

## To the Minister and Head of the Ministry of Health and Social Affairs

In February 4<sup>th</sup> 1999 the Swedish Government authorised Lars Engqvist, the Minister of Health and Social Affairs, to set up a commission of researchers to review welfare development in Sweden during the 1990s (dir 1999:07). The commission later took the name "A *Balance Sheet for Welfare of the 1990s* (*Kommittén Valfärdsbokslut*). The Chairman of the commission is Associate Professor Joakim Palme and the members of the commission are Associate Professor Åke Bergmark, Associate Professor Johan Fritzell, Associate Professor Olle Lundberg, Acting Professor Elisabet Näsman, Associate Professor Lena Sommestad and Associate Professor Marta Szebehely. The secretaries are Martin Hörnqvist and Anna Öström.

In its references (dir 1999: 7) to the commission "A *Balance Sheet for Welfare of the 1990s*" the Swedish Government stated that in drawing its conclusions about Swedish welfare development, the commission should make comparisons with other countries, and in particular with countries in which we can trace a similar development, and in which there is a sufficient availability of comparative material. This makes Finland a natural first candidate for such comparisons. Finland and Sweden do indeed share a number of attributes both with regard to general characteristics and recent developments. As for recent changes one can in particular note that no other countries in Western Europe underwent such severe economic problems and rapid increases in unemployment in the early 1990s. Given this background a comprehensive comparison between Finland and Sweden was put at the top of our agenda. In order to make such a task feasible with short notice and during a short period of time, we needed a researcher with excellent knowledge on both cross-national comparisons in general and on the economic, social policy and welfare developments in Finland in particular. We are very happy that we were able to recruit Mikko Kautto from STAKES to undertake this task.

This report points to both similarities and differences between the two neighbouring countries and is definitely able to cast a new light on how we understand development in Sweden. It is our hope and belief that the report will provide its readers with new insights and perspectives on the welfare development in Finland and Sweden over the recent decade. The members of the commission have not taken up a position on the content of the report. All analyses, interpretations, and conclusions are those of the author.

Stockholm in October 2000

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# List of Contents

<b>1 Introduction .....</b>	<b>7</b>
1.1 The "Nordic model" and Finland and Sweden as "two of a kind" .....	8
1.2 Working hypothesis on welfare state development in Finland and Sweden .....	12
1.3 Design of the report.....	13
<b>2 The economic crisis of the 1990s .....</b>	<b>17</b>
2.1 Economic development.....	17
2.2 Developments in unemployment and employment.....	20
2.3 Anatomy of the crisis .....	23
2.4 Balance sheet for the 1990s crisis in Finland and Sweden .....	29
<b>3 Balancing of public budgets .....</b>	<b>31</b>
3.1 Problems in public finances .....	32
3.2 Public expenditures and revenues .....	35
3.3 Balance sheet on budget consolidation in Finland and Sweden .....	44
<b>4 Adaptation in social policy.....</b>	<b>47</b>
4.1 Social protection expenditure.....	48
4.2 Premises for service provision .....	49
4.3 Case 1: Adjustments in income transfers .....	51
4.4 Case 2: Adaptation in elderly care .....	59
4.5 Case 3: Adaptation in child day-care services .....	70
4.6 Case 4: Adaptation in active labour market policies.....	77
<b>5 Economic welfare .....</b>	<b>83</b>
5.1 The distribution of unemployment.....	83
5.2 Income distribution .....	85
5.3 Social assistance.....	97
5.4 Balance sheet on changes in economic welfare .....	108
<b>6 Concluding remarks.....</b>	<b>111</b>
<b>References .....</b>	<b>119</b>



# 1 Introduction<sup>1</sup>

This report examines welfare state development during the 1990s in two Nordic countries, Finland and Sweden. It has been prepared in connection with the work of a Swedish governmental commission "A Balance Sheet for Welfare of the 1990s" (Kommittén Valfärdsbokslut), that was allocated the task of assessing welfare development during the 1990s in Sweden. The commission interpreted its task to include a survey of changes in structural conditions and social policy. While such a broader view of national development was considered indispensable for understanding welfare development, the commission also recognised that its assessment would further benefit from a comparative perspective. Information on the similarities and differences between countries which thereby emerges can be useful for assessing the relative significance of various trends.

