heikkilä and Kautto[222] point to the gloomy forecast for the welfare state because of the uncertainty of economic growth and because of the population aging. The proportion of the population over the age 65 in Finland is steadily increasing. In 1990 13.5% of the population were over 65, in 2001 it was 15.2%.[223] The number is expected to be more than 20% by 2030.[224] The dependency ratio will only be getting worse, meaning that fewer employed people will have to support a growing number of people (children, the retired etc) who are not employed. This factor, they believe, led the policy-makers to attempt to leave some room to maneuver in case of a rainy day.[225]

Former Minister of Social Affairs and Health, emphasizes that population is not as much of a threat as is often presented. She explains that the aging of population is a factor that has been known for decades (baby boomers are in their 60s now), and pensions for instance have all along been modified accordingly.[226] The problem is that there won't be sufficient number of workers to support those not working, immigration of course while being politically sensitive topic can alleviate much of that problem as long as the conditions are such that there is work for the immigrants available. Globalization already has brought more working age non-Finns to live and work in Finland. More importantly, the current center-right coalition is working together with the employer and employee peak unions to get the retirement age to rise. The current official retirement age is 63, but

[222] Matti Heikkilä and Mikko Kautto, eds. *Suomalaisten hyvinvointi 2002*. Jyväskylä: Gummerus, 2002, 429.
[223] Statistics Finland, http://www.stat.fi/tk/tp/tasku/taskus_vaesto.html.
[224] Pekka Kosonen, *Pohjoismaiset mallit murroksessa* (Tampere: Vastapaino, 1998), 333.
[225] Heikkilä and Kautto 2002, 429.
[226] Interview #10, June 24, 2008.

the average age to retire is 60. The plan is to on one hand enable people to work longer and on the other to offer incentives for people to stay in the work force for a few additional years. While in power, this was not one of the issues that the Social Democrats tried to tackle or put emphasis on.

2. Globalization

Global competition really seems to have been the primary concern of political decision-makers affecting what they deem is possible, and what is harmful to the competiveness of the Finnish economy. By globalization I mean the increasing dependence and interconnectedness of national economies through advances in technology and lowering of boundaries and protections between national economies, while speeding up the flow of information, capital, labor and goods between different corners of the world, creating a global economy.

Globalization in the conventional view, “creates pressures on social protection systems in two ways. First, social protection imposes costs on domestic producers (either through taxes or through employer contributions) which raise the price of manufactured products above that which prevails in with no, or relatively less generous, social protection systems. Domestic producers hence lose their share both of world and (no longer protected) home markets, leading to reduced profits and higher unemployment. Secondly, countries with high taxes and/or highly regulated labour markets are less attractive to footloose international capital and hence will suffer a relative and, eventually, absolute

decline in investment."[227]

The effects of globalization on the internal politics of a country therefore are mostly indirect, requiring new legislation and institutional adjustments.[228] Väyrynen[229] argues that globalization forces parties to adjust their positions and to forge new alliances,[230] while the purpose of the state no longer is to protect the domestic industries but to provide ideal circumstances for the functioning of the economy including competitive incentives for foreign investments.[231] That of course is a political value judgment. One could equally well argue that a strong welfare state can be a comparative advantage (more in the last chapter) or because of increasing vulnerabilities, and the breaking up of traditional communities, it is the state's responsibility to take better care of its citizens than before.

This might however give some clues about the change of the Social Democrats, more specifically in regards to means. Change in goals due to changes in the environment for a whole party made up of multiple actors seems drastic. Especially when authors such as Swank (2002) find no evidence for international capital mobility systematically contributing to welfare state retrenchment or globalization directly undermining the revenue raising capabilities of governments. While "the increases the capital mobility in

[227] Mark Kleinman, "The Future of European Union Social Policy and its Implications for Housing,"*Urban Studies*, 39, No. 2 (2002): 343.
[228] Raimo Väyrynen, *Suomi avoimessa maailmassa, Globalisaatio ja sen vaikutukset,* Sitra 223, (Helsinki: Taloustieto Oy, 1999), 181.
[229] Ibid.
[230] Ibid.
[231] Ibid., 188.

the Nordic countries "occurred at the same time and were of similar magnitudes," [232] yet, while globalization has had the biggest impact on already small liberal welfare states, it has had much less effect on the large welfare states of Northern Europe, Swank finds. Stephens (2005) does not find globalization to be the cause for welfare state retrenchment either. Rather he points to unemployment caused by policy decisions causing unemployment and deficits, as in the case of deregulation of financial markets in Northern Europe (see Chapter 1). Further, he does not find globalization, defined as increased trade openness, to be a good reason for dramatic change because it has increased only modestly, and secondly because generous welfare state programs were specifically "developed in very trade open economies in which the performance of the export sector was pivotal for the economic welfare of the country."[233] As a matter of fact, Uschanov points out, the countries that have been most open to foreign investments and international competition, consistently have had the largest public sectors.[234]

Instead, the discourse of globalization is often used by business and politicians alike to make it look like the economy is 'in command' and that the only thing that can be done is to lower taxes, cost of labor and social spending. The claim is that in a world where markets are global, welfare states rooted in national politics simply will not work. Having high costs of labor and high taxes will drive investment away, causing severe economic damage to countries with extensive welfare states.

[232] Duane Swank, *Global Capital, Political Institutions, and Policy Change in Developed Welfare States*, (Cambridge: Cambridge University Press, 2002), 132.
[233] Stephens 2005, 66.
[234] Tommi Uschanov, *Mikä vasemmistoa vaivaa?*, (Helsinki: Kustannusosakeyhtiö Teos, 2008), 166.

For a small country very dependent on the global trade, these of course are factors that should be taken seriously. However, it is a problem of degree. Investing everything a country can just to be the most competitive economy year after year, is to forget that being competitive probably ought to not be the end, but a means to a purpose. It is valuing competiveness for its own sake. Not to mention that "despite the welfare state", all the Nordic countries rank on top of the list of most competitive economies year after year.

The globalization argument is not purely economic in nature, according to Frances Fox Piven. "The explanation itself has become a political force, helping to create the institutional realities it purportedly merely describes. In fact globalization is as much political strategy as economic imperative,"[235] she writes.

The Finnish politicians seem to have uniformly accepted that globalization is the new almighty, and the only way to succeed is to serve at its altar and excel in the global competition. All else has become secondary to it. One of the findings of Social Democrat Arja Alho's 2004 doctoral dissertation too was that in Finland "globalization is seen as a given, neither analyzed or challenged by the elite."[236] Writing in 2000, the former SDP Chairman (1975-87) Kalevi Sorsa also was quite critical of the current politicians. He had observed that the idea of globalization has resulted in politicians losing their ability to speak and act. Sorsa writes that governments have withdrawn from economic activities, cut back especially social and educational spending while parties have moved closer

[235] Frances Fox Piven and Richard A. Cloward, *The Breaking of the American Social Compact*, (New York: The New Press, 1997), 5.
[236] Published as Arja Alho, *Silent Democracy, Noisy Media*, (Helsinki: Helsinki University Press, 2004), 1.

ideologically, and attempt to stay away from ideological debates in general. Whereas politics has moved to a more transnational stage, in domestic politics the emphasis has shifted towards experts. Sorsa went as far as to state that politicians themselves have lost faith in politics and themselves are ashamed of it.[237] Alho agrees, "politicians lost the belief in the possibility of politics due to the opening up to the global markets."[238]
The effects of European integration on the Finnish welfare state shares many of the similarities with the globalization argument, with opening up the borders, the Finnish economy has to compete with the other European Union (EU) countries.

3. European Integration

The European Union has enacted polices regulating social politics within the Union, but it does not directly distribute services or income to people. Although the EU leaves income redistribution to the member states to be organized domestically, indirect effects of 'Europeanization' on the national welfare states can be found. These effects relate to the common market, convergence of national policies and the European monetary policy, all of which are interrelated.

On one hand it was argued that the reason for joining the EU was specifically that it was the best option for the Finnish economy. But there was much talk about Finland not being able to compete in the European Union, and in the global economy, without cutting social spending and taxes. The fear was that because of high overall taxation in Finland, companies and workers, especially those with high levels of education would move

[237] Kalevi Sorsa, *Ihmisiä, Ilmiöitä*, (Helsinki: Otava, 2000), 178.
[238] Interview #1, June 3, 2008.

residence elsewhere, not to mention investments being made in countries with higher after-tax returns, harming Finland's economy. Lowering taxes heavily in order to attract businesses, workers and investments in turn could put heavy strains on the financing of the welfare state possibly necessitating cutbacks.

Market integration is accompanied with a "gradual erosion of national welfare state autonomy and sovereignty" according to Liebfried and Pierson[239] because now national governments will have less control over their economies. When borders are erased, and goods and services, capital and labor are able to move freely, countries are forced to compete with one other in taxation and cost of labor. Race to the bottom has often been cited as a potential outcome. Yet there has not been a flight of business or people so far. Taxes in Finland have been lowered, but they are still higher than the EU average. And surprisingly, Finland in 2000 for instance spent less that EU average on social expenditure,[240] and hourly labor costs in industry and services in Finland also were actually below the EU average.[241]

However, the European states have transferred power over their monetary policy to the European Central Bank through membership in the European Monetary Union (EMU). The member countries no longer have the monetary tools, such as devaluation of national currency available to them. "The centralization of monetary policy at the level of

[239] Stephan Liebfried and Paul Pierson 2000, 268-9.
[240] Stakes, Taulukko 7: "Sosiaalimenot suhteessa bruttokansantuotteeseen (BKT) EU- ja ETA-maissa vuosina 1990-2000, %," http://www.Stakes.fi (Accessed May 1, 2003).
[241] Eurostat, http://europa.eu.int/comm/eurostat/Public/datashop/print-product/EN?catalogue=Eurostat&product=3-03032003-EN-AP-EN&mode=download (Accessed March 4, 2003)

European Central Bank is preventing governments from having recourse to exchange rates or even interest rates to boost their economies."[242] Further, the Stability and Growth Pact has set strict limitations on government spending, inflation and interest rates, which, if a country is to adhere to them, will have effects on welfare provision. The budget deficits for example are not allowed to surpass 3 percent of the GDP and the government debt should not exceed 60 percent of the GDP. These rules put some limit on what national governments can do. So far however, Finland has been a model student in meeting the criteria while other member countries regularly break the rules. Despite threats from the European Commission, there have not been real repercussions or penalties for countries that have failed to stay within the guidelines.

Therefore is would be hard to make the claim that the EU or the EMU specifically would be such a notable pressure necessitating the political decision-makers in Finland to drastically shift their worldviews. Rather, Finland joined both voluntarily and issues relating to Finland's memberships in the EU and the EMU are rather used for creating an atmosphere that supports the need for welfare retrenchment.

The effect of the Stability and Growth Pact will have much to do with economic circumstances and how closely a member state wants to follow its guidelines. Much depends on those in power and how they want to interpret and use each pressure. The top civil servant at the Ministry of Finance told me he finds the policies emphasized by OECD , EU, EMU to be good ones and that he thinks they should be exercised in Finland

[242] Severine Chapon and Chantal Euzeby, "Towards a Converge of European Social Models?," in *International Social Security Review* 55, No. 2(2002): 42-43.

whether there were these pressures or not.[243] The findings of Arja Alho's dissertation are similar: "EMU and its convergence criteria were welcomed because they would guarantee a strict economic policy, and EMU *made it possible* to follow a policy line that would otherwise have faced internal political resistance"[244] (my italics). Minister of Finance Iiro Viinanen's comment in 1994 back this up: "…it is irrelevant whether we are inside or outside of the EU and whether or not we have to follow the EMU criteria and the other restrictions of EMU. It means for the sake of Finland's benefit, that we have to reduce the budget deficit, have to maintain a low rate of inflation, have to control debt and try to diminish it and also to control interest rates…. If it also suits the EU's purpose, so be it. .. We have tried desperately to follow this path already."[245] And in 2002 he recalls "…It was a big relief, at least to me, to fall back on the Maastricht Treaty. Without an external force we couldn't get our economy onto the right track. There has to be external pressure."[246]

Therefore it cannot be argued that the EU was simply an outside force. Rather it was something that suited and was used by the Finnish political elites at the time. And although there were benefits to being in the EMU, there were also possible downsides, as well as the real option on of staying out. There were concerns that would have supported not joining. For instance, the fixed exchange rate was potentially problematic for a country that had regularly resorted to currency devaluations to boost its trade, and now

[243] Interview #9, June 12, 2008.
[244] Alho 2004, 303.
[245] Ibid., 123.
[246] Ibid., 125.

Finland would not be able to maintain its own monetary policy.[247] Concern for high unemployment was also a problem from the point of view of following the convergence criteria, specifically the strict inflation target that could be a trade-off for the level of employment.[248] Denmark and the United Kingdom for example negotiated an opt-out from the Eurozone/ EMU. And Sweden to this day has chosen to stay out of it, and therefore they do not have to worry about the constraints of the Stability and Growth Pact for instance. As a matter of fact during the global economic crisis Sweden has benefited from its products being cheaper than in the countries that use the strong Euro.

As for the materialization of the fears, in the 1990s there did not seem to be much of a change in the European welfare states: "despite the growth of Europeanization and globalization, West European national welfare states proved to be remarkably resilient. Overall spending on welfare remained noticeably stable. Political support was strong. Different welfare states maintained their distinctive structures. In essence, national social policy regimes were being pressured and altered, but were neither collapsing nor converging."[249] Therefore the European internal market cannot be said to be a pressing reason for welfare state reductions in Finland.

Economic reasons brought by the membership in the EU and the EMU therefore cannot be said to have caused the welfare state retrenchment in Finland. Neither can the membership in either to be judged solely as an economic question, rather "membership of the EU was considered a historic opportunity, detaching Finland from the influence of the

[247] Alho 2004, 111, 120, 123.
[248] Ibid., 120-121. 125.
[249] Robert Geyer, 'State of the European Union Social Policy.' *Policy Studies* 21, no. 3 (2000): 253-254.

former Soviet Union."[250] Participation in the European currency instead attached Finland even stronger to the heart of Europe. The former Minister of Finance Sauli Niinistö of the National Coalition Party would agree: "EMU was seen more as a westward-looking project that would unite Finland at a fundamental level to the European Community than a question of the economy: the single currency would unite,"[251] he explained.

The former SDP Chairman and Prime Minister Kalevi Sorsa points out that the collapse of the Soviet Union was what freed Finland to join the European integration process that was held as an answer to economic problems[252] of the early 1990s. The predominant idea was that there was no choice of staying on the outside.[253] Although from an economic point of view some sort of Keynesian approach could have been possible, according to Sorsa, the path that was chosen is irreversible and will have long term consequences.[254]

E. Conclusion

This study finds that the causes that initiated the Finnish welfare state change are specific to the Finnish context - the successful implementation of many of the Social Democratic goals in the past, the economic crisis and the accompanying sky-high unemployment, as well as the collapse of Soviet Union that not just enabled but freed Finland to dash toward the West. The path chosen was not the only alternative, therefore it cannot be argued that those circumstances were the cause for neoliberal politics in Finland, rather, they were something that made elites in Finland susceptible to a new ideology and

[250] Alho 2004, 109.
[251] Ibid., 127.
[252] Kalevi Sorsa, *Uusi itsenäisyys*, (Keuruu: Otava, 1992), 134-139.
[253] Ibid., 168; and Alho 2004, 125.
[254] Sorsa 1992, 134-139.

enabled a new worldview to establish itself. The reasons for welfare state austerity that followed - population aging, globalization and the European integration - helped to maintain the path chosen. They were not the causes of welfare state retrenchment program either but rather convenient facilitators of it.

Having discussed the changes in the policy environment and the explanations for the welfare state change that the literature offers, I will now turn to the actors in the process of Finnish welfare state retrenchment specifically. The main focus will be on the Social Democratic Party whose politics suddenly became almost a mirror image of its past politics. I will argue that in a pivotal time, the Social Democrats as a party were adrift. Not only was the Party lacking policy innovators for the next stage of welfare state development, but stunned by the magnitude of the economic crisis, it chose the only politics that at the time seemed credible. In essence, the Finnish welfare state that they had spent decades building became a casualty of Social Democratic loss of confidence in their own program. This move will also have long term consequences for the Social Democrats' electoral success due to a credibility problem.

Chapter 4:

Transformation of the Finnish Social Democratic Party

Social democratic parties are known as the builders and defenders of the welfare state. Yet in the case of Finland it was the Social Democrats that presided over most of the welfare state retrenchment starting in the mid-1990s. As a party it practiced politics that were very much a reversal of its earlier politics. This continued even as the economic crisis was long gone and the budget surpluses easily would have permitted improvements in the welfare state programs.

In this chapter I will explain how and why this change in the Finnish Social Democratic Party (SDP) happened. The conventional view holds that there was no other choice for the Finnish Social Democrats while they were in charge of the country but to lower taxes and starve the social programs of funding because of economic imperatives. Claiming this is to totally miss the transformation of the Finnish SDP. Had the Party returned to its earlier goals after the economic circumstances permitted, it could be argued that indeed the Party did not change and that it simply was the economic circumstances that forced them to make unlikely decisions. But for a Social Democratic party to continue on this new track through periods of balanced budgets and fast economic growth, speaks not only of its transformation but possibly also of larger paradigmatic shifts among the Finnish political decision-makers.

I will start with an overview of the political atmosphere in Finland following the drastic early 1990s economic crisis, then focus on the internal developments within the Social Democratic Party and its governance of Finland 1995-2003. In a pivotal time, the Social Democrats as a party were adrift, and were easily convinced that the politics they had been practicing were ill-fated and therefore were quick to start practicing politics normally identified with the political right. This move will have long term consequences not only for the Social Democrats' electoral success due to a credibility problem, but also for the Finnish welfare state that they spent decades building. In chapter 6 I will argue that contrary to the conventional argument about economic success, the welfare state is *not* an impediment to economic competitiveness, but rather the fundamental reason for the success of the Finnish economy in the last 15 years, on top of fulfilling the more humane goals of providing for people's needs and creating equal opportunities. However, an ideological shift has occurred.

I. Political Change in Course of the Finnish Welfare State

Since the early 1990s, well into the period of fast economic growth fueled by Nokia and the hi-tech boom, the Finnish political decision-makers have enacted a series of policies weakening the Finnish welfare state (as discussed in Chapter 2) that at the same time continues to be very popular among the population. Why would the democratically elected representatives of the Finnish population not only practice politics that are so different from the preferences of those that they represent, but also be able to carry out those changes without much resistance from the population, or from the rank and file members of their own parties?

The phrase "there is no other choice" was used frequently by the political decision-makers to communicate to the public that the austerity measures were not political value choices, but rather necessary and unavoidable decisions. First after the depression the reason for austerity was that the budget had to be balanced, and after that was accomplished in the second half of the 1990s, then competiveness of the Finnish economy was said to be at risk, necessitating further austerity measures. There certainly would have been other choices. There were budget surpluses in the second half of the 1990s and taxes were cuts constantly. On countless times the governing coalitions decided that *additional* debt payments and *additional* tax cuts were more important than increasing funds to starving public services or raising income transfers that were horribly lacking and subjecting people to live in poverty.

Clearly there had been a reversal in priorities when the earlier Social Democratic Party goal of building and improving the welfare state was replaced with prioritizing economic growth over citizens' needs, instead of maintaining the welfare state or fixing the damages done to it. Trying to understand welfare state change in Finland and simply assuming Social Democratic party "policy preferences from their ideological location"[255]on the political left, the existing literature offers few explanations that make sense (as discussed in the previous chapter). I agree with Robert Henry Cox (2001) that unlike much of the welfare state literature we "need to look at the actual strategic plans of

[255] Robert Henry Cox, "Social Construction of an Imperative, Why Welfare Reform Happened in Denmark and the Netherlands but Not in Germany," *World Politics* 5, no. 3 (2001): 467.

governments" [256] rather than just assuming that parties stick to their earlier established goals indefinitely and actually pursue those once in office.

But why did the Social Democrats start to practice politics that are generally identified with the right wing parties? Especially when they were in charge, the economy was growing, and the population was supportive of welfare state improvements. The Social Democrats therefore could have chosen just that. Taking office right after the depression and holding it for ten years into the period of economic growth would have been a great opportunity for the SDP to repair the damages done to the welfare state during the previous three years by the center-right coalition, and to continue where they had left off before the depression, UNLESS the party itself changed and had started to advance brand new objectives. Then the question that follows is, why and how did this change happen to the traditionally strongest advocate of the welfare state.

II. Transformation of the Finnish Social Democratic Party

For a party that for decades had been pushing for expansion of the public sector and for improvements in social benefits and services, the dire circumstances of the early 1990s was a huge shock. Massive domestically produced economic crises hit specifically in the social democratic welfare states that now were the farthest on the political left in the world making the Social Democrats doubt the politics that they had been practicing until then. As discussed in the previous chapter, the global trend for the past decade had been welfare state retrenchment. Other than the external circumstances, the party itself was still trying to recover from the consecutive shocks of first losing eight seats in the 1991

[256] Ibid.

parliamentary elections and becoming an opposition party, an unfamiliar role for the Party, while the country was being ruled by a center-right coalition. The loss had forced the SDP Chairman since 1987 Pertti Paasio (b. 1939) to resign. Two years later in 1993 the SDP again lost a chairman as the new chairman since 1991 Ulf Sundqvist (b. 1945) was forced to resign amidst a scandal involving him and the rest of the STS Bank board being sued for reckless leadership of the Bank during the banking crisis of the past years. The Party was adrift ideologically and in need of a strong new leader.

At the same time globally, capitalism was being celebrated for defeating communism. The Soviet Union right next door to Finland had collapsed almost over night. Socialism was said to be dead, and Keynesian demand economics had gained a bad name in the world where neoliberal leaders like Margaret Thatcher and Ronald Reagan had ruled with an iron fist for the past decade. To the Social Democrats it appeared that the bottom of their program had fallen out. They did not know what to believe in. They knew only that the Finnish economy was in trouble, Finland's borders were now opened up to global capital, and that the strong neighbor was gone. Need for change in practiced policy seemed evident, but the Social Democrats were not prepared and were still looking for their place in this new world.

The election of the very pragmatic and matter-of-fact like character Paavo Lipponen[257] (b. 1941) as the SDP Chairman in 1993 (until 2005) speaks of its time more generally. Ideology and class antagonisms were considered a thing of the past decades as the

[257] Lipponen, who holds a Master in International Relations degree (University of Helsinki, 1971), had been a member of the party since 1967, and had served prior as the secretary to former Prime Minister Mauno Koivisto 1979-82.

welfare state project was all but completed with the late-bloomer Finland having caught up to the other Nordic countries, and even surpassing Sweden and Norway in per capita income.[258] The SDP had become "a governing party,"[259] serving the nation, and focusing on practical problem-solving rather than on ideologicial battles.

Lipponen too seems to think that he is a value-free, practical thinker, not affected by political ideology. Descriptive of the assumed objectivity of his thinking is the beginning of Lipponen's 1986 book entitled "Direction of Change." [260] He opens the book by stating that it is "more of a report than an explanation of the world, or a declaration of a program."[261] He continues that in the book he "critically examines global trends and the development of the Finnish society *based on facts*"[262] (my italics) implying that, although a politician, his thinking is neutral and devoid of ideology or political purpose. This kind of thinking is very typical of political actors in Finland in the 1990s as Anu Kantola's 2002 study also testifies. Most decision-makers did not think they were acting based on ideology, but thought of themselves as being above it.

A longer time in opposition might have helped the Finnish Social Democrats as a party to strengthen or reformulate their identity for the new economic and geopolitical circumstances, but following the landslide victory[263] in the 1995 parliamentary elections in the aftermath of the depression, and an unpopular decision (amongst its supporters) by

[258] Gøsta Esping-Andersen, ed. *Welfare States in Transition, National Adaptations in Global Economies,* (Sage Publications, 1996), 53.
[259] Interview #1, June 3, 2008.
[260] Paavo Lipponen, *Muutoksen suunta*, (Vaasa: Kirjayhtymä, 1986).
[261] Ibid,. Foreword.
[262] Ibid.
[263] 28.25% of total votes, increasing seats by 15 from 48 to 63 (out of 200 seats in the Parliament).

the Centre party for Finland to join the European Union[264], the new Chairman of SDP Paavo Lipponen was in the position to form the governing coalition, and ended up serving as Prime Minister for the next eight years (1995-2003). The Finnish population may have voted the Social Democrats into victory in hopes of reversing the welfare state cutbacks of the preceding center-right coalition and securing the welfare state in a country battered by budget deficits and a high unemployment, but instead they got a government that was very determined to balance the budget, pay back national debts, and to bring Finland to the center of European political decision-making, even at the expense of social considerations. The SDP as a matter of fact ended up ushering in the neoliberal era in Finland.

In his term as the Prime Minister, Lipponen gained a reputation of being a strong-willed leader who would plow over dissenting opinions in his quest for what he saw as the only correct alternatives. For instance, in 1995 after the Social Democrats had won the parliamentary elections he had allegedly called the then Minister of Finance Iiro Viinanen (b. 1944) of the National Coalition Party, who among the left (and Lipponen's own party therefore) and the Greens had a reputation as the enemy of the welfare state, asking him to continue as the Minister of Finance under the Social Democrats' rule without consulting other people in his party, whom he knew to be opposed to Viinanen.[265] Viinanen did serve as Finance Minister for another year, while continuing to hold on to

[264] The Center Party (formerly the Agrarian Party) was the party known to be opposed to the membership but the then-Prime Minister Esko Aho of the Centre Party forced through the decision for Finland to apply for membership in the European Union in 1992 against the will of the majority of his own party.
[265] Tuomo Yli-Huttula, *Puolivallaton puolue,* (Helsinki: Otava, 2006), 76.

strict budget discipline. In 1996 he was replaced by Sauli Niinistö (b. 1948), a lawyer, and the Chairman of the fiscally conservative National Coalition Party (NCP) since 1994.

Nothing in the Social Democrats' background had prepared them to lead a recession government. They knew how to build welfare state programs, and now they were in charge of a country ravaged by budget deficits and massive unemployment. In this situation the Social Democrats were more than glad to have a strong-willed leader with all the answers to steer them in the right directions, and to take the blame himself if necessary. Being a very strong-minded person, criticism from within or outside his coalition didn't have any kind of effect on Lipponen's plans of action.

Social Democratic supporters and party members trusted the leadership[266] and believed that after the tough decisions cutting back funding from the welfare state programs, once the economic situation would improve again, and the party would return to the old track and repair the damages done to the welfare state.[267] But by the time the economy had started to grow again in 1994 and by the time the budget was balanced in 1998, the political environment had changed. Economic considerations continued to reign supreme, and the atmosphere within the party was such that it did not welcome raising concerns for the status of the welfare state or questioning the leadership. Even admitting that cutbacks were made was no longer acceptable, recalls one Social Democratic Member of the Parliament. And those who still pushed for the improvements became outcasts in their

[266] Interview #8, June 11, 2008.
[267] Ibid.

own party.[268] Further, spending increases were no longer even possible because power over budgeting had been transferred from the Parliament to the Ministry of Finance, which kept strict control over the budgets (more in Chapter 5). This had been done with the consent of the Members of the Parliament who had been unwilling to make cuts themselves during the recession, and instead were glad to have someone take the blame for the dirty work.

Virpa Puisto, the chairman of the parliamentary social and health committee 1997-1999 (Social Democratic Member of the Parliament, 1987-2007), has what she describes as "a huge political trauma" of having participated in running down programs that to her are important. She did this with the assumption that improvements would be made when the economic circumstances again would allow, to make up for the cutbacks and sacrifices of the earlier years. Her drift with the Party leadership had started as soon as the economy started to grow in 1994. She feels that her efforts to push for social improvements were demeaned by the political leadership. The group effort that had been there for pitching in for the cutbacks wasn't there anymore when there were surpluses, she explains. Puisto argues that it was the priorities of the leadership that changed, and although the values of most in the Party had not changed, the new members of the Parliament were more interested in following the leadership's stands than caring about social problems. Instead they are more concerned with making their way, looking for ministerial appointments and advancement, she explains.[269]

[268] Ibid.
[269] Ibid.

Many long-term members of the Social Democratic Party feel that their party slipped into a different direction without them having much control over it.[270] Among those who didn't remain silent was Erkki Tuomioja (b. 1946), Doctor of Social Sciences from the University of Helsinki (1996), and a career politician.[271] He recalls clashing with Chairman Lipponen at meetings, while everybody else sat around quietly, some coming to tell Tuomioja after the fact that it was great that he had spoke up, but refusing to agree with him publicly. The strengthening of party leadership over party democracy has become a fact, Tuomioja (who Lipponen did beat out for the Chairmanship) says. Nowadays it is unheard of that the Party chairman's opinion would not pass, rather it would be a crisis of leadership. In the 60s when he had got started, discussing things was still normal and not a vote of no-confidence, Tuomioja explains.[272] Lipponen's response, telling of his lack of consideration for different points of view is that in his 2008 book on civilization titled "Reason Wins", he makes a list of people that have not agreed with him in the past, including Tuomioja, labeling them the leading "anti-intellectuals" of Finland.[273]

Tuomioja too doesn't think that the party members so much changed as the party democracy does not work. The non-discussion within the party has continued, which he regrets. Arja Alho's (b. 1954, political scientist and a member of the Parliament since 1983[274]), recollections back this up:

[270] Interviews #1 June 3, 2008 and #8, June 11, 2008..
[271] First Minister of Trade and Industry in Lipponen II, 1999-2000, and then Foreign Minister, 2000-2007. Also a Member of the Parliament since 1970, known to be generally to the left of the official party line.
[272] Interview #12, January 9, 2009.
[273] Paavo Lipponen, *Järki voittaa*, (Helsinki: Kustannusosakeyhtiö Otava, 2008), 51-59.
[274] 1983-2007, with a missed term 1999-2003.

> "I was told that the executive committee of the Social Democratic Party, and especially the group of Social Democrats in the Government, were the places where the power is located, and where the debate exists. After being a member of the Government for two and half years, and active in that capacity, as well as observing the work of the executive committee of the Party, I can now say that I seldom found either communication or critical debate. What communication did exist was merely to bring messages from the "field" or constituency as a frame of reference. Seldom, if ever, did I find myself in a true debate among equals. Perhaps even less often did those efforts at debate that we did make lead (to) a common conclusion or action. Granted, as a member of a Parliamentary Committee I had more opportunities to influence matters of importance to the group or to our supporters that I did simply as a politician. It is also true that critical notions voiced by Committee members would very often lead to improvements in specific legislation. However, such improvements would typically be more at the level of legislative detail."[275]

The Party's own report on its 2007 election loss (to be discussed later) does among other things acknowledge the lack of rank-and-file influence within the Party, i.e. party democracy, as a problem. Perhaps if party democracy had worked better, the Party would have not moved as far toward the center/ right, for it seems that not just the population but rank-and-file members of SDP were hoping to make improvements in the welfare state programs, yet the leadership of the Party chose to take the country in a different direction, indifferent to voices from below.[276]

Eventually, as mentioned, this drift within the Party would result to an election loss when the Party leadership had such different ideas from its members and supporters of what needs to be done. The downward spiral was long, it started in the early 1990s, but wouldn't come to a head until in the 2007 elections evidenced by the huge SDP election loss. But before getting to that, I will return to the Social Democratic governance of

[275] Arja Alho, *Silent Democracy, Noisy Media*, (Helsinki: Helsinki University Press, 2004), 5.
[276] Sosiaalidemokraattinen puolue, "Uudistumisen alku, SDP:n vaalianalyysi 2007," http://www.sdp.fi/easydata/customers/sdp/files/pdf07/SDPVaalianalyysi07PH.pdf, (June 19, 2007).

Finland 1995-2007. Given the Finnish multiparty system of governance, the Social Democrats of course did not govern alone throughout this time period. They were the main governing party from 1995-2003, and still the main coalition partner with the Centre Party 2003-2007.

A. The Politics of 'The Rainbow Coalitions'

(*Lipponen I*, 1995-99; *Lipponen II*, 1999-2003)

The Social Democrat Paavo Lipponen chosen as the Prime Minister in 1995 formed the governing coalition consisting of the Social Democratic Party, the center-right National Coalition (NCP), as well as the smaller Left Alliance, The Greens, and The Swedish People's Party. Consisting of parties from all ends of the political spectrum (where parties are identified with particular colors, forming for example blue-red (NCP+SDP) coalitions, this coalition was quickly labeled the "Rainbow Coalition."

Arja Alho, a Social Democratic Minister in the Coalition (1995-1997), recalls how following the rough economic times, there was great enthusiasm in the Rainbow Coalition at its initiation in 1995 about going to work with such a broad collective group effort and getting things done. Expectations were high, she explains, they were going to "put politics back into politics."[277] However, the conditions were severe: there had been the banking crisis, Soviet trade had collapsed, the budget deficit was huge[278] and

[277] Interview #1, June 3, 2008.
[278] http://www.veronmaksajat.fi/fi-FI/tutkimuksetjatilastot/ajankohtaistavaltiontaloudesta/valtionbudjettitaloudentulotjamenot/.

unemployment was still almost 20 percent.[279] Realities pushed ideologies aside[280], explains a cabinet member from the National Coalition Party (NCP), and therefore there was no doubt that serious action had to be taken, "it was rather unanimous politics"[281] within the coalition, she continues. All parties agreed to that the budget had to be balanced, and that cuts were necessary for accomplishing this.

Lipponen's Coalition continued very much along the lines of the preceding center-right coalition (1991-1995) when it came to the economic policy.[282] The focus of the first Lipponen term (1995-1999) was on fiscal politics, overcoming the economic crisis and keeping public expenses level,[283] agrees the Ministry of Finance as well. The focus of public finances in 1995-1999 was foremost on reduction of the size of the public debt, which fell from 56.7% of the GDP in 1995 to 44.4% in 2003 to an estimated 33.4% in 2008.[284] While the national debt never surpassed the European Monetary Union (EMU) Stability and Growth Pact requirement of the national debt not exceeding 60% of the GDP, prioritizing paying back the national debt therefore can be argued to have been a strictly ideological decision of *choosing* to allocate money *to lowering debt* over spending the money elsewhere, such as in social policy, where the cutbacks had been made. Equally well the Coalition could have chosen to not cut spending in order to maintain employment and consumers' spending abilities.

[279] Statistics Finland, http://www.stat.fi/tup/tietoaika/tilaajat/ta_12_02_maahanmuuttajat.html, http://stat.fi/til/tyti/tyti_2005-05-27_men_002.pdf.
[280] Interview #3, June 5, 2008.
[281] Ibid.
[282] Yli-Huttula 2006, 187.
[283] Valtiovarainministeriö, "Kehyksen puitteissa – Finanssipolitiikan säännöt ja kehysmenettelyn uudistaminen," Julkaisuja 5a/2007, 36.
[284] Statistics Finland, http://www.stat.fi/til/jali/2008/jali_2008_2009-02-27_tau_002_fi.html.

Active savings decisions were made as a matter of fact *"beyond the level pursued"*, according to a Ministry of Finance publication, but the expenses did not fall in proportion due to rises in interest expenses and increases in employment related transfers to The Social Insurance Institution of Finland. The overall public debt, however, was lowered as planned.[285]

Yli-Huttula (2006) describes how the power couple of the Rainbow Coalition, Prime Minister Paavo Lipponen of the Social Democratic Party and the Minister of Finance Sauli Niinistö the Chairman of the National Coalition Party (NCP) got along very well and were on the same page about main lines of macroeconomic management. Many of the big decisions as a matter of fact were made just between the two of them.[286] This is not hard to imagine since, as mentioned before, Lipponen as the Chairman of SDP preferred to act independently, and Niinistö too has gained a reputation as someone who does not consult with others.[287] But more importantly, the claim that the two made most of the decisions is very plausible as Finland is a small country and power is specifically centralized to the Prime Minister and the Minister of Finance[288], the most powerful cabinet positions, who generally are also the Chairmen of their own parties, the biggest parties in the coalition. What is surprising however, is that the Social Democratic PM and the center-right Minister of Finance were in so much agreement about the economic guidelines.

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[285] Valtiovarainministeriö, "Kehyksen puitteissa – Finanssipolitiikan säännöt ja kehysmenettelyn uudistaminen," Julkaisuja 5a/2007, 36.
[286] Tuomo Yli-Huttula 2006, 93.
[287] Ibid., and numerous newspaper articles. The latest (Feb 2010) being Niinistö almost voted out as the Speaker of the Parliament (89/ 200 votes in support) because of "dictatorlike leaderhip" of the Parliament.
[288] Published as Arja Alho, *Silent Democracy, Noisy Media*, (Helsinki: Helsinki University Press, 2004), 290.

What happened was that even though the Rainbow Coalition was led by the Social Democrats, it ended up practicing economic policy that is most identified with right-wing parties. This becomes especially undeniable during the Lipponen's second term (1999-2003) as Prime Minister when there would have been room for improvements in social transfers and services.