This report is a modest attempt at such a comparison. The choice to compare Finland and Sweden can be justified on one hand by the fact that these countries – and especially their welfare states – are often grouped together in international comparisons and affiliated with the "Nordic welfare model", and on the other hand because Finland and Sweden were also "most similar" in terms of their experience in the early 1990s. No other countries in Europe underwent such severe economic problems and rapid increases in unemployment in the early

<sup>1</sup> This report was written in connection with the work of the Swedish commission 'A Balance sheet for welfare of the 1990s' ('Kommittén Valfärdsbokslut' in Swedish, see SOU 2000:3). I thank Joakim Palme, Åke Bergmark, Johan Fritzell, Olle Lundberg, Elisabet Näsman, Lena Sommestad, Marta Szebehely, Mia Hultin and Martin Hörnqvist for making my and my family's short stay in Stockholm during fall/winter 1999 possible, for the inspiring work atmosphere and for their valuable help and comments in all phases of the process of writing this report. I also thank Olli Kangas, Pekka Kosonen, Juhani Lehto and Sven E.O. Hort for reading and commenting on an earlier version of this report. Furthermore I thank Richard Burton for his language editing skills. Of course, responsibility for all inadequacies in the following pages remains mine alone.

1990s. In fact, the magnitude of the changes has no parallel among the industrialised countries during the entire post-war era. In contrast to these underlying similarities the adaptation strategies of the two countries have often been very divergent, which poses an interesting starting point for a comparison.

The scope of the comparison was planned in connection with the work of the Swedish commission (see SOU 2000:3), but as no matching report on the Finnish development exists and there were limits set by time and resources, only certain aspects of welfare state development could be incorporated. The style of the report is necessarily descriptive rather than explanatory. The fact that the report is written by a Finnish researcher undoubtedly brings some bias to the selection of issues and to the way they are handled. With these reservations it is the author's hope that by presenting an empirical description of developments in certain key areas the report will serve as a rough guide for comparing welfare state developments in Sweden and Finland during the turbulent decade of the 1990s. There is certainly scope for more in-depth comparisons, and if the report provokes interest in learning more about the neighbour on the other side of the Baltic Sea, in deepening the analysis, and/or expanding the comparative perspective to other countries, then it has served its purpose.

The remaining part of the Introduction reminds the reader of the existence of a specific "Nordic model" of welfare states and about some findings from earlier comparisons which have included these two countries. The design of the report is then outlined.

## 1.1 The "Nordic model" and Finland and Sweden as "two of a kind"

While all countries are unique, in comparisons involving many countries some may display very similar characteristics and group together on various dimensions. In international settings we speak of the Nordic countries as a distinct unit of nations that have historical, social and economic similarities. In short, the Nordic welfare states are a "family of nations" (Castles 1993). With respect to social policy it is common to speak more precisely of a "Nordic (or Scandinavian) welfare state model". The countries associated with the Nordic model are Denmark, Finland, Norway and Sweden (in some accounts Iceland is included in the list, in others not). The term "model" embraces a

multitude of features of public policy, social policy arrangements, people's welfare etc. that are regarded as common to these countries.

Whether countries can in the first place be categorised into various models is an ongoing theme in comparative welfare state research. Depending on the criteria for classification, research evidence mainly reliant on data from the 1980s and early 1990s has been used to divide the Western industrial countries into three (Esping-Andersen 1990, 1999), four (Castles and Mitchell 1990, Leibfried 1992, Ferrera 1996, Castles 1999), or five (Korpi and Palme 1998, Anttonen and Sipilä 1996) broad groups. While there is no consensus on how many such models exist, nor on the relevant characteristics for classifying countries (see e.g. Abrahamsson 1999), it is fair to say the "Nordic model" has been the least contested of these groupings.

The literature testifies to numerous attempts to encapsulate the "Nordic model", but an undisputed list of traits of what constitutes the model remains elusive. There have been many studies over recent years, and the characteristics deemed relevant depend on the perspective chosen. There are certainly marked differences in historical development (e.g. Flora 1986), and furthermore, as Olli Kangas (1994) has shown, inclusion in a model is contingent upon a specific point in time as well as upon the dimension of welfare state development one is comparing.