Instead, tax cuts were regular, social spending was cut and benefits were not raised, not even to make up for inflation, while incentives were added, publicly owned companies were privatized, and public services outsourced to private companies. By 2007, over a quarter of social services, such as housing services, day care and domestic services, were provided by private service providers, non-profit organizations and private companies, the share of the latter especially increasing since the middle of the 1990s.[289]

With the exception of two years, the progressive state income taxes were reduced every year (for a total of 7% by 2007[290]) from 1995.[291] This of course is an indirect way of reducing the abilities for welfare state improvements by cutting the state revenue that is needed to fund it, and another ideological decision going along with the reduction of the size of the public sector, generally associated with the right wing, but executed in Finland by the Social Democrats.

[289] Statistics Finland, http://www.stakes.fi/FI/Tilastot/Aiheittain/Sosiaalipalvelut/yksityisetsosiaalipalvelut.htm.
[290] 1995-2007, According to Jaana Kurjenoja (The Taxpayers Association of Finland chief economist) in Pauliina Pulkkinen, "Nousukausi hyödytti myös keskituloista", *Helsingin* Sanomat, https://www.hs.fi/tulosta/1135231494139, (November 1 2007).
[291] Taxes were lowered in every year except 1998 and 2005 starting in 1996.

The country was experiencing fast economic growth from 1994 (5%) on (as fast as almost 9% in 1995, 1997, 1998)[292], but none of the money was spent on improving the impoverished social services and spending. Rather, this was a clear program of reducing the size of the public sector. And it was the party that is known to be the defender of the welfare state that was in charge.

Further, there were budget surpluses since 1998[293] but that money too was spent on *further* debt payments rather than on improvements in social transfers or services. Minister of Social Affairs Maija Perho (1948-) from the NCP in the Lipponen II coalition recalls that the economy was growing, there was a surplus from taxes and dividends. The money firstly was allocated towards paying off the debts from the depression years, and secondly towards reducing taxes, she explains. The idea was that tax cuts improve purchasing power and through that employment. The conversation was over how much and which will be taxes lowered, she recalls, not so much about spending on services.[294]

1. Consensus Politics

While collaboration and compromise over party lines has always been part of the Finnish multi-party political process, the 1990s similarity of the Social Democratic and conservative National Coalition Parties in policy goals is surprising. Katzenstein in 1985 observed that small European states are characterized by consensus when it comes to

[292] Statistics Finland, http://www.stat.fi/til/vtp/2008/vtp_2008_2009-02-27_tau_001_fi.html.
[293] Statistics Finland, http://tilastokeskus.fi/til/jali/2008/jali_2008_2009-02-27_tie_001_fi.html.
[294] Interview #3, June 5, 2008

political decision-making.[295] With the multiparty system in Finland, and no party ever receiving the majority of votes, parties have always had to form coalition governments with other parties. Further, there is the tradition of tripartite income negotiations consisting of the employer[296] and employee peak unions as well as the state, that have forced these different sides to the same table to find compromise solutions on everything from incomes and taxes to retirement at the national level.

And also despite the supposed opposite political leanings, the Social Democrats and the National Coalition Party in Finland do have some commonalities with each other that they do not share with the other parties. These include their constituencies' likely urban background and dependence on trade as industrial and white collar workers.[297] The Left Alliance and the Centre Party in contrast are generally allied with domestic production, construction and agriculture.[298] Another similarity that the SDP and National Coalition parties have is their tendency to support contribution based (earned) benefits over flat rate universal benefits[299] unlike the Left Alliance, the Center Party and the Greens. The politicians of the "Rainbow Coalition" (1995-2003) themselves emphasized the urgency of the shared mission of saving the Finnish economy, and tough decisions having bound the two parties together into a well-functioning unit.[300]

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[295] Katzenstein credits this to the small states' dependence on the world markets, making consensus the way for them to cope.
[296] Although the employer side in the last years has expressed dissatisfaction with the system wanting to negotiate locally instead.
[297] Yli-Huttula 2006, 101-102.
[298] Raimo Väyrynen, *Globalisaatio ja Suomen poliittinen järjestelmä*, Sitra 222, (Helsinki: Taloustieto Oy, 1999), 64.
[299] For example Olli Kangas 1986.
[300] Yli-Huttula 2006, 101-102.

Further, political justifications for the same policy initiatives can also vary between parties. In the face of the global recession that started in 2008, former Minister of Finance (NCP) Niinistö recalls the benefits of "a Rainbow Coalition" in a recession being not only that seeing all parties work together and being in agreement regarding the policy direction gains the trust of voters from all walks of life, and also has the ability to get the support of different constituents behind its policy by each convincing their own.[301] An example would be that under conditions of austerity, move toward selectivity for those with the highest need, from the point of view of the political left can be justified in the name of solidarity, whereas the political right generally has found selectivity to be appropriate in the name of cutting expenditures and moral control of the recipients.[302]

According to Robert Henry Cox (2001) path dependent arguments do not take human agency sufficiently into consideration, therefore he points to the importance of the *path shaping* political leaders, who are successful in (re-)framing a political issue in a way that it gathers widespread support for reform. He refers to this as "the social construction of the need to reform."[303] Lipponen himself makes the case for Finland having survived the depression because of collaboration and understanding across party lines. The problems facing different societies, can only be overcome by moving past conventional dichotomies and advancing mutual interests he says. What is needed, according to him, is shared values and a vast program built upon them."[304] In Finland in the early 1990s there

[301] "Niinistö: Kiirsiaikana tarvitaan laajapohjainen hallistus," *Helsingin Sanomat,* http://www.hs.fi (April 27, 2009).
[302] Raija Julkunen, "Hyvinvointivaltion uudelleenjärjestäytyminen" in *Haastava kolmassektori, Pohdintoja tutkimuksen ja toiminnan moninaisuudesta,* ed. Liisa Hokkanen, Petri Kinnunen and Martti Siistiäinen, (Jyväskylä: Gummerrus Kirjapaino Oy, 1999), 321.
[303] Cox 2001, 464.
[304] Paavo Lipponen, *Kohti Eurooppaa,* (Helsinki: Kustannusosakeyhtiö Tammi, 2001), 206-210.

was almost panic in the air, and it was easy to rally different ends of the political spectrum on the program of saving "the Finnish welfare state," even if that meant vast cuts.

Lipponen was a master strategist, intentionally or not, but not only did he silence the criticism from his own party, but from the most obvious political opposition also. By including not just the National Coalition, but the Left Alliance and the Greens in the governing Rainbow Coalition, he on one hand took away from them the platform of opposition politics, and secondly tied them to an allegiance to the coalition,[305] the majority of which "followed the leadership's bourgeois program without questioning it."[306]

Another factor helping to silence criticism over the chosen course in the early phases was of the coalition was the volatile situation of Finland's economy having just opened up to the whims of global markets. Those who did not oblige not only gave up the opportunities for advancement and appointments within their party, but more importantly endangered Finland's at-the-time fragile credit ratings. By the time they started to speak up, the changes had already been made.

It is hard to argue that it was just one or two people whose decisions changed the course of the welfare state. Perhaps the outcomes would have been the same regardless of the particular individuals in power. After all, the SDP as a party did choose Lipponen as its

[305] Tuomas Rantanen, "Punavihreät vastakoneet," in *Puolueiden kriisi*, ed. Hanna Kuusela and Mika Rönkkö, (Helsinki: Like Kustannus, 2008), 49.
[306] Interview #8, June 11, 2008.

leader. Yet, it is clear that is was the SDP that changed directions. The National Coalition did not get an upper hand and force a new direction for them from within the coalition. Arja Alho agreed that "the SDP is to be blamed, it had the most responsibility, the National Coalition cannot be blamed, they have always openly pushed for reduction in the role of the state."[307] The SDP itself moved in that direction.

B. *Vanhanen I* Coalition, 2003-2007

After two terms as the main party in the Governing Coalition, the Social Democrats were able to gain two more seats in the 2003 Parliamentary election. The big winner, however, was the Centre Party that become the largest party in the Parliament ahead of the SDP.

After the 2003 election, the Centre Party therefore was in a position to form the coalition government. After less than two months in office, Anneli Jäätteenmäki (b. 1955) of the Centre Party was forced to resign as the Prime Minister due a scandal involving her having lied to the Parliament in a hearing about how she had acquired confidential information regarding Finland's involvement in the Iraq war that she had used in the campaign against her opponents. The same coalition made up of the of Centre Party (formerly Agrarian Party) Social Democratic Party and the Swedish People's Party continued under the Centrist PM Matti Vanhanen (b. 1955).

As for the politics of this new Coalition, "cold right wing politics were continued, talking about social issues was not acceptable," [308] testifies the Social Democrat Puisto.

[307] Interview #1, June 3, 2008.
[308] Interview #8, June 11, 2008.

Returning to Parliament after one missed term, Arja Alho (SDP) noticed how things had changed by the 2003-2007 term. She recalls how other MPs would congratulate her on a speech on social policy, "but then nothing would happen"[309] in regards to policy beyond congratulating her on it. Rather, the wealth tax was removed in 2005 under the SDP Minister of Finance Antti Kalliomäki (b. 1947). A historical ending of a tax, the SDP veteran MP Erkki Tuomioja explains, also because it was the Social Democrats that were ending it. Yet, it was not discussed at any official party assemblies, it was just announced that it was part of the tri-partite resolution on income policies[310], and that starting January 1, 2006 there would be no tax on wealth.[311] And as part of the ruling Coalition, the Social Democratic Members of the Parliament approved of it. No one seems to how this appeared as a part of the resolution,[312] but it ended up being the Social Democrats, along with the Centre Party, that ended the tax that until then had been considered a fundamental part of the Social Democratic program.

After Lipponen resigned as the Chairman of the Party in 2005, he was replaced with a Trade Union Director Eero Heinäluoma (b. 1955) as the Chairman and as the new Minister of Finance. Under Heinäluoma's leadership, the SDP continued on Lipponen's path with tax cuts reigning heavily on the agenda. The SDP was just starting to wake up to the reality that they were on a downhill slope and that something should be done before it was too late. They tried to take a quick turn to the Left right before the elections,

[309] Interview #1, June 3, 2008.
[310] Interview #12, January 9, 2009
[311] Ibid.
[312] Ibid.

but that did not work. It took a massive election of loss for them in 2007 to realize that they really were not in tune with their supporters and voters.

III. The Third Way

Moving toward the political middle, the social democratic and labor parties have invented a new doctrine 'the Third Way'.'The Third Way', instead of holding that the social democrats should stick to their guns and look for policy ideas that would improve what has already been built, argues that social democracy *needs to move few steps* toward the political right in order to survive. Its leading architect Anthony Giddens, Tony Blair's advisor, argues that social democracy can survive if social democrats are willing to "*revise* their pre-existing views more thoroughly than most have done so far."[313] Giddens argues that "the advent of new global markets, and the knowledge economy, coupled with ending of the Cold War, have affected the capability of national governments to manage economic life and provide an ever-expanding range of social benefits. We need to introduce a different framework, one that avoids both the bureaucratic, top-down government favoured by the old left and the aspiration of the right to dismantle government altogether,"[314] he continues. And indeed, "since the 1980s, in response to the rise of neoliberalism and the problems of socialism, social democrats everywhere have started to break away from this prior standpoint"[315] of classical social democracy. The Third Way "attempts to transcend both old style social democracy and neoliberalism,"[316] he claims. Yet, Third Way politics "is not an attempt to occupy a middle ground between

[313] Anthony Giddens, *The Third Way, The Renewal of Social Democracy*, (Malden, MA: Blackwell Publishers, 1998), vii.
[314] Anthony Giddens, *The Third Way and Its Critics*, (Malden, MA: Blackwell Publishers, 2000), 2.
[315] Ibid., 6.
[316] Ibid., 26.

top-down socialism and free-market philosophy. It is concerned with restructuring social democratic doctrines to respond to the twin revolutions of globalization and the knowledge economy,"[317] argues Giddens. Sheri Berman disagrees: "What the "third way" is really resuscitating and updating is thus not social democracy, but a strand of liberal revisionism,"[318] she claims.

While The Third Way presents itself as an alternative to neo-liberalism, it is not that different. Esping-Andersen (2002) points out that "first and foremost, it proposes one sharp break with the past: rather than to tame, regulate, or marginalize markets as to ensure human welfare, the idea is to adapt and empower citizens so that they may be far better equipped to satisfy their welfare needs within the market."[319] Increasing individual responsibility and reducing the size of the public sector indeed is such a serious departure from "an equality of highest standards, not an equality of minimal needs pursued elsewhere"[320] as Esping-Andersen described the Nordic welfare states in 1990, that it difficult to see the connection of how the Third Way would be an evolution of social democracy.

While the old-style social democracy held that many of the problems caused by capitalism can be fixed by state intervention in the marketplace,[321] Giddens instead

[317] Ibid., 163.
[318] Sheri Berman, *The Primacy of Politics, Social Democracy and the Making of Europe's Twentieth Century*, (New York: Cambridge University Press, 2006), 211.
[319] Gøsta Esping-Andersen, *Why We Need a New Welfare State?*, (New York: Oxford University Press, 2002), 5.
[320] Gøsta Esping-Andersen, *Three Worlds of Welfare* Capitalism, (Princeton: Princeton University Press. 1990), 28.
[321] Giddens 2000, 8.

argues that today the welfare state "creates almost as many problems as it resolves."[322] He points to the disintegration of "social traits that the Keynesian welfare consensus took for granted."[323] These are the changes in the traditional family structures, diminishing of manual work and mass production, and opening up of national economies that were formerly presided over by a bureaucracy consisting of small groups of experts and public servants.[324]

Therefore today, "the overall aim of third way politics should be to help citizens pilot their way through the major revolutions of our time: *globalization, transformations in personal life* and our *relationship to nature.*"[325] He suggests the "prime motto" of the new politics to be "*no rights without responsibilities*"[326] while the old social democracy "was inclined to treat rights as unconditional claims."[327] But today "with rights come responsibilities. We have to find ways of taking care of ourselves because we can't now rely on the big institutions to do so. Public Policy has to shift from concentration on the redistribution of wealth to promoting wealth creation. Rather than offering subsidies to business, government should foster conditions that lead firms to innovate and workers to become more efficient in the global economy." [328] Not only is Giddens opposed to the welfare state, but this really is a far stretch from social democracy, not a modification but a reversal in policy goals. "No rights without responsibilities" already connotes power relations of some deciding what others must do, coercion, not equality of opportunity.

[322] Giddens 1998, 16.
[323] Ibid.
[324] Ibid.
[325] Ibid., 64.
[326] Ibid., 65.
[327] Ibid.
[328] Giddens 2000, 2-3.

Not to mention, most protections were created exactly because people who are able to take care of responsibilities, are not the ones needing the protections.

Giddens emphasizes that Third Way is not giving up on "public" but wants to shift the emphasis from the state to the civil society.[329] Therefore the shift from the welfare state to the society of wellbeing goes together with the Third Way. The Third Way "emphasizes the core importance of active government and the public sphere." [330] However, "the public sphere does not coincide with the domain of the state,"[331] he declares. Welfare society, a strengthened civil society is a good thing because it's less top down.[332] Yet much like neoliberalism, it signifies reduced public responsibility.

This sounds very much like the policies of the Finnish Social Democrats since the mid-1990s. And according to the Finnish Social Democratic Prime Minister Paavo Lipponen, Tony Blair's New Labour adopted ideas that were already practiced in the Finnish social democracy[333] during his term. These ideas include balanced budget, transferring monetary power to central banks, increasing education and policies aimed at activating the unemployed, emphasizing labor union collaboration, and acceptance of privatization.[334]

[329] Ibid., 29, 51.
[330] Ibid.,163-164.
[331] Ibid.,164.
[332] Giddens 1998, 111, 117.
[333] Lipponen 2001, 205. *Teema*-article (September 9, 1998).
[334] Ibid.

Much like the advocates of Third Way point to the changes in the world, encouraging the Social Democrats to change their program, electoral competition or shifts in the voter base are likewise used as reasoning for the Social Democratic shift.

IV. Strategizing in Electoral Politics

Herbert Kitschelt points to competition for votes and the desire to participate in government formation as potential reasons for Social Democratic realignment. He argues that the electoral trade-off has to do with either gaining votes from parties to its left, and lessening the chances of participating in the government formation, or embracing a more centrist policy and losing votes to other parties, mainly to the parties to its left (and green and protest parties), but increasing its chances to be in the governing coalition. The Finnish Social Democratic Party has chosen the latter.

Kitschelt puts forward three dilemmas: the political-economic dilemma, the electoral dilemma, the party organizational dilemma. Below I shall focus on each individually.

Dilemma 1: *Political-Economic Dilemma*:

> Either social democratic parties stay or are pushed into the opposition because they signal aversion to economic liberalization policies. Or social democrats embrace such policies, lead governments, but then experience precipitous electoral decline, once in office and pursuing liberalization strategies.[335]

The Finnish Social Democratic Party clearly chose the second alternative, and the hypothesized outcome has followed. Yet, how do we know that "aversion to economic liberalization policies" is an automatic send off to the opposition? Kitschelt does not put

[335] Herbert Kitschelt, "European Social Democracy between Political Economy and Electoral Compatition." in *Continuity and Change in Contemporary Capitalism*, ed. Herbert Kitschelt, Peter Lange, Gary Marks, and John D. Stephens (New York: Cambridge University Press, 1999), 324.

forward a third alternative, which is less short-sighted and has to do with future success: maybe there would be a need for a party that was more cautious about the effects of economic liberalization policies? Assuming that liberalization and centrist politics are the only alternative, opposition to which will determine a party's future, and therefore ruling out any other alternatives is a political value judgment. Much like the Third Way Kitchelt's thinking leans on the idea the social democratic parties must revise their program, and that redistributive politics and regulation of the economy are no longer possible. The general shift is to the right of the "main axis" of voter distribution, according to him, because of "market and occupational experiences that have contributed to a decline of redistributive socialist demands and an increase in libertarian demands."[336] Therefore in a strategic move, the social democratic parties have moved towards more libertarian and more capitalist positions.[337] However it is not clear how much this scenario applies in the case of Finland where the SDP has traditionally been the token coalition party. Yet, choosing the second alternative will have disadvantages in the long run. A party will alienate voters but also trying to distance itself from its own earlier program, making it look like an utter failure, cannot be good for a Party's political credibility.

Dilemma 2/ *The Electoral Dilemma*:

> In the presence of a strong left-libertarian competitor, either social democrats maximize votes but fail to win the median voter and therefore have only limited bargaining power over government formation, or they maximize their bargaining

[336] Herbert Kitschelt, "Class Structure and Social Democratic Party Strategy," in *British Journal of Political Science* 23, no. 3(Jul. 1993): 308.
[337] Ibid., 310.

> power by controlling the median voter but sacrifice votes to their left-libertarian competitor.[338]

Here for the case of Finland, the party that receives the largest victory in the elections tends to get first bids on coalition formation, whether it controls the median voter or not, so in that sense the best idea in Finland is to try to maximize the amount of votes, and initially that might have been the case for the SDP move toward the middle, unlike in Kitchelt's second scenario. Since the turn of the millennium however, the Finnish SDP has lost both the median voter and their share of the votes. It is not clear how much votes they lost to the Left Alliance, on their political left, which has also been struggling. Finland has a strong centrist party, and in the early 2000s the Centre party and the Greens gained in support. In the last couple years support has been shifting from the Centre Party and the Social Democrats to the protest party True Finns, with the center-right National Coalition however becoming the biggest party.

The third dilemma has to do with a party's internal structures:

Dilemma 3/ *The Party Organizational Dilemma*:

> Either social democratic parties adhere to mass-party organizations and accountable leadership and thus guarantee strategic continuity, but accept programmatic immobility and the increasing symbolic disadvantages of mass-party organization. Or they increase the parties' openness for innovation from below and above through organizational reforms, but run the risk that strategic flexibility translates into greater volatility of party appeal and uncertainty about the parties' positions in the electorate.[339]

Here again the Finnish SDP chose the second alternative, and the outcomes have been as hypothesized. Perhaps the disaster in electoral support would have been averted, had the

[338] Herbert Kitschelt, "European Social Democracy between Political Economy and Electoral Competition,"in *Continuity and Change in Contemporary Capitalism*. ed. Herbert Kitschelt, Herbert, Peter Lange, Gary Marks, and John D. Stephens, (New York: Cambridge University Press, 1999), 328.
[339] Ibid., 332.

first option of the mass participation been pursued. The Party might not have walked away so far from the preferences of its members and supporters.

Fiona Ross (2000) is more idealistic than Kitschelt in pointing out that electoral competition and party strategies cannot fully explain why parties would have reversed positions "on many of their defining policies." She writes that "the electoral competition argument, for instance, assumes that all members of a party's policy-making community *are willing to radically suspend* their policy preferences for the sake of electoral victory (irrespective of whether they themselves are subject to electoral pressures). It also assumes that power-seeking individuals can move freely and opportunistically, which, if true, would lead us to expect that they return to "old" party policies once in office"[340] and this clearly was not the case with the Finnish Social Democrats. Rather, autonomous party leadership deciding on a course of action instead of stronger party democracy seems to have been disastrous for the Finnish Social Democrats. Originally with the pretext of the economic crisis most Social Democrats went along with cutting back the welfare state, and when the same program was continued under a new guise, the party lost momentum resulting in it losing members and supporters, and eventually direction.

A. Changes in Voter Interests

While the fall of Soviet Union enabled Finland to align more with the West, and the Finnish political decision-makers trying to deal with a massive economic crisis were eager to balance the budget, lower the debt and taxes, the preferences of the voters seem to have been more of a barrier than a concern to them. Still dependent on the voters for

[340] Ross 2000, 160.

their re-election, parties were trying to balance adjusting to new circumstances while also trying not to lose their traditional constituents.[341]

As pointed to in the previous chapter, as many of the social democratic goals have been achieved, voters will develop new demands and interests, and therefore the policy goals of Social Democratic Parties too are likely to evolve. As policy goals are reached (for example women's high labor force participation enabled by long maternity leaves and public day care), and as the circumstances change (e.g. more demanding careers, more atypical work and family relations), not only do new ones get placed on the agenda (private and home care subsidies, extended parental leave for fathers, similar rights to same-sex parents) but also past policies will have affected people's needs and preferences (for example, a child is thought to have a subjective right to attend day care even if one parent is home).

The transfers and services come to be seen as rights. Kitschelt (1994) argues that the social democratic Keynesian welfare state as a matter of fact has become "a victim of its own success"[342] causing citizens to start taking its accomplishments for granted and instead focus on matters such as bureaucratic control and lack of individual attention[343] making the welfare state an old-fashioned and dull topic for many. The success of past social democratic policies has created new socioeconomic constituents that are no longer

[341] Raimo Väyrynen, *Suomi avoimessa maailmassa, Globalisaatio ja sen vaikutukset*, Sitra 223, (Helsinki: Taloustieto Oy, 1999), 181.
[342] Herbert Kitschelt, *The Transformation of European Social Democracy*, (New York, NY: Cambridge University Press, 1994), 280.
[343] Ibid.

attracted by the traditional message"[344] he continues. Also as the post-materialist issues such as environmentalism and identity politics grow, political polarization based on social class loses in importance to voters.[345] Giddens (1998) too points to the problems in political support that the social democrats are facing with the decline in the blue collar working class.[346] "In virtually all Western countries voting no longer fits class lines, and has shifted from a left/right polarization to a more complex picture."[347]

The original impetus for welfare state expansion in Finland, as elsewhere, was the question of labor and the goal of mending class polarization.[348] Now, the knowledge economy produces a society that is more fragmented, yet more middle class, producing new types of needs and positions in the labor market, while the Social Democrats have a reputation of representing the interests of the traditional working class. Further, "the work and market experiences of blue collar workers and white collar workers are often not significantly different. Instead, the divisions in the work force based on education, occupation, gender, and employment sector are likely to shape citizens' political consciousness and their availability for political appeals in more powerful ways than class."[349]

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[344] Kitschelt 1994, 6.
[345] Ronald Inglehart, *Culture Shit in Advanced Industrial Society*, (Princeton: Princeton University Press, 1990), 259.
[346] Anthony Giddens, *The Third Way, The Renewal of Social Democracy*, (Malden, MA: Blackwell Publishers, 1998), 20.
[347] Ibid., 23.
[348] Matti Heikkilä, "2000-luvun sosiaalipolitiikan reformipotentiaali,"*Yhteiskuntapolitiikka* 69, no. 1 (2004) : 62.
[349] Kitchelt 1994, 6.

On the other hand, Bo Rothstein's (1998) path dependent argument emphasizes not the initiation of the welfare states, but their subsequent growth along different paths. Rothstein argues that the choice of institutions at the forming moments is what determines political support for different types of social policy in the long run. This is because of the political institutions and social norms mutually reinforcing one other contributing to the institutionalization of the types of welfare state that have been initiated.[350] So therefore despite the diversification of identities, support for universal social policy and willingness to share in the financial burden in a social democratic welfare state ought to remain high, as it has in Finland, because of people's past experience with it.

Yet, authors like Frances Fox Piven point out that "support of labor-based political parties and the welfare state institutions they helped sustain and expand is eroding everywhere in the West, including the fabled social democracies of the Scandinavian countries, as an aspect of what appears to be a general process of partisan decomposition and fractionalization associated with post-industrial trends."[351] This is because "the industrial order within which these parties emerged and grew is giving way to a new international economic order, variously characterized as postfordist and postindustrial…. The mass production industries were at the very core of the class politics generated by

[350] Bo Rothstein. *Just Institutions Matter, The Moral and Political Logic of the Universal Welfare State.* New York: Cambridge University Press, 1998, 135.
[351] Frances Fox Piven, "The Decline of Labor Parties, An Overview," in *Labor Parties in Postindustrial* Societies, ed. Frances Fox Piven, (New York: Oxford University Press, 1992), 6-7.

industrialism, and their contraction inevitably has a telling effect on labor-based political parties."[352]

However, Kitchelt (1993) argues that "the future of social democracy cannot simply be read off structural trends in transformation of post-Fordist production systems, welfare states or international competition. These macro-changes provide the 'scenario' within which politicians choose objectives and strategies that influence the fate of political parties."[353] He further points out that 'there is precious little relationship between the relative magnitude of the working class across countries or changes of the working class within countries over time, on one hand, and the respective electoral performance of socialist parties, on the other."[354] Therefore what it paramount here for the electoral success of the social democratic parties in the social democratic welfare states, is not the size of the working class, or lessening support for the welfare state, but rather how the politicians respond to the diversifying needs of the electorate.

Before returning to the electoral fate of the Finnish Social Democratic Party, I first look into the questions of the different segments that the Finnish Social Democratic Party can choose to represent.

[352] Ibid., 7.
[353] Herbert Kitschelt, "Class Structure and Social Democratic Party Strategy," *British Journal of Political Science* 23, no. 3 (Jul. 1993): 308.
[354] Ibid., 314.

B. Everybody's in the Middle?

Although it may be true that the size of the traditional working class has shrunk in Finland as well, what matters the most is in how the voters perceive themselves and what they consider their interests to be.

Before the depression in 1990, 37% of Finns, the highest number within the study by the Finnish Business and Policy Forum EVA (1984-2009), considered themselves to *not* belong to any class. By 2009, this number had dropped to 27%, instead now 55% of the people consider themselves to belong to the middle class, compared to 45% in 1990, and 40% in 1984. While the number considering themselves to be middle class has risen by 15%, the number of those considering themselves belonging to the working class has lowered from 26% in 1984, to 18% by 2009.[355] So clearly there is a movement toward class identity (as opposed to "no class"), and an in increasing number of people would define themselves belonging to the middle class.

As more people consider themselves to be middle class, class-based parties will transform into general parties, and the parties' platforms are likely to approach one other also.[356] While all the big parties are fighting for new votes, they have chosen to fight over the same votes, those of the so-called middle class. Not only are they the most active voters, but in gaining their voters it is likely away from the other large parties/ their competition. This fight for electoral supremacy of course could be the reason for the

[355] Finnish Business and Policy Forum EVA, "EVAn arvo- ja asennetutkimus 2009: Kapitalismi kansan käräjillä," http://www.eva.fi, 94.
[356] Olli Kangas, *Luokkaintressit ja hyvinvointivaltio, Sisältöanalyyttinen tarkastelu suurimpien puolueiden ja etujärjestöjen kannanotoista*, (Helsinki: Helsingin kauppakorkeakoulun julkaisuja D-84, 1986), 144-145.

Social Democratic Party change in programmatic goals. Just as the National Coalition came after "the workers" that the SDP has been neglecting, the SDP has been trying to get more middle class voters beyond its conventional labor union constituents.[357] But as I will later discuss, they might have been *too* willing and eager to move toward the right, and abandon their earlier constituents, i.e. those needing protection from the global competition.

All this does not mean that the Left *should* move into the middle of the political spectrum. There are still the 45% that do NOT consider themselves to be middle class (only 23-24% of the votes is generally needed for victory), and the 18% that do consider themselves to be working class. In trying to capture the median voter, these groups have been left unaddressed.

While the parties formulate their agenda by pitching to the middle class, there are also now *many who do not vote at all*. And the number of those not voting has consistently been rising. Either they do not care, or think that it will make a difference, because none of those parties "in the middle" represent their interests. The Chairman of the Left Alliance (until June 2009) Martti Korhonen refers to the "2/3 society". He says that two thirds of the people who are doing rather well, feel that the bourgeois parties have their interests at heart, and will work to secure their already gained benefits. The other 1/3 doesn't vote because they think that no one cares about their needs. These are the people

[357] Interviews #5, June, 9, 2008, and #10, June 24, 2008.

that are the worst off in society.[358] People's values may not have shifted, they just don't vote if it seems pointless. And those are exactly the people that should. And until they do, the politicians do not respond to their needs.[359] But because they do not vote, parties try to fight for the votes of those that do.

In the case of Finland, there has not been a party in the recent decades that has offered improvements in social and health services, and in transfers to the elderly and families with children. Clearly there are limited alternatives to begin with in what the parties promise before the elections, but since parties especially seem to do whatever they please once in office regardless[360], how is one to know whom to vote for? This is how the mainstream parties play into the hands of the populist protest parties.

V. The Social Democratic Election Loss in the 2007 Parliamentary Elections

Paavo Lipponen retired in 2005, and still to this day the Social Democrats are working on rebuilding their identity. During Lipponen's term, the party moved so many degrees to the right that many members of the party did not feel at home in it anymore. Now that Lipponen is gone, should they remain in the political middle trying to appeal to the perceived median voter, embrace neoliberalism and/ or the third way, or should they return to the political left, fight for the workers' rights (blue collar or all) and for the less fortunate, and strive to strengthen the welfare state. While in office 1995-2003 the SDP

[358] According to Kimmo Elo's study, quoted in Jouni Mölsä, "Kolme neljästä ei tiedä mitkä puolueet ovat hallituksessa," *Helsingin Sanomat,* http://www.hs.fi/politiikka/artikkeli/Kolme+nelj%C3%A4st%C3%A4+ei+tied%C3%A4+mitk%C3%A4+puolueet++ovat+hallituksessa/HS20080930SI1YO01bti, (September 30, 2008).
[359] Interview #8, June 11, 2008.
[360] For example the NCP in 2007 promising raises for municipal jobs generally held by women in efforts to minimize the gender cap in pay, and then retracting just a couple of months later after their election victory.

was very much in the political middle, whereas during 2003-2007 toward the elections they started to position themselves more with the workers and the marginalized, resulting in the SDP being labeled the whiners' and the bitter people's party by their opponents going strongly after the actually "working people."

The result was a huge election loss, with the SDP loosing 15 % of their parliamentary seats. Finally it seemed to dawn on the SDP that they were in a tough place. It took an election loss for them to realize that things had been going wrong. They had been on autopilot, unchallenged, for a while. The voters clearly made the point that the SDP was adrift.

The Party leadership commissioned a report from the Member of the Parliament, Minister Antti Kalliomäki on the Parliamentary election loss in to determine the reasons that led to the outcome of the elections. The 100-page report analyzes the changes in voter preferences and in the policy environment as well as the mistakes that specifically were made by the party in the elections, and circumstances relating to the Party's long term in the governing coalition. The report does acknowledge democratic rotation of power as a normal phenomenon, but is prompted by the severity of the election loss.

The report's findings point to voters' confusion: How come, while in power, the SDP let inequalities grow? Especially when the economy was growing. And why now, despite their promises, would they do anything different? In the 2003-2007 term the SDP had cut taxes, and yet by the end of the term in 2007 was opposed to tax cuts and defended public

services instead. They had had the chance to raise student benefits that hadn't been raised in 15 years, yet they had chosen to push the raises back till after the 2007 elections, the report claims.[361]

Not only did the SDP seem to have forgotten about the least fortunate, letting the smallest income transfers (to young mothers, the sick, the disabled, the students, and the retirees on the basic pension) deteriorate and practicing what looked like right wing politics, but yet, suddenly it had diverted from the Lipponen politics as well, making the Party not look credible to those who had been voting for them in their period of acting like a right-wing party either.

The party's popularity in 2009 has sank to a historical low, despite the election of a new, young female, chairman of the Party, Jutta Urpilainen (a teacher, b. 1975) in June 2008. First in her victory speech she claimed the SDP was going to be the biggest party "in the middle" but since then she has tried to profile herself as a leftist. However, nothing tangible has happened in regards to the Party platform.

A. Campaigning in Image – and Losing

In trying to appeal to all the voters, parties seem to not even want to spell out the differences between them, but rather create the impression of being in the middle, and instead choosing to compete in image. It would take voters a lot of time and enthusiasm to research the actual differences between the parties, and having to study how the

[361] Sosiaalidemokraattinen puolue, "Uudistumisen alku, SDP:n vaalianalyysi 2007," http://www.sdp.fi/easydata/customers/sdp/files/pdf07/SDPVaalianalyysi07PH.pdf, (June 19, 2007).

promises had translated into actual policy initiatives. Leaning on image is much easier for voters. The National Coalition Party on seems to have been the first to take advantage of this, and intentionally manipulate images, hiring an advertising agency to carry them to victories with clever plays of words and images.

Other than the grave problem in image when it comes to the contradiction between things said and done, another problem that the SDP has is that it seems old-fashioned and outdated. While other parties are competing by having trendy and clever fun images, the SDP behaves like it were the 1980s. "If you look into what people support, what they think of things, these are social democratic values, but if you call those that (social democratic) people react with "blaah,"[362] explains Tuomioja. The party for example hands out soup from massive tanks at market squares, not realizing that that does more harm than good.[363] Although free food is nice, the association with that is to poverty and decades passed. Who wants to vote for the soup kitchen party ("same soup for all") when the other parties are offering wealth, and alternatives for all? Further, when protecting what once was automatically makes one conservative, and that does not seem to appeal to the forward looking voters. Therefore the social democratic rhetoric should be spun from protecting the welfare state, to a rhetoric of building a better, more equal society, improving health care, increasing choices, making child care services more flexible etc.

[362] Interview #12, January 9, 2009.
[363] Ibid.

VI. Conclusion: The SDP Confusion

The Antti Kalliomäki report on the of the 2007 election loss makes the point that the knowledge economy produces a society that is more fragmented, yet more middle class, producing new types of needs and positions in labor market, while the Social Democrats have a reputation of representing the interests of the traditional working class, therefore having failed to be on the side of those with more atypical work relationships that are vastly growing in numbers. Therefore clerical workers, more educated workers and especially entrepreneurs did not feel that the party represents their needs, the party failed to respond the insecurities of atypical work, [364] the report admits.

The report agrees that the party hasn't adjusted itself properly to the changed world. It hasn't reacted to the socioeconomic changes in the population, the increases in knowledge and wealth (being too traditional for those doing well), but on the other hand it also hasn't responded to the insecurities of the new world and the needs of those that have not fared well in the new order.[365] For the first, "the SDP has not been able to reform itself to the speed of the changes, so that it would speak sufficiently to those voters who grew up in a prospering post –industrial society, who vote according to values, not so much according to immediate economic needs, and who want immediate opportunities for making a difference from the political organizations. The voters do not identify with a class but think of themselves as individuals, as members of the society, and associate themselves with a host of different organizations."[366]

[364] Ibid., 9.
[365] SDP, "Uudistumisen alku," 8.
[366] Ibid.

The Party has a strong reputation of being a blue collar workers' party through its union affiliation. The report agrees that while the increasing uncertainly of temporary work contracts for the educated was left unaddressed also the traditional voters felt abandoned. The report finds that where the party has gone wrong is that the party does not represent the interest of those that hope to benefit from globalization nor those who have already lost out (the excluded, the long term unemployed), therefore driving the voters either to those who offer a more hopeful option, which in the case of Finland is the youthful and positive right wing or the Greens, or to the parties that stand up against processes of global integration (the nationalistic ones).

The report itself gives a list of people that the party does NOT represent, as for those that it does represent, all the report says is that the SDP has the *reputation* of representing the interests of the traditional working class, who the party by its own admission has been neglecting. The most confused by the ongoing changes seem to be the SDP for the party seems to not know who they represent or who they should represent. To respond to these problems, the report proposes a number of measures to increase grass-roots involvement in the party decision-making as well as cross-organizational participation of the SDP members in a host of other organizations.[367]

A. The Matter Ignored: Diversifying and More Insecure Work Relations

Being the workers' party, the Social Democrats have failed to react to the changes in work relations and formulate new programs to account for the insecurities brought by the

[367] Ibid., 97-98.

new circumstances. Being the workers' party, this would have been essentially important for them.