Yet there is relatively unchallenged agreement on certain characteristics that in a wider comparison to other industrialised countries identify the Nordic countries as a group. To start with, the *scope of public policy is large*, it encompasses social security, social and health services, education, housing, employment etc., with the aim of meeting most basic needs via public measures. Consequently, the State's involvement has been strong in all policy areas – not least in social policy – with efforts to co-ordinate policies. There are of course historical discrepancies and variations between the Nordic countries, but an *emphasis on full employment*, accompanied by *active labour market policies*, have nevertheless been regarded as essentially Nordic traits. The Nordic welfare system is said to be based on *a high degree of universalism*, meaning that all residents are entitled to basic social security benefits and services, regardless of their position in the labour market. In addition to basic security, most social insurance schemes embody *earnings-related components* for those with a work history. There are also targeted measures (social assistance) to ensure no-one falls out of the safety net. Levels of benefits are fairly high, and compared to other industrialised nations, the Nordic countries (along with some others) have sometimes been characterised as "*transfer-heavy states*". Social and health services are *financed mainly through*

*taxation* without high user fees, and they aim to serve all residents in need. They are provided at the local level by local authorities and also mostly produced by them, resulting in a *large share of public employment*. Therefore the Nordic countries have also been characterised as "*social service states*" (e.g. Sipilä 1997).

The characteristics mentioned above refer to the scope of publicly-run policies and to the coverage and compensation they offer. The broad scope of public activity is reflected in public expenditure. Thus an additional distinguishing characteristic has arguably been the economic foundation of the Nordic welfare states. Relatively generous transfers together with a broad scope of services result in a *high share of social expenditure of GNP*, although here, too, there have been marked differences across the Nordic countries, not least between Finland and Sweden. As public financing of transfers and services has been considerable, the Nordic countries have also had *high taxation*.

High spending and high taxation have another side of course. In comparisons of net taxation (see Adema et al. 1996) the uniqueness of the Nordic countries pales somewhat as almost all benefits are taxable income<sup>2</sup>. Besides, high taxation is not an end in itself; a significant proportion of taxes is used for redistribution from the well-off to the less well-off. Criticism of high taxation is placed into perspective when one takes the achievements into account. Judging the performance of the "Nordic model", there is evidence of the success of the investments: *low poverty rates, equal income distribution and progress in gender equality* have been mentioned among most notable achievements. The Nordic countries score high in comparative indexes, such as the UNDP Human Development Index (*Human Development Report 1998*), and fare well in international comparisons in the areas of education, social welfare and health. Moreover, the Nordic welfare states enjoy *broad public support*, and it is the universal nature of policies that has arguably contributed to this.

The traits italicised above certainly feature in standard presentations of the Swedish welfare state, and indeed, in many comparisons Sweden has exemplified the "Nordic model". Although it is not always evident whether traits that have been found to characterise Sweden should be generalised to all Nordic countries, Sweden has nevertheless often been seen as a welfare state pioneer and a standard for other Nordic countries – for Finland probably more so than for Denmark or Norway. Lauri Karvonen (1981) has shown how Sweden has been the example

<sup>2</sup> Not all comparisons note that social security benefits may be taxed differently in different countries. In the Nordic countries benefits are taxed to a higher extent than elsewhere (Adema et al. 1996).



to follow and the main source of inspiration for Finnish policy reforms. In terms of policy implementation, however, it is an established fact that Finland was a latecomer to the Nordic group (e.g. Alestalo and Uusitalo 1986; Kangas 1994; Kosonen 1993 and Salminen 1993). Finland took a similar route towards the Nordic welfare state, but achieved its criteria later and more rapidly than the others (Esping-Andersen and Korpi 1987). Against many benchmarks (such as coverage and compensation rates of various benefits) Finland became a Nordic welfare state only in the 1980s (Kangas 1993).

Thus although the 1990s underscored the similarities between Finland and Sweden, their differing paths towards such institutional similarity have certainly influenced and set boundaries for the developments of the 1990s. It is also worth pointing out that in 1990 there were still differences between the two countries, for instance with regard to institutional arrangements, generosity of benefits and services and availability of schemes. In other words, although the gap between Finland and Sweden narrowed rapidly after the 1970s, most indicators reveal that in 1990 Finland was still the leaner welfare state of the two. As a rule, the compensation rates of social insurance schemes did not reach Swedish levels, and in service provision Finland was clearly providing fewer public services, and of more modest quality. In fact, judging by social expenditures Finland was hardly part of the Nordic model, as its social spending share of GDP in 1990 was close to the EU average, rather than at the high Nordic level.