Currently one in four wage-earners in Finland do not work in permanent full-time jobs. Atypical, part-time, temporary positions, freelance and part-time entrepreneurial jobs are becoming more common. Part-time and temporary appointments are especially common among women. In 2005 over twenty percent of women between the ages 25-44 had temporary appointments.[368]

Changing of the size of the working class does not automatically convert to lowering support for the Social Democratic parties, as Kitschelt (1993) has shown. Rather their success has to do with their chosen strategies. Instead of focusing on balancing the budget and paying off national debt, the Social Democrats would have been better off if not with protecting workers' rights in the face of globalization, then coming up with ways to help workers cope with the changes in the work and providing better security, instead of just accepting and going along with the changes or even facilitating them. Instead of choosing the strategy of becoming more like the other parties, it might have been more beneficial for the Social Democratic Party to identify the changes in the areas that have generally been their strengths, and look for improvements in those accordingly. It could still be the party of the workers, just under the new circumstances. No party is currently representing the interests of the female part time workers or service workers' interests (although the SDP receives funding from them[369]). The potential for constituent groups

[368] *Helsingin Sanomat*, page A4 (July 16, 2007).
[369] See for instance "SDP julkisti rahoituksensa," http://www.sdp.fi/node/143 (August 13, 2009).

there is enormous. Jukka Relander points out that the labor unions and the political left have failed to take these changes into account and got stuck in defending the rights of those in permanent employment against those who do not.[370]

Had there been open conversation and democracy within the Social Democratic Party, perhaps this identity crisis problem would have been solved already in the 1990s, and not postponed to when it seems to be too late and the confusion is even wider. When under challenging circumstances a strong leader was able to take the party far from its earlier position, after his departure, the party has been left struggling. Many of the changes in policy and political culture can be hard to reverse, and without a discussed and agreed on program, the Social Democratic Party has been anything but consistent in its actions and statements, leaving the voters as well very confused about what the Party stands for.

In this chapter I have explained how the change in course in the Finnish Social Democratic Party (SDP) happened. In the early 1990s the Social Democrats as a party were ideologically adrift, and in the face of a massive economic crisis SDP leaders were easily convinced that the politics they had been practicing were ill-fated and therefore were quick to reverse their politics to match those normally identified with the political right. Not only has the welfare state that they had spent decades building became a casualty of Social Democratic loss of confidence in their own program but this move will have long term consequences for the Social Democrats' electoral success due to a credibility problem. Had they returned to the old track after the state budget was balanced, the story might be different. But the Party chose to continue on the welfare state austerity

[370] Ibid. See Jukka Relander

program. The results have been disastrous for their electoral support. In the next chapter I will look into the ideology that the Social Democrats adopted and into the mechanisms of how the change was ushered in.

Chapter 5:

The New Ideology, Its Premises and Tools

Concentration of capital in a few hands is the driving logic of the capitalist economy. The goal of the social democratic welfare states in contrast was the creation of equality, an even distribution of resources and abilities through publicly financed services as well as income redistribution through progressive taxation and income transfers. Therefore the fundamentals of capitalism and social democracy at the outset are in direct conflict with one other. And although they were able to exist side by side in the mixed economies of Northern Europe, in the past decades there has been a reversal in direction in the social democratic welfare states away from the ideas of redistribution towards capital accumulation and inequality, certainly in the case of Finland.

Neoliberal ideology has been used to justify and push for more capital friendly policies around the world since the 1980s, and starting in the 1990s it has gained ground in Finland also. Part of the process is the reduction of the size of the public sector. Yet the ideological shift has never been openly discussed or decided on in Finnish politics, rather it crept in piecemeal, decision by decision. To this day, it is hard to find an open proponent of Neoliberalism in Finland. Yet privatization, tax cuts, efficiency requirements in the public sector etc. have a great number of proponents, particularly

among the political and economic elites, and are actively practiced at every level of government.

In this chapter I will first discuss Neoliberalism and its practical doctrine "New Public Management"[371] and then focus on the accompanying shift in responsibility away from the public sector, the paramount actor in the social democratic welfare states. In the second section I will discuss another aspect of Neoliberal politics, its emphasis on rationality and expertise that transfers power away from politically elected representatives in the public sector to civil servants, consultants and experts. Next I will discuss the circumstances – a tradition of consensus politics combined with a depression mentality- that helped to make the transition happen, and finally explain the new decision-making processes that have institutionalized power with those who control the budgets.

I. Neoliberalism

The neoliberal thought that had gained ground elsewhere in the world, and pushed by the OECD, came to the rescue of the economic troubles in Finland in the early 1990s. The crisis was sudden and severe and Finnish political decision-makers were struggling for something to guide them out of the mess that Finland was in. Although we now know that the economic crisis in Finland was not caused by the welfare state, but by careless deregulation of the economic policies in the second half of the 1980s, the welfare state and the large public sector became the scapegoats (see Chapter 1). What was needed in order to reduce the alarm were ideas that would help to modify the existing institutional

[371] The OECD initiated public sector reform program, that will be discussed later in this chapter.

structures to match the current concerns,[372] and those already in support of deregulation were quick to put forward the neoliberal ideas already popular elsewhere.

The tools of the neoliberal project consist of mechanisms like liberalizing markets, privatization of public institutions, outsourcing and contract bidding, stricter expectations on returns, tax cuts benefiting the wealthy, cutting back public expenses, international free trade, strengthening and expanding private ownership with international treaties and acceptance of the rule of the global money markets,[373] as has happened in Finland. Basically the idea is to reduce the size and the strength of the public sector while increasing the sphere of the markets.

According to Juho Saari (2006) the battle of ideas in Finland lasted for a couple of years, but the ones that won out, with the help of the economic crisis, have since been rather unquestioned in Finnish politics. These ideas include public sector budget stability, competitiveness of the economy, sustainable development, advances in the knowledge economy and European integration.[374] And the goal since then has been a welfare state that instead of creating equality and lowering poverty, "continuously renews itself by creating institutional structures that enable competitiveness."[375] This has meant making labor markets more flexible and decentralizing income negotiations, while work has to be encouraged. Therefore income inequalities have to be increased, taxes lowered, public

[372] Juho Saari, ed. *Suomen malli – Murroksesta menestykseen?*, (Helsinki: Yliopistopaino, 2006), 105.
[373] Heikki Patomäki, "Mahdollisuuksien taito – globaalit puolueet?," in *Puolueiden kriisi*, ed. Hanna Kuusela and Mika Rönkkö. Helsinki: Like Kustannus, 2008, 118.
[374] Ibid,
[375] Ibid., 106.

services privatized and social benefits cut[376] as well as made more conditional. Any discussions about actually improving social policy have been out of the question.[377] Neoliberalism has been imitated rather uncritically and without imagination in Finland. Anything unique is due to the strength of previously created historical institutions, and the vastness of resistance,"[378] argues Heikki Patomäki (2007).

Ideologically, private ownership is at the core of liberalism as advocated by both John Locke and Adam Smith." [379] "The works of a number of scholars, many associated with the economics department at the University of Chicago, with their strong preference for the market over the dictates of the state, can be seen as providing the intellectual basis and inspiration for the privatization movement,"[380] explains Suleiman (2003). The idea is to first, reduce the size of the public sector, and secondly make the remnants of "public sector operate more like the private sector." [381] These ideas originated outside of Finland within "the international community of think tanks, experts, and academics in disciplines such as economics, accounting, business, management, and administration"[382] that "has played an important role in transmitting and informing about ideas and practices." [383] Organizations such as the OECD and the World Bank have held a key role in advocating these ideas around the world[384] As a result, "it is probably fair to say that never before have governments and administrations across the world been so intensely aware of the

[376] Kiander 2002, 10.
[377] Juho Saari, ed. *Suomen malli – Murroksesta menestykseen?*, (Helsinki: Yliopistopaino, 2006), 255.
[378] Heikki Patomäki, *Uusliberalismi Suomessa, Lyhyt historia ja tulevaisuuden vaihtoehdot,* (Vantaa: Dark Oy, 2007), 107.
[379] Ezra Suleiman, *Dismantling Democratic States*, (Princeton: Princeton University Press, 2003), 97.
[380] Ibid.
[381] Ibid., 124.
[382] Ibid., 53.
[383] Ibid.
[384] Ibid.

way new governments and administrations function. In such an interconnected world, thinking about new practices does not necessarily come after a problem is experienced but, rather, as a result of an awareness that another country adopted a practice that seemed to have produced positive results."[385] Finnish civil servants especially are in contact with the international organizations and aware of the "best practices" of the time.

Although marking a huge transition in the Finnish system, Neoliberalism came in through the backdoor in Finland rather than being openly decided on. First in the 1980s the financial markets were deregulated. The initial policy changes were made by a small group of civil servants at the Bank of Finland. That left Finland in a situation of having deregulated financial markets AND a universalistic welfare state built to complement a centralized national economy. After the economic crisis hit it was easy to justify changes trimming the public sector to match the deregulated financial markets. Executed by top civil servants, Anna Kontula (2008) writes that it was never decided, neoliberalism crept in quietly, because no one in Finland had the ability, the skill or the credibility to make an issue out of it.[386]

Neoliberalism is at odds with political decision-making rests on majority decisions that apply to everyone. Rather Neoliberalism emphasizes that markets react to individual needs through price mechanisms and therefore fulfill individual needs better[387] than the public sector. Much of the political spectrum in Finland seems to have accepted this. The

[385] Suleiman, 153.
[386] Anna Kontula, "Onko vasemmistosta haastajaksi?," in *Puolueiden kriisi*, ed. Hanna Kuusela and Mika Rönkkö (Helsinki: Like Kustannus, 2008), 76.
[387] Ruurik Holm, "Ideologia ja vasemmistopuolueet," in *Puolueiden kriisi*, ed. Hanna Kuusela and Mika Rönkkö (Helsinki: Like Kustannus, 2008), 94.

task for politics therefore, according to neoliberal thought, is to advance the realization of individual needs and choices *through markets*. Accepting this, the differences between the parties have started to fade, and politics in general has become a shared process of adjustment towards efficiency requirements defined by the markets. As discussed in the previous chapter, this was a clear case with the similarities in the politics of the Social Democratic Party and the center-right National Coalition Party in Finland in the 1990s. And as the field of influence of representative democracy has narrowed, politics has become more about personalities and entertainment,[388] focusing more on image than actual politics. With politics being undesirable, the functions of the parties can be transferred to civil servants who only prepare and administer the framework for the functioning of the markets.[389]

A. New Public Management

New Public Management (NPM) has specifically been the doctrine that brings in neoliberal practices to the public sector.[390] The public choice theory behind New Public Management (NPM), the specific philosophy used to modernize the public sector, is based on the idea that markets guide resources better than the public sector does.[391] NPM like Neoliberalism views the public sector and the welfare state critically and proposes adding efficiency, decentralization, competition, outsourcing of the functions of the

[388] Tuomas Rantanen. "Punavihreät vastakoneet," in *Puolueiden kriisi*, ed. Hanna Kuusela and Mika Rönkkö. Helsinki: Like Kustannus, 2008, 49.
[389] Holm 2008, 94.
[390] Leena Eräsaari, "New Public Management on julkisen sektorin vääryyksien isä" in *Vääryyskirja*, ed. Helne, Tuula & Markku Laatu, (Vammala: Vammalan Kirjapaino, 2006), 87.
[391] Raija Julkunen, *Kuka vastaa? Hyvinvointivaltion rajat ja julkinen vastuu*, (Vaajakoski: Gummerus Kirjapaino Oy, 2006), 78.

public sector, as well as increasing the public sector cost-benefit accountability.[392] The reforms have been accomplished by public sector austerity programs,[393] by introducing private sector management tools and leadership mechanisms in the public sector, and by privatizing formerly public functions.[394] NPM "basically seeks to align organizational methods of the public sector to those of the private sector."[395] The idea is that by creating markets within the public sector, quality will improve and costs will go down.[396] Therefore privatization and/or outsourcing of governmental functions have been the corner stones of the New Public Management.[397]

New Public Management is critical of public sector bureaucracy and instead of equating it with justice and equal treatment, emphasizes its inflexibility, its domination of the clients, as well as expensive and wasteful use of resources.[398] Rather, the NPM is supportive of the needs of the demanding customer that expects flexible, user-friendly services according to different needs and tastes instead of the standardized services for all[399] provided by the traditional welfare state.

The Organization for Economic Co-operation and Development[400] (OECD) started pushing for public sector reform in the mid 1980s.[401] New Public Management has

[392] Sulkunen, *Projektiyhteiskunta* 17, Projektiyhteiskunta.
[393] Julkunen 2006, 77.
[394] Ibid., 78.
[395] Suleiman 2003, 123.
[396] Eräsaari 2006, 95, 93?
[397] Suleiman 2003, 3.
[398] Julkunen 2006, 79.
[399] Eräsaari 2006, 90.
[400] The OECD got its start as the *Organisation for European Economic Co-operation* (OEEC) in 1947 to administer American aid under the Marshall Plan for the reconstruction of Europe after World War II.
[401] Julkunen 2006, 77.

quickly spread from the US and England to the rest of Europe through the OECD and the European Union.[402] Although practiced to different degrees and with different emphases in different countries, the general goals have been to reduce the role of the public sector while expanding the turf of markets.[403] Outcomes between countries have varied because of the different starting points and environments.[404] This process got its start in Finland in the 1980s as well but really picked up speed as a result of the depression[405] in the early 1990s. The noted Finnish welfare state scholar Raija Julkunen (2006) argues that Finland has been particularly enthusiastic and determined in introducing the teaching of this doctrine since.[406]

In accordance of the NPM philosophy, public sector activities in Finland are being reorganized in a way that they can be counted, and their efficiency easily evaluated.[407] With the welfare state too, the efficiency demands of the NPM shift the focus of accountability on matters than can be counted, therefore instead of the concern for people's wellbeing specifically, focus is on counting services per input, such as how many school children can be fed with each budgeted Euro, how many elderlys diapers can be changed within a shift, and how many patients a doctor can see in an hour etc. These efficiency demands have been actively criticized in the media, yet the logic behind them has rarely been questioned. And while demand for more efficiency requires

[402] Sulkunen, 2006, 17.
[403] Julkunen 2006, 77.
[404] Sulkunen 2006, 17.
[405] Julkunen 2006, 78.
[406] Ibid.
[407] Ibid, 82.

constantly striving for higher numbers with the same resources, this process does not have an end in sight.

What is neglected here is that especially in the care professions and services that have to do with people's wellbeing, the most essential matters, may not lend themselves to counting. The most out-there example would be that of an efficiency report by a consulting company I was told about that seemed to suggest that the faster the patients die, the more efficient the hospital is.[408]

Efficiency of course is a good thing, especially if it fixes problems of the public sector. Abolishing the public sector however, does not solve its problems. A capable bureaucracy is needed because "a state's bureaucracy is in reality but the instrument of the legitimately elected government, even if it is not a completely disinterested and selfless institution."[409] The danger is that "if our culture more and more sees the individual as a mere consumer and undermines citizenship, the bureaucracy will be ill-equipped to step in and provide society with a sense of itself as a collectivity."[410]

Similarly while efficiency may have undesirable effects on actual outcomes on wellbeing, decentralization and shifting responsibilities to third parties is problematic when it comes to identifying accountability. In essence a system of governance where responsibilities

[408] Interview #12, January 9, 2009.
[409] Suleiman 2003, 3.
[410] Ibid., 10.

are dispersed to a variety of actors effectively helps to conceal accountability.[411] When things don't work as they should, and public services for instance being part of the common affairs of the country, the citizens should know whom to hold accountable. Yet, the NPM seems to go hand in hand with the general shift away from public responsibility over individual's wellbeing.

Pasi Pyöriä (2006) points out that perhaps the biggest change resulting from the depression is not the larger social and economic divisions in society, but the change in the attitudes and the cultural climate,[412] the rise of the idea of the competition society and the business-like thinking in all sectors of life, seeing the whole world as a market place. Citizens are seen as the customers of the state and consumers of public services rather than as the sources of political will.[413]

Although "the U.S. is the only state where the extensive adoption of the NPM reforms follow a strong growth in distrust of government," [414] despite it, other countries have followed the American example: "politicians in most countries, but most particularly in the U.S., chose to forget that they were essential parts of the state. In denigrating the state which they were elected to manage, they have essentially undermined their own authority."[415] Suleiman's (2003) argues that "democratic societies have been following a path that leads to undermining, or even destroying, one of the central institutions on

[411] Stefan Sjöblom. "Kohti projektoitunutta julkishallintoa," in *Projektiyhteiskunnan Kääntöpuolia,* ed. Rantala, Kati and Pekka Sulkunen (Helsinki: Gaudeamus, 2006), 76.
[412] Pasi Pyöriä, "Kilpailutalouden kritiikkiä," *Yhteiskuntapolitiikka* 71, no. 4 (2006): 436.
[413] Ibid., 437; and Sulkunen 2006, 17.
[414] Suleiman 2003, 65.
[415] Ibid., 4.

which a democratic polity depends,"[416] the bureaucracy. And while "the administrative ills in the 1980s were far from identical in different advanced economies," [417] the "NPM has certainly not proved to be the panacea that cured all ills."[418] Still "all proposals for reforming the bureaucracy are presented as being essentially apolitical and of benefit to the "general interest". Some reform proposals may well be of benefit to the society as a whole. Some, and often the more important ones, have little to do with the bureaucracy itself and everything to do with the distribution of resources,"[419] Suleiman points out.

B. Problems with Reducing Public Responsibility - Privatizing and Outsourcing Public Services, and Incorporating Public Institutions

As part of the neoliberal project and New Public Management, there has been an aspiration to move provision of public services to private companies while many formerly public institutions have been incorporated and sold to private investors. Increasingly, citizens are left to fend for themselves, putting them in differing bargaining positions according to their purchasing power in the private sector.

Privatization involves a wide range of policies aimed in essence at reducing, limiting and weakening the scope, the functions and the influence of the public sector. [420] Privatization has been a phenomenon in all advanced industrialized economies: "For all OECD countries a total of $600 billion was generated from privatization between 1990 and 1999. At least two-thirds of all privatization activity took place in OECD countries and the

[416] Ibid., 18.
[417] Ibid., 124.
[418] Ibid.
[419] Suleiman 2003, 10.
[420] Ibid., 92.

majority of proceeds came from countries within the European Union."[421] A World Bank study estimates that 180 companies were privatized in OECD countries between 1980 and 1991."[422] "In the initial stage, the governments sold firms providing goods and services of a purely commercial nature and operating in competitive sectors of the economy. In the latter stage, they privatized their public utilities, including telecommunications and transport sectors."[423]

Efficiency and alternatives are great things and worth striving for (perhaps not for their own sake however), but the first and most important thing that seems to have been forgotten is that a state is not a corporation and should not be run like a corporation. These two are fundamentally different, a state's purpose is not to turn a profit, while businesses exist specifically to make profit for their owners. A democratic state represents the people and carries out functions on the mandate from the citizens, therefore the purpose should be the interests and the wellbeing of the people. Citizens are also not the same thing clients. Not to mention the private sector neglecting to take care of human needs was the reason for the building of the welfare state in the first place.[424]

Privatization and outsourcing may be the appropriate choices in some cases, but they should not become the end-alls that cure all problems, especially when there are so many examples of them not delivering on their promises. There are many cases where prices have risen, and the quality has not increased as promised. In the case of price increases,

[421] Ibid., 93.
[422] Suleiman 2003, 94.
[423] Ibid., 96.
[424] Tommi Uschanov. *Mikä vasemmistoa vaivaa?,* (Helsinki: Kustannusosakeyhtiö Teos, 2008), 174.

for example, the energy companies in the Finnish capital area (Helsinki, Espoo, Vantaa, and the small Kauniainen inside of Espoo), Espoo's was privatized and sold to the energy giant *Fortum*[425]. In Helsinki the energy markets continued to be dominated by the publicly owned *Helsingin Energia* and in Vantaa by the publicly owned *Vantaan Energia*. In a year from 2007 to 2008, the cost of electricity in Espoo markets dominated by Fortum increased by 31.8[426]-37.2[427]% whereas in the neighboring Helsinki the increases were 15.2-16.1% and in Vantaa 8.8-13.9%. In October 2008 the cost per *Fortum* unit[428] were 6.4-8.7¢, *Helsingin Energia* 5.6-6.7¢, and *Vantaan Energia* 5.6-7.6¢. Luckily the consumers can choose their energy provider. But clearly private is not always cheaper.

The City of Espoo alongside Helsinki (also described as the wealthy suburbs of Helsinki) has gained praise for having introduced the most market reforms in its governance, and therefore there are many examples of shifting responsibility to third parties there. However, what was promised does not always automatically get delivered, private service may turn out to be worse than the public. For example, Espoo outsourced the production of kindergarten and school food services to the French company *Sodexo* in 2007 through contract bidding. Since then a quarter of the city day care places have been having problems, ranging from food not arriving on time to not being suitable for the children in the age group. Despite the City of Espoo complaining since August, the

[425] Espoon Sahkö in 2001 sold one third of its shares to the German E.On. The City kept one third of the shares. In 2006 the whole company merged to Fortum in 2006 (http://www.taloussanomat.fi/omatalous/2008/10/24/fortum-iski-espoolaisille-tuplakorotukset/200827700/139)
[426] "Kerrostalo."
[427] "Omakotitalo"
[428] Kilowatthour.

problems had not been solved by October 2008.[429] While the children had to deal with the irregularities for months, problems just weren't fixed even though they were very well known. This is also an example of switching to a private service does not bringing better accountability.

Profit making from public services seems to be somewhat dubious. Many owners of companies now in charge of formerly public functions have been turning in good profit, and were among the top earners in 2007. The CEO of MedOne (a private company that sells medical services to municipalities that cannot afford to hire enough medical staff, by contracting temporary doctors to them at a higher price than those directly employed by the public sector etc.) made 22 million Euros when the company was sold to a Swedish company. This company specifically makes profit from income from the public sector and tax payer money. How that adds efficiency or saves money in the public sector is not clear. In March 2010 municipal medical providers were complaining that since they had started outsourcing and privatizing, medical expenditures had risen despite the promises made.[430]

The former CEO of Inspecta (a formerly public car inspection service) on the other hand made 6.1 million Euros by selling that company to a British investment company 3i.[431] Before then the car inspection prices had tripled, despite the claims that privatization

[429] Merituuli Ahola, "Espoon paivakodeissa ja kouluissa vaaraa ruokaa vaaraan aikaan," http://www.hsonline.fi, (October 10, 2008).
[430] "Ulkoistaminen lisäsi kuluja" in *Iltalehti Editorial,* http://www.iltalehti.fi/paakirjoitus/2010031211280284_pk.shtml, (March 13, 2010).
[431] Perttu Kauppinen and Jyri Raivio "Ulkoistaminen toi taas miljonaareja tulokarkeen," http://www.hsonline.fi, (November 3, 2008).

through competition would lower prices. So not only are the former functions of the Finnish public sector privatized to make profit for individuals, but then they get sold to foreign investment companies by those individuals for further profit. The foreign investment companies are unlikely to care about equitable and affordable access by Finnish citizens to necessary services.

Lack of accountability has been mentioned as one of the problems of privatization and outsourcing. In democratic societies voters should be able to count on their elected representatives to administer the public affairs fairly and according to their wishes. Who is to be blamed when the privatized services do not deliver what was promised? This often harms the worst off the most. Especially people that are in most need of help, such as the elderly, may not have the ability to fight. There have been a host of problems reported with municipalities outsourcing care for the elderly to private companies profiting in fees etc. No one is actually in charge making sure that the often immobile elderly indeed are taken care of, while giving the low income elderly vouchers for instance for grocery deliveries, subjects them to higher costing groceries and fees from private businesses making profit from their modest pensions.

A further problem with outsourcing is the logistical problems caused by the process of bidding for contracts. Firstly, there may not always be multiple providers of services available, especially in rural areas, to compete for the contracts. A single provider can ask for any amount they choose to and still be the best offer. And when there are multiple providers, the cheapest offer of course does not necessarily equal the best quality offer.

The proponents of contract bidding argue that competition results in innovation and efficiency. Yet how much can you innovate for efficiency when it comes to the care of people (the sick, the old, the children etc) without their care suffering?

Reviewing offers and monitoring quality also requires knowledgeable staff and costs money. How will the always struggling small rural municipalities will able to mediate that? Also in some services there just isn't money to be made, and the municipalities might not have enough customers to make up markets for competition that would lower prices. And once a municipality gives up producing a service, it becomes completely dependent on market forces. There may be no going back.

All this may result not just in deeper socio-economic divisions, while draining the public sector of resources, and driving those that can afford to the private sector where they will pay for part of their services out-of-pocket.

II. "Rationality": Political and Economic Elites vs. the people

As shown by study after study, the Finnish people want improvements in social and health services, and improvements in the welfare state, and they are even willing to pay higher taxes to that end. Yet, the political decision-makers consistently have been choosing tax cuts and reductions in public responsibility. This is what by the new logic is reasonable and rational, despite the public will. In her study of the opinions and rhetoric of the political decision makers in 1995, Anu Kantola (2002) found that most political

and economic elites in Finland were very market oriented in their thinking[432] and it was very clear that they considered themselves to be rational while the electorate was viewed as having irrational expectations and demands.

Alanko-Kahiluoto (2008)[433] has studied the increasing use of experts to back up political decisions in governance: "The politics supported by the expert apparatus is based on the notion that experts and politicians are right, while the citizens criticizing the decisions are always wrong. Politics are justified by the rationality of the choices, although it is obvious that ideology and values continue to guide it. The values of politics and the citizens just often do not match" (my translation).[434]

While the difference of opinion between the political elites and the population is apparent, it is less clear why the population does not react by demonstrating, or at least by throwing those elites out of office in the next elections. The Finnish population is well educated and has great access to newspapers, the internet etc. Even electoral turnout is higher than in most other Western countries.

Paul Pierson talks about politicians engaging in blame avoidance for enacting unpopular cutbacks. "This new politics, marked by pressures to avoid blame for unpopular policies, dictates new political strategies"[435] he points out. "Those favoring cutbacks will attempt

[432] Anu Kantola. *Markkinakuri ja managerivalta, Poliittinen hallinta Suomen 1990-luvun talouskriisissä*, (Tampere: Pallas, 2002), 83.
[433] Outi Alanko-Kahiluoto, "Vaihtoehdottomuuden aika," in *Puolueiden kriisi*, ed. Hanna Kuusela and Mika Rönkkö, (Helsinki: Like Kustannus, 2008), 137.
[434] Ibid.
[435] Pierson 1996, 147.

to lower the visibility of reform, either by making the effects of policies more difficult to detect or by making it hard for voters to trace responsibility for these effects back to particular policymakers. Wherever possible, policymakers will seek broad consensus on reform in order to spread the blame" [436]

Although reforms in Finland have tended to have a broad consensus behind them, the Finnish political decision-makers usually refer to "there is no other alternative" and instead of actual nominal cutbacks, the cutbacks in the Finnish welfare state have been accomplished not by actual cutbacks, but more indirectly by not raising benefits in tandem with the rising costs and wages, resulting in a remarkable lowering in actual benefit levels in relation to the wages and prices that have risen (see Chapter 3). This works particularly well on benefits that are not tied to the index. While pensions for example (as well as some user fees) are designed to automatically rise with the cost of living, raising student benefits, child allowances, minimum unemployment benefits etc require political will to be proposed and passed. The student benefits for example were the same nominal amount in 2008 as they were in 1995, with inflation therefore taking care of the lowering of their purchasing power.

A. Civil Servants

Unlike in the U.S. and France, the bureaucracy has not become similarly politicized[437] in Finland. This is the case in most of Europe as well[438] as the neoliberal and NPM doctrines emphasize expertise over politics. Politicians, although on a different

[436] Ibid.
[437] Suleiman 2003, 229.
[438] Ibid.

wavelength from the population, are not shielded from public opinion like civil servants are. Civil servants also tend to know their specific area of expertise very well, and as the New Public Management values expertise, civil servants have gained in power, while many politicians seem to feel their hands are tied. One politician commented: "Expertise is now valued, politics does not dare to challenge it."[439]

However, a top civil servant explains: "(There is a) clear distinction, politicians make decisions, (while) the civil service prepares and then executes."[440] A former Minister of Social Affairs and Health agrees: "Civil servants know their area of expertise very well, smart politicians have always based their decisions on help from experts." Therefore for civil servants, "power is the power to influence, not to make decisions,"[441] and "the job of a minister is to listen and discuss, then summarize and make a decision. It becomes a problem if one listens to just one stand, or one expert,"[442] she continues.

Yet, these were the only two people among my interviewees that did not emphasize the increased power of civil servants, experts, economics and/ or the Ministry of Finance, and rather were ones on top of the ladder in the decision-making processes. "Currently Finland is being led too much by the Ministry of Finance economists' point of view that prioritizes public finance, there is no room for other considerations,"[443] states one top politician in contrast. During the depression, power was given away because there were difficult decisions that had to be made, and no one wants to make those, so power was

[439] Interview #1, June 3, 2008.
[440] Interview #9, June 12, 2008.
[441] Ibid.
[442] Interview # 10, June 24, 2008.
[443] Interview #6, June 10, 2008.

transferred to the bureaucratic apparatus. They still hold the power to make decisions,[444] he continues.

As Kautto (2002) found, policy-makers consider themselves rational and view the public to be irrational in their demands and preferences. There seems to be a similar tension also between the technocrats and the elected decision-makers: if the politicians consider themselves to be more rational than the population, the civil servants consider themselves to be more rational than the politicians, because they do not have to care about the popular opinion in fear of the next elections. Permanent Secretary of State from the Ministry of Finance, the top civil servant at the Ministry Raimo Sailas, who came up with the list of cutbacks in the early-mid 1990s, clearly holds this kind of view. In an interview with his brother Harri Sailas, a pension fund president, to celebrate his 60th birthday, they discuss the issue, and express annoyance at the inconsistency[445] of politicians and state that "politicians can present reckless increases in spending without accounting for which expenses will be cut or where the increases in income might come from, and that will pass! In the business world this kind of presentation would be absurd"[446] he states.

B. Lack of Political Discussions: Consensus politics

The claim that "there is no other alternative" has been characteristic of Finnish politics, and applies very well in the case of welfare state retrenchment since the 1990s as well. Relying on arguments of necessity has been characteristic of the Finnish political culture

[444] My interview #6, June 10, 2008.
[445] "epäjohdonmukaisuus"
[446] Anu Karttunen, "Tosi Sailasta," Talouselämä, (June 22, 2006). "Voidaan esittaa hulvattomia menonlisäyksiä kertomatta, mitä menoja karsitaan tai mista saadaan lisää tuloja. Ja sitten tämä vielä menee läpi, Harri Sailas ihmettelee. Yritysmaailmassa tälläinen esiintyminen olisi hänen mukaansa absurdia.

explains Smolander (2006). Vartiainen (1993) also writes that "from a researcher's point of view, in the Finnish economic policy talk, there has always been an astonishing lack of alternatives.[447] The chosen politics has gladly been announced as the one and only correct and necessary one."[448]

Martti Korhonen, the Chairman of the Left Alliance (until June 2009) explains that "Finland has a strong consensus history, (which is) our strength on one hand, (there are) no extreme parties, yet differences between parties are small."[449] "In Finland we have the ability to get all sectors around the same table, decisions were made as compromises,"[450] explains a former minister as well.

At the state level the problem is that the economic policy elites in Finland not only are few, and very likeminded,[451] but that also within the parties the few party elites have been found to have a very strong influence on the official party line (Alho 2004, Karttunen 2009). In her 2004 doctoral dissertation, former Minister Arja Alho too concludes that "the decision-making elite in Finland consists of but a few politicians and civil servants. While the political elite… is formed around the Prime Minister and Minister of Finance, it is they and the civil servants close to them who form the coalition of the real power elite."[452]

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[447] "Vaihtoehdottomuuden puhetapa."
[448] Juhana Vartiainen, "Suomen talouspolitiikan vaihtoehdot 1990-luvulla." In *Kestävyyskoe, Kirjoituksia 90-luvun Suomesta*, ed. Kaj Ilmonen. Tampere: Vastapaino, 1993. my translation.
[449] Interview #6, June 10, 2008
[450] Interview #10, June 24, 2008.
[451] Interview #1, June 3, 2008.
[452] Published as Arja Alho, *Silent Democracy, Noisy Media*, (Helsinki: Helsinki University Press, 2004), 290.

The Finnish welfare state is a huge part of the everyday lives of the Finnish people, and it is interesting how it has been transformed without much conflict. Neoliberalism and New Public Management have been brought in without any debate, as technical reforms by civil servants. Further, in the middle of an economic crisis, the party spectrum could have become more fragmented and broken up, but instead of conflicts about the political direction, there was an apparent consensus. That is another trait of Finnish politics, "during hard times, we must stick together."

Heiskala and Luhtakallio (2006) point out that the change in rhetoric was rather sudden. It is surprising that such a reversal that touches on so many people's benefits faced so little resistance and was pushed through so quickly. They offer two possible reasons for this. The first is that this is a typical model in Finnish history in which the elites first find consensus, and then they sell the new ideas to the public as necessities without choice, making it an "elite revolution from above". The other option is that the crisis was so severe, that it was not difficult to convince different social groups of the necessity of change. In the end the competitiveness model became the tool of change, and any stance critical of it, was automatically discussed holding on to the old.[453] I think in this case, it was a combination of both, and therefore pushed through so easily.

[453] Risto Heiskala and Eeva Luhtakallio, eds. *Uusi jako, Miten Suomesta tuli kilpailykyky-yhteiskunta?*, (Helsinki: Gaudeamus, 2006), 41.

III. Shifting Moods

A. Depression Mentality

The depression of the early 1990s was the deathblow to the reformist thinking of the earlier decades. The depression left a lasting impression on the welfare state mentality with increases in social spending having become out-of-the-question ideas despite economic growth since 1994.[454] The imperative of austerity remained, always just taking on different reasons why, whether it was the EMU criteria, population aging, globalization, competitiveness etc. The depression has stayed on, explains a top leftist politician, the same arguments are still being used currently, mainly that debt has to be lowered, it became the scarecrow and it's still very much being utilized, yet focusing on it too much is a value choice,[455] he argues.

The depression on one hand did necessitate some cutbacks at the time in order not to bankrupt the country, but as Pyöriä (2006) for example points out, the depression was also used to justify some political decisions that have resulted in long terms effects, including enduring long-term unemployment and exclusion.[456] And even if there is economic will to improve social programs, only marginal improvements are possible because of the limitations set by the new budget framing procedures (to be discussed later in the chapter).

[454] Matti Heikkilä, "2000-luvun sosiaalipolitiikan reformipotentiaali,"*Yhteiskuntapolitiikka* 69, no. 1 (2004), 61.
[455] Interview #6, June 10, 2008.
[456] Pasi Pyöriä, "Kilpailutalouden kritiikkiä," *Yhteiskuntapolitiikka* 71 (2006):4, 436.

B. Pessimism of Politics/ 'Realism'

As a result of the changes since the 1990s, politicians feel that their hands are tied. The idealism of past decades has turned into realism about the rule of the markets and an acceptance that politics is just the handmaid of economics. Proposing improvements in the welfare state certainly is out of the question. Such proposals get shot down as a unrealistic and embarrassing "dreamer's fluff"[457] that has no place in current day politics. One politician complains that economists want immediate results.[458]

Politicians have lost the belief in the possibility of politics due to the opening up to the global markets, argues an outspoken Social Democrat,[459] one of the few calling for "returning politics into politics."[460] Instead, politics now equals value free management of common affairs.[461] The era of the planned economy came to an end, and membership in the EU took away strength from political discussions, the politicians just can't decide on things like before, observes a civil servant. "Globalization, corporate culture, population aging (and) preparing (for the future) have become new important criteria. It has to do with realities"[462] explains a former center-right Minister of Health and Social Services.

[457] As the SDP chairman Urpilainen's proposals have recently been called.
[458] Interview #3, June 5, 2008.
[459] Interview #1, June 3, 2008.
[460] Interviews #1, June 3, 2008, and #12, January 9, 2009.
[461] For example Interview #1, June 3, 2008.
[462] Interview #3, June 5, 2008.

It is true that not all the same things can be decided on national level as before. With the EU pressures are stronger to not make decisions that before could have been fixed with devaluation, because not all the same national instruments, namely monetary policy, are available.[463] Realism has gained ground, the limits of what can be done are understood much better, continues the Ministry of Finance civil servant. Yet, that is a realism of the demands of the market economy.