This short account of the Nordic model and the position of Finland and Sweden probably makes clear that judgements about similarity and difference are ultimately influenced by the choice of characteristics compared, the reference countries and the time period. A key starting point for this report is that despite more or less obvious disparities in degree, Finland and Sweden by 1990 were qualitatively very similar in relation to other industrialised countries. In a broad comparison they were considered "two of a kind". Both Finland and Sweden had been able to combine good overall economic performance and low unemployment with a broad public sector that aimed to guarantee high levels of social protection and social rights for their citizens.

## 1.2 Working hypothesis on welfare state development in Finland and Sweden

Developments during the 1990s challenged the Nordic model on different fronts, and the uniformity of the Nordic countries may have been less intact than in the 1980s. Looking at the development during the early 1990s one can certainly see that Finland and Sweden faced very different prospects compared to Denmark and Norway (see Kautto et al. 1999). The title of this report – "two of a kind" – also partly reflects this situation, while the question mark indicates that on closer examination the supposed similarity of Finland and Sweden may dissolve.

Indeed, some Finnish researchers highlight disparities between the two countries concerning overall developments during the first part of the decade. According to them, the main differences between Finland and Sweden focus around the severity of the economic crisis, the policy reactions to it and their combined consequences. In a nutshell, this view may be expressed as follows: during the deepest crisis years there was some overall agreement in Finland that the crisis in the economy had more of a structural than cyclical nature. For this reason policy adjustments needed to be harsh. In addition to measures that would help restore the competitiveness of the Finnish export industry, public sector reform was deemed necessary. Measures to balance the budget and correct the role of the public sector were taken fairly rapidly without much thought to their possible social consequences. The deep economic recession in itself harmed the economic welfare of the population, and it is argued that policy adjustments such as cutbacks in transfer and service systems also contributed to the poor employment development (Kiander 1997, 1999) and an overall decline in welfare among Finns. (see e.g. Koistinen 1994; Kosonen 1998; Vartiainen 1996).

In contrast to this, the interpretation among the Finnish researchers cited above is that Sweden opted for softer adjustment. In their view the Swedish economic recession was less severe than in Finland, and there was more reluctance to interpret the crisis as being a straightforward structural problem. At least partly for this reason, policy adjustment measures came later and to some extent also in a less drastic form than in Finland. Besides, the different tradition in economic policy meant that counter-cyclical measures played a more important role than in Finland. Thus resources allocated during the crisis years to education, vocational training and employment-related measures were considerably larger and helped to moderate the effects of unemployment.

In addition, the social policy system served as more of a cushion, since cuts introduced in the welfare systems were milder than in Finland. All in all, the more positive economic preconditions and the fact that policy reaction was designed to take social consequences more into account could create the impression that welfare among the Swedes developed more favourably than among the Finns. (Kosonen 1998; Vartiainen 1996; Koistinen 1994). This distinction of differences regarding the severity of the economic crisis, the policy reactions and their consequences for welfare will serve as a working hypothesis to guide the examination of the development patterns of Finland and Sweden during the decade (Table 1).

*Table 1.* Summary of working hypothesis on developments in Finland and Sweden during the 1990s

	<i>Finland</i>	<i>Sweden</i>
Economic crisis	Severe	Less severe
Policy reaction	Harsh	Mild
Economic welfare	Uneven	Even

### 1.3 Design of the report

Starting from the established evidence of similarity, this report examines welfare state development in the two countries during and after the exceptionally deep and broad-sweeping economic crisis of the 1990s. Taking account of major development patterns in macro-economic conditions, policy adaptation and changes in the economic welfare of the population during the crisis decade, did Finland and Sweden develop similarly or do their routes suggest divergence?

Throughout this report the emphasis is on both similarities and differences between patterns and trends. The research strategy employed in the macrocausal analysis that follows could be labelled "narrative analysis" as Mahoney (1999) has suggested. Accordingly the research task is to unfold temporally ordered events that occur within cases. This approach entails disaggregation and a focus on historical sequences, process tracing and pattern matching (see Mahoney 1999.) With a focus on only two countries the question of whether or to what extent Finland and Sweden still meet the criteria of the "Nordic model" is not directly addressed, but the results may still be relevant for model discussions and further studies.

In line with the starting points outlined above, the task of the report was to gather empirical evidence on different aspects of welfare state

development and to present this in a comparable way. The main thrust of the report is therefore divided into four sections. The first section documents the modified *preconditions for social policy*. Data on macroeconomic development and changes in unemployment and employment in the two countries are presented as background information on the severity of the 1990s economic crisis. The second section provides information about the development of *public finances and budget consolidation*. The third section investigates *adaptation in social policy*, and includes comparisons in different policy areas: cash transfers, elderly care services, childcare services and activation measures. The fourth section of the report examines developments in the *welfare* of the populations in these two countries. This is done first by exploring the way unemployment was distributed within the workforce. Welfare outcomes are then examined by looking at developments in income distribution, and finally developments in social assistance are also addressed here. At the end of each section a short balance sheet is provided to summarise the results of the comparison. The report concludes with a summary of these balance sheets.

Having now specified the focus of the report, three practical limitations need to be mentioned here. Firstly, the reader would obviously benefit from a detailed presentation of the institutional systems in these two countries, as well as the resultant differences in policy implementation, in order to fully digest the information presented. This would include the differences in political systems, administration, social policy programmes, the role of local authorities etc. Unfortunately it was not possible to include such a presentation in this report (for such comparisons see e.g. Ploug and Kvist 1996 for social insurance systems, Rostgaard and Fridberg 1998 for child care and elderly care, Baldersheim and Ståhlberg 1998, Sandberg and Ståhlberg 2000 for local authorities' role and Oulasvirta 1990 for the state-municipalities -relations).

Secondly, although the ambition was to present comparative information for each section and subject, the available evidence is not always comparable in a strict sense due to differences in data, time periods etc. This is not necessarily a major problem, however, when the main interest is in trends rather than levels (although admittedly level differences are important for interpreting trends). For a trend

comparison national data are useful too, as long as the rules for presenting statistics have remained consistent.<sup>3</sup>

A final comment concerns the choice of time period. The directive for the commission (Dir 1999:7, see SOU 2000:3) asks for a balance sheet of developments during the 1990s, but the availability of data means that the report only covers the period between 1990 and 1998 (or the last available data if this is not possible). The choice of this period is chiefly motivated by the desire to examine these uniquely severe economic downturns and their consequences. It is appropriate to point out that social phenomena have complex roots originating prior to 1990, and that this "institutional heritage" places some limits on change. It should also be made clear that the economy alone certainly does not account for all the changes in policies and welfare. Still, it can be argued that the 1990s deserve special attention, both due to the severity of the economic downturn and because this may have triggered developments that were awaiting an additional push.

<sup>3</sup> For example, the reforms of national accounts and social protection statistics following from EU membership create some problems for achieving comparable time-series.

## 2 The economic crisis of the 1990s

This section presents a general overview of the economic crisis of the 1990s in Finland and Sweden. The severity of the recession can be detected above all in the significant falls in gross domestic product, in the dramatic rise in unemployment and in the historically unique fall in employment. In all these dimensions the changes were of unprecedented magnitude, and few would disagree that these countries experienced their most severe spell of economic crisis since the 1930s. An effort is made here to distinguish between developments *within* this period in each country and between the countries. Examining employment developments in different sectors makes it possible to interpret the economic crisis of the 1990s as a series of inter-related phases and to identify interesting differences between Finland and Sweden.

### 2.1 Economic development

Although the economic crisis emerged in the 1990s, it had its roots in the 1980s (see e.g. Andersson, Kosonen and Vartiainen 1993, Kiander and Vartia 1998, Tarkka 1994, Sauramo 1991, Tson Söderström 1993, Jonung 1999). In both countries the crisis years were preceded by overheating of the economy, caused by liberalisation of capital markets and deregulation of credit markets, dramatically reduced saving rates, marked rises in housing prices and considerable increases in indebtedness. The international recession was accompanied by problems with currency exchange rates. Interest rates rose rapidly, investment dried up, property values fell and domestic demand dipped sharply due to shift in saving patterns. Thus in both countries the recession had internal as well as external origins. Another similarity is that some structural problems became more apparent along with the cyclical downturn of the international economy. The similarities of the passage to economic crisis in the two countries are so striking that Lars Jonung in his analysis of Swedish stabilisation policy between 1985 and 1995 has named Finland a "perfect copy" of Sweden (for further references see Jonung 1999: 202, for overviews about what happened at the

macroeconomic level in Sweden see e.g. Jonung 1999 and Kiander and Vartia 1998 for Finland).