IV. Emphasis Shifts on Public Finance

Following the depression, the emphasis permanently stayed on trimming expenses, and paying off national debt. And although Finland has been having budget surpluses since (until 2009), the focus has been on tax cuts and paying off debts, not on improving income transfers or social services. And just as in many other countries, neoliberalism in Finland too has meant increasing power to the Ministry of Finance.[464]

The focus on public finances was introduced in a time when Finland's credit ratings fell during the depression, ushering in a more market oriented thinking,[465] points out a politician. It sneaked in, having an outside imperative makes it easy to make decisions,[466] she explains. Having an external threat eased the decision-making when there was no choice, and the pressure stayed on with the fulfillment of the EMU criteria as the seal.[467] Yet, why this mentality stayed on through periods of economic growth, with Finland

[463] Interview #7, June 11, 2008.
[464] Patomäki 2007, 77.
[465] Interview #1, June 3, 2008.
[466] Ibid.
[467] Interviews #1, June 3, 2008 and #2, June 4, 2008.

being nowhere near the EMU criteria, and against the wishes of the population, doesn't make sense.

When calling for increases in social spending, the Ministry of Finance's answer has always been that there is no choice but to pay back the debt in preparation for the future, even when there are huge surpluses.

A. Core Conflict: What to Do with the Surplus

For over a decade, there was a constant surplus, and one of the basic conflicts has been over what to do with it. While the political center-right, employer unions, the Ministry of Finance, and the Social Democrats while in power, have wanted to pay back debts (and lower taxes) in preparation for the future, others have called for different kind of preparation for the future: "Investing in health would be important preparation, but economists want immediate results"[468] says a former Minister of Health and Social Affairs. "To reduce expenditures in the long term, that would require increases in funding in the short term to rehabilitate people, but the Ministry of Finance has their own ideas thinking that there are major problems ahead, so not much can be done,[469] explains a top civil servant at the Ministry of Health and Social Affairs. It is a fundamental shift not to see them as investments but as one time expenses,[470] states Martti Korhonen, the Chairman of the Left Alliance (until June 2009) and a member of the parliament since 1991.

[468] Interview #3, June 5, 2008.
[469] Interview #7, June 11, 2008.
[470] Interview #6, June 10, 2008.

Korhonen argues that "there is no other choice" still applies when it comes to paying back the national debt.[471] Even within the government there is no discussions about it.[472] If we want to prepare for the future, investments should be made now that there is a surplus, not when there isn't money,[473] he continues. Yet, top Ministry of Finance civil servant states that there aren't too many credible alternatives to the current surplus, lowering debt is preparing for the future. These are good intentions, economic policy should be sensible[474] agrees a Social Democrat. These are good things, just not as the primary goals,[475] she continues. "Stabilizing the economy became the goal, not a tool."[476] In the next section I will focus on the tool of economic stabilization, fiscal policy frames in budgeting.

B. Fiscal Policy Frames

Fiscal policy framing in budgeting in Finland got its start in 1991.[477] The idea had emerged already in the 1960s, but it did not correspond well with welfare state expansion.[478] In the early 1990s however, fiscal policy framing was introduced, partially as a response to the depression. Its main purpose is to control, or even reduce, public expenses by pre-establishing definite limits for each spending sector. It was needed, since

[471] Ibid.
[472] Ibid.
[473] Interview #6, June 10, 2008.
[474] Interview #1, June 3, 2008.
[475] Ibid.
[476] Ibid.
[477] Markku Harrinvirta and Pentti Puoskari. "Kehysbudjetointi poliittisena Päätöksentekoprosessina." *Kansantaloudellinen aikakauskirja* 97 (3/2001): 445.
[478] Ibid., 446.

Finland's credit ratings the early 1990s were horrible, Finland would have easily been repossessed otherwise, describes a Ministry of Finance civil servant.[479]

The fiscal policy framing in effect has strengthened the power of Ministry of Finance over other ministries, and secondly it has served as an automatic prohibitor of increases in social, health, educational expenses despite how justified or needed the increases might be.[480]

The general plans for the governance reform were agreed on May 12, 1988 in a Cabinet agreement in which it was given to the Ministry of Finance to prepare more detailed plans regarding budget process reform. Based on the proposal, the Cabinet led by the conservative Prime Minister Harri Holkeri, decided on October 18, 1990 that from year 1991 on there would be yearly expense allocation frames prepared in accordance to the ministries' action and financial plans taking into consideration the significant social and economic missions and setting frames for each individual item. The next year however, the economic crisis started, forcing the focus on *containing* the budget. Not only were the plans of multiple rounds of consideration from February to August given up (and sticking with just the original proposal in February) but the frames were set not for different projects but only for the ministries as a whole, diverting the budget preparation from its originally laid out plans[481] of allocating additional monies for significant projects, and forcing ministries into a zero-sum game within their sectors. The new process heavily

[479] Interview #9, June 12, 2008.
[480] Patomäki 2007, 29.
[481] Valtiovarainministeriö, Työryhmäraportti, "Finassipolitiikan sääntöjen ja kehysmenettelyn kehittäminen Suomessa, (February 7, 2003), 29.

focused power to the Cabinet, with the Parliament not getting to decide on the frames, but only notified of them.[482]

The purpose of introducing the set budget frames in Finland had to do with restoring the health of public finances and increasing international credibility. The budget frames helped with debt management and balancing the public finances. In contrast to other EU and Euro countries, the budget framing reforms in Finland were NOT initiated because of memberships in EU and the EMU, although they conveniently supported the membership aspirations.[483] As a matter of fact, the fiscal policy rules in Finland have been more ambitious than the Stability and Growth Pact requires, the rules of which Finland has fulfilled since 1997, when the deficit lowered to 1.2%. The public debt at its highest was 57.8% in 1994, therefore never exceeding the under 60% requirement.[484] Currently, the frames aid in preparation of population aging to keep the public finances stable,[485] according to the Ministry of Finance.

The processes of making budgets matter. In Finland the state budgeting process is extremely centralized, done in negotiations between the other ministries and the Ministry of Finance, having strengthened the role of the latter. The frames are decided on ahead of time by the governing coalition before the negotiations with the ministries, therefore forcing any additions to be made within the allocated budget. Furthermore, the basic

[482] Ibid., 30.
[483] Ibid. 36.
[484] Valtiovarainministeriö, Julkaisuja 5a/2007: "Kehyksen puitteissa – Finanssipolitiikan säännöt ja kehysmenettelyn uudistaminen" Helsinki: Edita Prima Oy, 2007. 38.
[485] Ibid.. 36.

budget frame allocations are decided for four years at a time, tying down the budgets.[486] The aim is at balanced budgets over costly reforms, and there is no concern for the social effects of spending or spending changes.[487] The problem is that making the budget allocations has become a technical matter decided over by the Ministry of Finance without the Coalition clearly leading the goal setting as it relates to the budget.[488] The final results tend to closely correspond to the Ministry of Finance original proposal[489] making the ministries' own budget proposal preparations seem rather unnecessary. A serious problem therefore is that the Ministry of Finance in effect ends up deciding on important matters that are beyond its actual intended authority.[490]

Budget framing has become the main tool for maintaining budget discipline for the entire election period. A few items, such as interest and pay and income support, are left outside the budget frames and only 300 million Euros are left outside for later expenses. Therefore budgeting is so inflexible that there is no room for larger new expenses or investments.[491]

A former Minister, and current member of the Parliament, explains the initiation of the budget frames: "In 1995 we had no choice in the Cabinet in regards to the credibility of the Finnish economy, its credit ratings etc. (But) this gear stayed on, necessity was made into a virtue, budget framing was one means through which we were looking for

[486] Harrinvirta et at 2001, 448.
[487] Ibid., 449.
[488] Ibid., 452.
[489] Ibid., 453.
[490] Harrinvirta et at 2001, 454.
[491] Editorial, *Helsingin Sanomat*, http://www.hsonline.fi (February 1, 2008).

credibility for long term economic policy. Those frames have never been corrected, they specifically have been a program to run down the welfare state. Further, on the revenue side there are no frames."[492]

"Ministry of Finance and Neoliberalism have dominated, (that is) the legacy of the depression, and collective work in the cabinet has been minimal. *Lipponen II* (1999) and both *Vanhanen* (2003, 2007) coalitions have been formed so that the prior cabinet has handled the frames only technically, but then in coalition mission statements it has turned into something that is a given, only little adjustments (would be made, but) the goals would not be challenged."[493]

The strong hold of the Ministry of Finance started from the fiscal policy framing as a result of which the Finns started thinking, and the politicians accepted, that public finance is the foundation and end-all, that's why one must accept what they say. It is a new feature that frames are made for years to come, and we must stick to them.[494] Before there was constant debate about the budget, now with the set budget frames, there is no debate, and the set frames hold. It creates credibility for the macro economy, it is understood that huge reforms cannot be made. Budget realism is good, states a Ministry of Finance civil servant.[495]

[492] Interview #12, January 9, 2009.
[493] Interview #12, January 9, 2009.
[494] Interview #10, June 24, 2008.
[495] Interview #9, June 12, 2008.

Pierson's 1996 hypothesis is certainly supported by the case of Finland. Pierson wrote: "The prospects for changing institutions (the rules of the game) may be of great significance. If retrenchment advocates can restructure the ways in which trade-offs between taxes, spending, and deficits are presented, evaluated, and decided, they may be able to shift the balance of political power."[496] In Finland, not only are spending increases made difficult, if not impossible, but the Ministry of Finance has gained power to decide over matters that are not in its field. Finland is made to adhere to a strict budget control, but this is at the expense of barring the democratically elected members of the Parliament from making decisions that would increase expenses or the functions of the public sector, reducing the sphere that they have control over.

Not only has the public sector been shrunk in Finland, and more room been given for the private sector, but also new institutionalized practices have put controls on what the governments can even do, initiating new rules of the game. These new practices remained as the depression waned. There is a new focus on tight budgets that the Ministry of Finance is in charge of but Finland also having joined the EMU gives convenient backing to the Ministry's preference of spending restraint. In the concluding chapter I will look into the future prospects of the Finnish welfare state as well as the future of the leftist politics in Finland, arguing that cutting back the welfare state not only creates savings but has harmful effects both on the Finnish society and the Finnish economy.

[496] Paul Pierson, "The New Politics of the Welfare State," *World Politics* 48, no. 2 (1996): 177.

Chapter 6:

Conclusion

Most special about the Nordic welfare state development was their goal of working toward an egalitarian society.[497] Now this essential goal has been given up on and the trend has been reversed. Pessimism about what can be achieved with public sector initiatives and programs has crept in, coinciding with a public sector rundown program. Politics now at best can try to provide minimal assistance, but is mostly geared towards encouraging people to take care of themselves instead of providing a safety net. An ideological shift has occurred, even in one of the biggest welfare states that now focuses on expanding the sphere of the private sector, and breeds inequality. While these are global trends, what does not make sense is that not only is this direction not supported by the majority of the Finnish citizens, but while creating undesirable social outcomes, its benefits to the functioning of the economy are not straightforward either. Rather, the welfare state has proven a comparative advantage in global competition.

For the direction that the Finnish welfare state took after the early 1990s depression, the mantra constantly repeated by the political decision-makers was that there were no alternatives when it came to the chosen policies, rather, these were the only legitimate

[497] Esping-Andersen (1990, 28) and for example Palme (2007, 19).

alternatives: spending had to be trimmed, taxes lowered, and debt paid. This study argues that there indeed were alternatives and that these were rather political choices.

The neoliberal route chosen was able to establish itself because in a time when the proponents of alternatives were stunned and overwhelmed with the economic crisis and the changes going on in the world, international and domestic experts advocating for more room for the free operation of the markets at the expense of the sphere of the public sector, had a ready plan to fill the vacuum, and were able to convince and push through reforms that took the country in the new direction. The reforms go as far back as the liberalization of the financial markets in the 1980s, and the economic crisis that was created helped to push the rest of the neoliberal ideas to the center of political decision-making. Just as before, economic growth and low unemployment are strived for, but the tools have changed. As a result, taxes have been lowered, the size of the public sector reduced, income transfers in real terms lowered, public services privatized and outsourced. And in contrast to the past decades, inequality in Finland has grown.

The main change is that before being a citizen of Finland came with a sense of safety, knowing that if things go wrong, one will be taken care of. This guarantee is now gone, and the rhetoric is not that different from the American case. In case of a failure, one may receive minimal assistance, but the purpose of that assistance is not to help one out, but to force one in distress to settle for suboptimal alternatives in the private sector. The message is not that everything will be ok. The state of being has become competition instead of solidarity.

Great things were accomplished in Finland in the decades following the World War II, and letting those deteriorate will have long term effects on the Finnish society. Instead of being followers, Finland should aim to be a leader not in how to be most competitive, but in maintaining and strengthening a model that creates success in many sectors, in education and in quality of life, including competitiveness and economic performance. As one aspect gains too much in emphasis, the risk is that others will suffer. As inequality grows, solidarity and social capital for instance diminish. Cutting universalism of benefits for example might create savings, but it also has negative consequences on the support for the welfare state and on the performance of the economy in the long term.

I. Solidarity and Universal Social Policy

The literature on popular support for the social democratic welfare states indicates that reducing universality of social benefits will undermine solidarity and support for the welfare state. While universal social policy has been found to gather widespread support among populations, means-testing in contrast leads to legitimacy problems of the welfare state (Korpi 1980; Forma 1997, 1999; Rothstein 1998).

Cutbacks in social welfare programs risk lowering popular support for the welfare state at least in two ways. Firstly, if social spending is reduced on the poorest groups, inequality will increase. Rising inequality, in turn, "will undermine the social solidarity on which the welfare state rests."[498] In the case of Finland, potential for lowering support can be found as a result of welfare state cutbacks resulting in the gap between the richest and the

[498] Stefan Svallfors and Peter Taylor-Gooby, eds., (*The End of the Welfare State?*. New York: Routledge, 1999), 7.

poorest continuously widening since 1995. This trend is likely to lead to lowering solidarity, and though that to lowering support for the welfare state programs among the Finns.

Secondly, if cuts are made in programs benefiting the middle classes, their support for the welfare state will diminish. Rothstein argues that "a universal welfare state can only exist if it enjoys support far up the social ladder. The "poor," the "underprivileged," the "working class," or any other such social group is simply too small to constitute a sufficient electoral base for a comprehensive universal policy."[499]

Therefore discussions about denying the wealthiest of the child allowances or access to public health care (as have been proposed in various media in the winter of 2009-2010) are unwise for they might save a few Euros but they also carry the long term risk of losing upper middle-class support for the child allowances and public health care and in effect putting them on the cutback list for the future. Pauli Forma already found that the better-off segments of the Finnish society were becoming less willing to finance services targeted at the worse-off part of the population, while Blomberg and Kroll (1999) confirmed that support for means-tested assistance was weaker than for universal services.[500]

[499] Bo Rothstein, *Just Institutions Matter, The Moral and Political Logic of the Universal Welfare State,* (New York: Cambridge University Press, 1998), 153.
[500] Helena Blomberg and Christian Kroll, "Who Wants to Preserve the 'Scandinavian Service State'? Attitudes to Welfare Services among Citizens and Local Government Elites in Finland, 1992-6," in *The End of the Welfare State?* ed. Stefan Svallfors and Peter Taylor-Gooby, (New York: Routledge, 1999), 77.

More importantly, Blomberg and Kroll point out that cuts in services can "result in a 'vicious circle' of cutback policies: the lowered standard of public services results in growing dissatisfaction, which in turn leads to more positive attitudes towards alternate service-providers and a growing pressure to privatize, which results in further lowering of the standard of public services and, thus, to even greater dissatisfaction and negative attitudes towards the public services."[501] As the SDP veteran Erkki Tuomioja points out "services for the poor are poor services"[502] and will encourage those who can afford to seek services on the private sector, further deteriorating the funding and quality of public services.[503] The same idea of a vicious circle applies to income transfers as well. If not everybody is eligible for them, support for them will lower, and as the transfers have less support, their level is likely to be lowered or at least left to leg behind as prices and wages rise.

While money may be saved with selective policy, and support for them will likely diminish, further problems are also created in society that are affecting all.[504] Bo Rothstein (1998, 2002) argues that universality of programs is directly related to solidarity, and that it specifically is economic equality that creates social trust. In the light of that, welfare states also have economic benefits, improving the economic performance of a country.

[501] Ibid., 57.
[502] Interview #12, January 9, 2009.
[503] Ibid.
[504] Ibid.

II. Better Stronger Welfare State

Even though globalization and economic competiveness have been used by political decision-makers of all alignments as the reasons for reducing the size of the public sector in Finland, there are no solid reasons as to why those concerns would necessitate that. Rather those are reasons used to justify an ideology that calls for more room for the private sector, rather than being actual imperatives. The politicians have simply gone along with the hype.

First of all, from an economic point of view, there is no need to cut back on the welfare state, and that improvements in the welfare state as a matter of fact can improve economic growth and the competiveness of a country. The 2002 report by the SOMERA committee, consisting of various ministry and institution officials, stated that the level of social security as it was at that time in Finland was not unsustainable, nor a hindrance to competitiveness in the future if the economy and employment continued to grow (as they did for 6 more years). Further, it was stated, investments in the wellbeing of labor contribute to economic growth[505] and that globalizing markets require social security programs that reduce and alleviate the insecurities brought by the fluctuations of the global markets. A well functioning welfare state is also seen as an advantage in the global markets by the committee, among others because of the increased social capital. The committee does believe however, that the flexibility of the labor markets is something that social provision should support.[506] Therefore, during periods of economic growth, the welfare state is something that will boost a country's competitiveness, and during bad

[505] Somera-toimikunnan mietintö. Sosiaali- ja terveysministeriö, komiteanmietintö 2002:4.
[506] Ibid.

times, it is there to protect the citizens affected by the downturn, and to maintain domestic consumption as people's spending abilities will not dramatically decrease.

Secondly, other than the moral benefits of equality, high standard of living etc., an educated workforce is a comparative advantage in global competition, and social capital that supports economic performance of a country has been found to be the most developed in strong welfare states.[507]

Therefore globalization per se cannot be said to be a threat to the welfare state. Quite the contrary, not only is the welfare state needed more than ever due to the insecurities brought by the globalized markets, but also a strong welfare state can be an comparative advantage in attracting business to a stable country with good infrastructure, and healthy and educated population. Uschanov (2008) raises the great point of all capital not having ventured to Mexico from the US, or from Finland to Estonia, despite substantially lower taxes (7% and 13% lower).[508] Rather, labor will venture from Estonia to Finland, where median salaries are four times as high.