There is much scope for a more detailed analysis and various opinions on which issues would need more thorough consideration. For the purposes of this report it is not salient to touch on discussions concerning the reasons for the economic crisis, nor to attempt a comparison of economic policies and their motives, although for the recovery of the economy and the public budget these are important issues.<sup>1</sup> Here it is more appropriate to consider whether Finland and Sweden really had, if not a totally different type of economic crisis, at least differences in its severity. This is an important issue when attempting to understand the policy reactions and comparing the consequences of the recession.

It is clear that in both countries the most remarkable slump in gross domestic product occurred especially between 1990 and 1993. The statistics (Table 2) show that the drop in GDP was clearly sharper and deeper in Finland; the fall was close to 12 percent in the three years from 1990 to 1993, and from 1990 to 1991 the GDP declined by more than seven percent. Annual changes in Sweden were less pronounced between 1990 and 1992. Both the absolute and relative decreases in GDP during the crisis period of 1990–93 thus appear more serious in Finland. For both countries the recession manifested as negative growth in these three consecutive years.

<sup>1</sup> Lars Jonung and others plan a comparison of economic policies in Finland and Sweden (see project description on the Academy of Finland web pages <http://www.aka.fi>).

Table 2. Gross Domestic Product in Finland and Sweden 1990–97, billions FIM and SEK

	<i>Finland</i> (Fim)	<i>% annual</i> <i>change</i>	<i>Sweden</i> (Sek)	<i>% annual</i> <i>change</i>
1990	515,4		1463,7	
1991	479,0	- 7,6	1447,3	- 1,1
1992	462,0	- 3,7	1426,8	- 1,4
1993	456,6	- 1,2	1395,1	- 2,2
1994	477,3	4,5	1441,6	3,3
1995	501,5	5,1	1498,4	3,9
1996	519,5	3,5	1517,4	1,3
1997	550,4	5,9	1544,1	1,8

Source: OECD 1998, Statistics Finland and Statistics Sweden.

Note: National accounts and national currencies; figures for Finland in 1990 prices, for Sweden in 1991 prices.

Apart from the common factors contributing to the crisis already mentioned, there may be numerous reasons why Finland experienced a deeper recession than Sweden. One obvious candidate is the additional impact of the curtailment of trade with the Soviet Union, while others may include investment shortcomings as Pohjola (1996) has suggested, or disparities in the severity of the banking crisis. On the other hand, and in a slightly longer time perspective, instability in economic development began earlier in Sweden. The 1980s already saw a lively debate on Sweden's economic performance and the relation between the welfare state and economic growth. The problems in the economy in the early 1990s fuelled this debate further (e.g. Freeman et al. 1995; Agell 1996; Korpi 1996).

1993 marks the turning point in the macroeconomic trends, since when GDP growth has been somewhat faster in Finland. Much of the GDP growth in both countries is accounted for by fairly rapid recovery of the export industries, which was boosted by the forced devaluation's of the Finnish *markka* and Swedish *krona* in Autumn 1992. The "strong currency" policy founded on a fixed exchange rate had to be abandoned in both countries, and the currencies were left to float. The heavy currency depreciations were a blessing for the export industries as their price competitiveness improved considerably. Exports grew and the improved demand situation prompted a recovery in investments, coinciding with an upswing in the world economy. Recovery of the export sector led to an improved GDP status in both countries. As a result, there is no justification for talks of an economic crisis beyond 1993. Already by 1994 the value of industrial production and exports

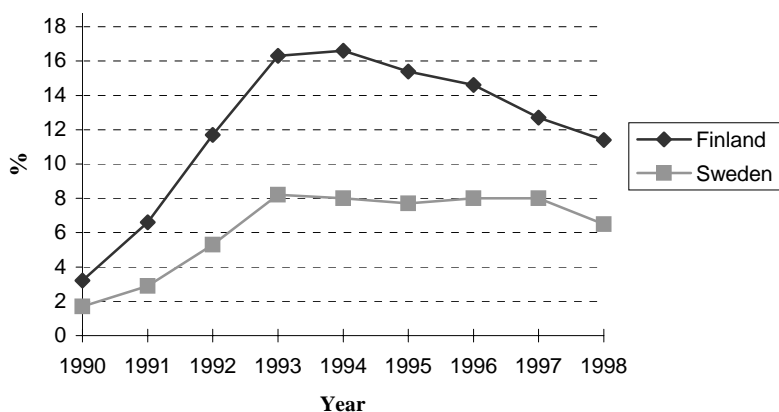


in both countries had risen above the level prevailing before the crisis. At present both Finland and Sweden have the highest GDPs in their history, and their growth rates place them among the elite of the industrial world.