Joseph Stiglitz would agree: "Sweden and the other Scandinavian countries have shown that there is an alternative way to cope with globalization. These countries are highly integrated into the global economy; but they are highly successful economies that still provide strong social protections and make high levels of investments in people. They have been successful in part because of these policies, not in spite of them. Full

[507] Lars Trägårdh, ed., *State and Civil Society in Northern Europe, The Swedish Model Reconsidered,* (Berghahn Books, 2007), 258.
[508] Tommi Uschanov. *Mikä vasemmistoa vaivaa?*. (Helsinki: Kustannusosakeyhtiö Teos, 2008), 172.

employment and strong safety nets enable individuals to undertake more risk (with the commensurate high rewards) without unduly worrying about the downside of failure. These countries have not abandoned the welfare state but have fine-tuned it to meet globalization's new demands."[509]

In the light of these findings, the perception of the place of the Nordic model in the world has changed. In the early 1990s it was claimed in foreign publications that the Nordic welfare states have come to the end of the road, yet in the 2000s the Nordic models are being hailed as a model for the other EU countries to learn from. The European Union too views social politics as a positive force that improves the functioning of the economy. Social politics is expected to improve employment and speed up economic growth.[510] Therefore social policy and economic performance are not in opposition to one other but do complement and reinforce one other. Yet, in Finland this message has not quite gone across, the governments are still trying to reduce the size of the public sector.

However, due to these findings abroad, Finns are slowly starting to understand that when year after year not just Finland, but the other Nordic countries as well perform on top of the list in all cross-national comparisons whether it is on economic competitiveness, quality of education, political freedoms, women's empowerment, lack of corruption etc. it must be that the Nordics do not succeed in these comparisons DESPITE the welfare state, but exactly because of the welfare state. The welfare states specifically are the

[509] Joseph E. Stiglitz et al., "Taming Global Capitalism Anew." *The Nation*. April 17, 2006.
[510] Kiander 2002, 9.

reason why the Nordics have been able to maintain and develop competitiveness.[511] "The Nordics have been embracing both globalization and the welfare state, and we argue that the security offered by collective mechanisms for sharing risks has been instrumental in enhancing a favourable attitude to globalization and competition. This key characteristic of the model must be preserved – in order to maintain an economic and social climate which is conducive to future welfare and growth,"[512] argues Andersen et al (2007). Since welfare states do not seem to slow down economic growth, neither is there evidence that they improve economic growth.[513] However, they provide comparative advantage. In the light of that therefore, why not choose to advance equality?

III. Politics of Inequality

Despite the great advantages created by the welfare state, in the past decade it has become fashionable to be on the side of the economically most successful. The centre-right National Coalition Party (NCP) that represents those doing well in society, has become the biggest party in Finland, and continues to rise in the polls as the economic forecasts worsen and unemployment rises in Finland as well. The members of the party seem to either believe that everybody can do well, or prefers to argue that in order to justify their own socio-economic standings, but regardless that kind of a "positive" message seems to appeal to the voters. The NCP regularly makes statements in campaign ads or speeches accusing the left wing for example representing "the whiners" (2007 and 2008 election campaigns) or the left wing parties for being "bitter people's parties"

[511] Interview #12, January 9, 2009.
[512] Torben M. Andersen, Bengt Holmström, Seppo Honkapohja. Sixten Korkman, Hans Tson Söderström and Juhana Vartiainen, *The Nordic Model, Embracing Globalization and Sharing Risks*, (Helsinki: Yliopistopaino, 2007), 12.
[513] Kiander 2002, 193.

(Minister of Education, Henna Virkkunen, February 2009) or jealous of others' success (Minister of Finance Katainen, summer 2008). Those who are not well off to them are lazy whiners, and need encouragement in the form of stick. These kinds of ideas were openly expressed after a long period of economic growth. One disappointed Social Democrat states that it has clearly become an objective of the Center Party and National Coalition to state that being poor is one's own fault, when before it would not have been acceptable to say it out loud, even if one thought so,.[514] Before marginalization was seen as a societal failing, and unemployment and poverty were seen as structural problems.

Yet, this new emphasis has added a lot of weight to the trend of narrowing public responsibility, placing responsibility on the individuals. A famous civil servant points out that it is inevitable, simply "no society can endure so much responsibility, we have to shift more responsibility to the individual."[515] The early 1990s Depression Prime Minister Centre Party's Esko Aho supports this notion: "People need to recognize their own responsibility. The purpose of social policy therefore is to encourage, encourage doing, and taking responsibility for oneself, whether that is for one's own retirement or for having caused themselves a "lifestyle illness."[516] This is forgetting that social policy, or the safety net, is needed exactly because not everybody can take care of themselves. And when the safety net is targeted, social policy fails to create solidarity and social capital as a side product that is beneficial to the society whether one looks at it from an egalitarian point of view or from the point of view of concerns over crime, corruption, or economic performance.

[514] Interview #8, June 11, 2008.
[515] Interview #9, June 12, 2008.
[516] Interview #12, January 9, 2009.

Yet, in the recent welfare state reforms the emphasis has been more on individual responsibility, such as with pensions. Baby boomers and financing problems have served as the justification[517] for people having to take responsibility for their own retirement. But people face unexpected accidents, and not all illnesses are "lifestyle illnesses" (PM Aho). Where do we draw the line on personal responsibility in those cases? And mental health issues is another one can hardly take personal responsibility for. Of all rehabilitation cases in 2008, as a matter of fact, the largest number were mental rehabilitation cases (28 500 people).[518] The unemployed may be unemployed because they simply can't find or get a job rather that due to personal inabilities to look for one. "Values have moved in a much harsher direction, rather fast, for example when it comes to the attitudes towards the unemployed in the end of the 1990s, even though there wasn't work available."[519]

Also, problems are now inherited[520] from one generation to another. Children clearly cannot be expected to have "personal responsibility." Including children under their parents' personal responsibility is a huge breach in Finnish policy. And does the same apply for students? That would certainly take us far from the idea of equal opportunity in education. This kind of thinking simply assumes that all are privileged if they just want to be, when in reality most people are recipients exactly because they need the assistance, and forgets that it is the role of public policy to create the same opportunities for all.

[517] Interview #5, June 9, 2008.
[518] Jussi Pulliainen, "Mielenterveys jo yleisin syy Kelan kuntoutukselle," http:// www.hsonline, (February 20, 2009).
[519] Interview #6, June 10, 2008.
[520] For example interview #9, June 12, 2008.

"People do not have the same starting points. Before the idea was that we would create the same starting point for each,"[521] states a former Minister of Social Affairs and Health. Problem with this new thinking is assuming that concern for those that are not the most privileged in society is wrong, because somehow they have failed to exercise their personal responsibility. This thinking is based on the idea that these less moral beings will try to take advantage of the system. At first after the depression of there early 1990s there was an atmosphere of solidarity, and the unemployed were not blamed for their unemployment. It was understood that the conditions were far beyond any individual's ability to overcome. Slowly that started to change however, and the unemployed came to be considered taking advantage of the system with the media helping to reinforce this idea (Sanna Valtonen 1999 et al for more). An increasing phenomenon has been blaming recipients of social services and means tested income transfers, and emphasizing the potential of misuse.

Yet, being on the side of the strongest is acceptable. And while social policy has shifted more toward "encouragement" with stick, the incentives are being designed for the wealthy through tax cuts etc. The Chairman of Insurance Company Sampo Björn Wahlroos (also the holder of most power in the Finnish corporate boardrooms, according to *Helsingin Sanomat* investigation[522]), has regularly (see for example *Helsingin Sanomat*, September 2, 2008) stated in his speeches on corporate social responsibility that a corporation has only one responsibility, and that is to make profit for its owners as effectively as possible. Exemplifying the change, a civil servant makes the point that if

[521] Interview #10, June 24, 2008.
[522] Elina Kervinen, "Björn Wahlroosilla eniten valtaa pörssiyhtiöiden hallituksissa," *Helsingin Sanomat,* http://www.hs.fi/tulosta/1135245831745 (May 9, 2009).

corporations in the 1970s would have reported profits like today, that would have been a scandal, and might have caused a general strike, because profit in general used to be considered questionable.[523]

IV. Anti-Leftism

While talking about wealth and policies supporting wealth accumulation have become acceptable in Finland, anything leftist, the welfare state or labor unions, gained a bad name in the ten years following the depression. Talking about inequality or poverty increasing became "negative" politics, and those voicing these concerns were treated like heretics, at best quietly turned away from. Even the Centrist PM Vanhanen in 2008 publicly reproached the media for spreading negative politics by calling attention to the growing problems of poverty and marginalization. He thought that the focus should instead be on the fact that the majority of the Finns generally are doing better economically.[524]

The old leftist ideas about different classes became a complete taboo in Finland - when used by the left wing. Yet in 2006 the right wing National Coalition presidential candidate Niinistö (the 1990s Minister of Finance) claimed to be "the workers' president" (because improving the economy improves employment) which is interesting theft of language from the Left. But only the Right wing could get away with that - with tongue in cheek, or perhaps mockingly. In the 2007 parliamentary elections in contrast there was

[523] Interview #7, June 11, 2008.
[524] Marjut Lindberg "Vanhanen unohtaisi Köyhät", *Helsingin Sanomat*, http://www.hs.fi/paakirjoitus/artikkeli/Vanhanen+unohtaisi+k%C3%B6yh%C3%A4t/HS20080402SI1MA01r4p, (April 2, 2008).

a huge backlash against the Social Democrats because of the peak labor union SAK commercials, intended to encourage workers to vote. The commercials pinned a boss against the workers with the boss saying that to him it is fine if the workers do not vote because then he gets to decide on their behalf! The outcries against the commercial went as far as some politicians from the right alleging hate crimes against the corporate bosses by the political left. And as ludicrous as it sounded, the conservative center-right party generally associated with the wealthy would calling itself a "worker's party" did appeal to voters.

These anti-left developments culminating in the elections of 2007 could have been a reason for the SDP shift. After all, the main objective of parties in the first place, is just to win elections. Yet, the causality in this case is reversed: the SDP started distancing itself the political left long before leftism in Finland became unfashionable. Rather, more likely it is a result of the SDP change in behavior than the reason for it, the politicians of the Party themselves started acting like they were ashamed of their leftist past. Not only has the Social Democratic Party tried to distance itself from its former self, but also from the Left Alliance, instead of trying to collaborate. Even after having lost the election in 2007, the Social Democratic Party turned down the offer from the Left Alliance in June 2007 for collaboration, even though now both are opposition parties. In early 2009 with new young leaders heading them, they seem to be willing to start "to collaborate on some matters."

Had the Social Democrats kept up with changes in labor, and had they concerned themselves with part time and temporary work and with service jobs mostly done by women and worked to advance their wellbeing, with their heads held up high, and made sure that the minimum benefits were livable, the story might be different. It might have been better to be consistently on the side of those that are weaker in the society. Now nobody trusts the parties of the left, not the poor, not the middle class, not the wealthy. Not only did the Social Democrats do long term damage to the support of the political left in Finland, as the constantly lowering, now historically low, numbers of support demonstrate, but by turning away from the welfare state, they really damaged not just the reputation but the future of the Finnish welfare state as well.

V. Where to from Here?

The Social Democratic Party in Finland had started seeing itself as supporter of a lost cause and therefore quickly repositioned itself in the political spectrum. But if the parties of the left do not represent the leftist values in the political arena, then who will? What I argue is that the Social Democratic party went too far in trying to accommodate and embrace free markets. It too easily gave in to pressure and gave up on its legacy in order to become 'a neutral guardian of the state institutions.' In the process the Party ended up doing long term damage not only to its own credibility and electoral success, but also to the Finnish welfare state and the wellbeing of the population.

In order for the Finnish political Left to gain strength again, Kitchelt (1999) argues that social democratic parties "are doomed to extinction, if they are unable to respond to the

new political economic conditions of postindustrial capitalism after the golden age."[525] Sheila Berman argues that for future success, the social democrats are better off being representatives of the whole population (people's home) than of just [blue collar] workers because there will otherwise not be strong enough of a voter base. "Just as the peasantry helped decide the initial fortunes of social democracy, the rising new middle strata of white-collar and technical employees now occupy center stage and will determine whether social democracy can renew itself for a new era of mobilization and power,"[526] argues Esping-Andersen.

Former PM and SDP Chairman Kalevi Sorsa wrote that although social democracy now accepts that markets are better suited for guiding and stimulating the functioning of the economy, but rather than guiding the markets, he believed, social democracy must now focus on fixing the problems created by them,[527] while not forgetting to take into account that its supporters no longer are the poor but rather well-to-do wage-earners.[528] Yet none of this means that the Social Democratic Party should try to act and sound like the other parties. Rather, it ought to specifically espouse the social democratic values, updated to the current times, and represent the interest of workers of all levels and sectors in order to become successful again.

[525] Herbert Kitschelt, "Class Structure and Social Democratic Party Strategy." *British Journal of Political Science*, Vol. 23 (3). (Jul. 1993): 344.
[526] Gøsta Esping-Andersen, *Politics against Markets, The Social Democratic Road to Power*, (Princeton: Princeton University Press, 1985), 313.
[527] Sorsa 1991, 190.
[528] Ibid., 212.

While the traditional welfare state literature does not offer any answers to the change in the Finnish Social Democratic Party in the 1990s, the only possible explanation I found was that they were confused and panicked. This was not a purposeful plan, the Social Democrats simply did not know what else to do in the early to mid-1990s. They started a program of trying to fix the economy and in the process got themselves stuck on this new track. As the economy started to grow, had they realized to make a corrective move at that time, to improve the welfare state again and concern themselves with the diversifying work relations, the story might be different. But instead they continued on that same path of reducing the sphere of the public sector to the benefit of the private. Inequality and poverty have increased, as has insecurity of all - working or not. The reasons I found for the confusion that led to the shift of the Finnish Social Democratic Party toward the political middle, although a global trend, are very specific to Finland and point to more psychological dimensions, which have not been addressed in the welfare state literature so far. Perhaps the question for future research is to look into the conditions that will lead a party to change its platform even against the preferences of their own voters, when there are really no compelling reasons present.

Appendix

Methodology and Data

I carried out a thorough review of primary and secondary written documents for the time period and conducted interviews to check my findings and fill in any gaps.

Data was collected from the following sources:

Party programs, [SDP, National Coalition Party, The Centre Party, The Left Alliance, The Greens, The Swedish People's Party, The Christians, The True Finns]

Election programs [SDP, National Coalition Party, The Centre Party, The Left Alliance, The Greens, The Swedish People's Party, The Christians, The True Finns]

Coalition government mission statements: 1983, 1987, 1991, 1995, 1999, 2003, 2007

Government reports

Newspapers (*Helsingin Sanomat. Iltasanomat, Iltalehti, Talous Sanomat* etc) daily since 2000. Mostly online.

Welfare state literature and studies in Finnish and English.

Political decision-makers' own publications, such as websites, memoirs, blogs and columns, many of which can be accessed on the parties' or the decision-makers' websites, as well as biographies and interviews in magazines and newspapers.

Statistics (from *Eurostat,* http://www.ec.europa.eu/eurostat; *National Research and Development Centre for Welfare and Health* (STAKES), http://www.stakes.fi; *Statistics Finland,* http://www. stat.fi, *Tax Administration of Finland,* www.vero.fi; *The Taxpayers' Association of Finland,* http://www.veronmaksajat.fi; *Ministry of Social Affairs and Health,* http://www.vn.fi/stm / and http://www.stm.fi/etusivu) etc.

Twelve Interviews

In June 2008 and January 2009 I conducted a dozen interviews with key political decision-makers, both elected politicians and ministry and party officials in Finland, of the 1990s and early to mid-2000s. The participants were chosen based on my extensive

study of the time period, to find out in more detail about the decisions that were made. I contacted the interviewees via emails available on their personal, party or ministry websites, requesting to be interviewed for my research. Some did not respond, some recommended other people. The interviews took place at locations of their choosing, ranging from their personal offices to the meeting rooms in their office buildings or in the Parliament. A couple of interviews were conducted at public cafes, or in the Parliament cafeteria. I asked the subjects a number of open ended questions, engaging in a dialogue with them. The interview lengths ranged from half an hour to an hour and a half. Most of the questions revolved around how they see the welfare state has changed, why, and what do they think of the direction that the Finnish welfare state has taken. The interviews were audio recorded with the interviewees' permission.

Johannes Kananen (2008) excluded interviews in his study due to the difficulty of establishing trust in an interview situation.[529] I have used similar sources: party programs, government programs and a variety of reports[530] as the foundation of my study, as well as conducted interviews. I rather agree with Pertti Alasuutari who points out that motives are not revealed in official documents:[531] They do not reveal the real motives or how the decision was arrived to and agreed on.[532] Therefore I thought interviews were in order.

[529]Johannes Kananen, "Kilpailukyky ja tuottavuus 2000-luvun sosiaalipolitiikassa," *Yhteiskuntapolitiikka* 73, no. 3 (2008): 241.
[530] Ibid.
[531] Pertti Alasuutari, "Suunnittelutaloudesta kilpailutalouteen: miten muutos oli ideologisesti mahdollinen?," in *Uusi jako, Miten Suomesta tuli kilpailykyky-yhteiskunta?*, ed. Risto Heiskala and Eeva Luhtakallio, (Helsinki: Gaudeamus, 2006), 46.
[532] Ibid.

Definitions of a Welfare State:

STAKES (The National Research and Development Centre for Welfare and Health) considers the welfare state is to include social protection that

> encompasses all interventions from public or private bodies intended to relieve households and individuals of the burden of a defined set of risks and needs. Benefits granted under social protection schemes can take the form of benefits in cash and benefits in kind (services). Social protection covers risks and needs that may arise from sickness and health, disability, old age, death of a breadwinner, family and children, unemployment, housing or social exclusion. The social expenditure does not include financial aid for students.[533]

Gøsta Esping-Andersen's definition takes into consideration the effects of the welfare state on the social structures:

> The welfare state is not just a mechanism that intervenes in, and possibly corrects, the structure of inequality; it is, in its own right, a system of stratification. It is an active force in the ordering of social relations.[534]

I hold a welfare state to be the constellation of all areas of state and municipal policy, not just social insurance, that affect the standard of living of a country's population including in-kind services and income transfers to make up the welfare state, therefore including both social and fiscal policy. In the time period I am studying, the term welfare state in Finland has to a large extent been replaced with the more vague "wellbeing society" (see chapter 2). Especially since this shift goes hand in hand with a substantial reduction in public responsibility, I will try to be as specific as possible, and preferring to use the term welfare state, rather than wellbeing society, when I am referring to all the things that the public sector does, provides and has an effect on. The outcome is the wellbeing society.

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[533] STAKES, "Social Expenditure and Financing in Finland in 2003," Statistical Summary 11/2005, http://www.stakes.info/2/14/index.asp.
[534] Gøsta Esping-Andersen, *Three Worlds of Welfare Capitalism*, (Princeton: Princeton University Press, 1990), 23.

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