## 2.2 Developments in unemployment and employment

While the macro-economic crisis was thus limited to a period of three years, there are good reasons to consider the whole decade of the 1990s as a period of crisis for both unemployment and employment. In both countries unemployment rose each year after 1990, and to record levels in 1993 (Figure 1). Finland started from a higher unemployment level than Sweden, but the increases in both countries were almost five-fold. 1993 again marks the turning point in both countries, but there seem to have been divergent trends since then; while in Finland unemployment started to decline thereafter by about one percentage unit per year, Swedish unemployment continued at a historically high level between 1993 and 1997. A marked decrease in unemployment has since occurred in Sweden. Overall, two major differences stand out: the consistently far higher level of unemployment in Finland, and the differing trend following the economic upswing in 1993.

Figure 1. Unemployment rates in Finland and Sweden 1990–98, percent



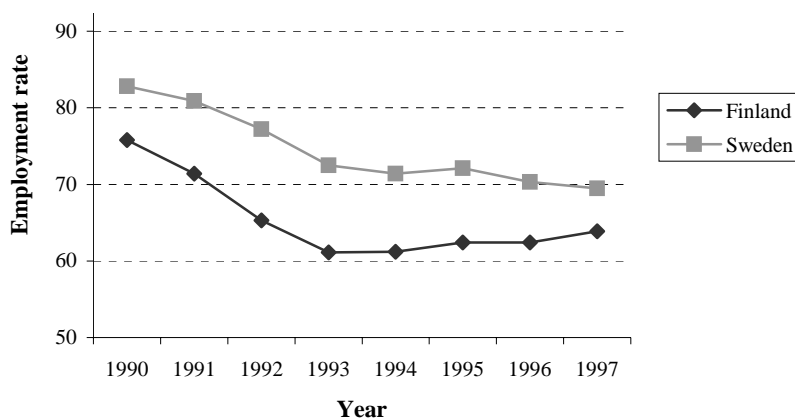
Source: Finnish Labour Review 1–2/1999, Table 25 (labour force survey figures).<sup>2</sup>

In both countries unemployment rates are still at a high level, and despite some improvement in this area another labour market indicator – total employment – has shown a less positive development. Employment rates are still very low compared to 1990. In employment rates, too, the differences between Finland and Sweden are obvious. To start with, total employment rates throughout the entire post-war period have been at a higher level in Sweden. The two main components of this disparity are women's labour market participation and that among the work force of pre-pension age (50–64).

<sup>2</sup> The figures are taken from Statistics Finland and Statistics Sweden. There are two different institutions providing unemployment statistics in both countries (the Ministry of Employment and Statistics Finland; AMS (Arbetsmarknadsstyrelsen and Statistics Sweden) and their figures differ to some extent. The difference is accounted for by the Ministries' way of using register data, that include all unemployed job-seekers as unemployed regardless of whether they could also be classified differently (e.g. as students). The Statistics Finland and Statistics Sweden figures are based on survey data and follow Eurostat and ILO definitions of unemployment.

Figure 2 contrasts Finland and Sweden during the period. According to Eurostat labour force survey figures<sup>3</sup> the drop in the employment rate was somewhat more pronounced in Finland (Figure 2). In comparison with the economic trends, however, the drop in Swedish employment can be considered more striking. After 1993 the direction of the trends diverge. The employment rate started to improve slowly in Finland while in Sweden it stayed low, and even continued to fall. In 1998 the employment rate in Sweden was still lower than in 1993, while for Finland the situation in 1998 was better. However, no return to 1990 levels has occurred in either country.

Figure 2. Employment rates in Finland and Sweden 1990–97, percent



Sources: *Employment in Europe* 1998 for the years 1990 and 1991, 1994–97; *Employment in Europe* 1996 for the years 1992 and 1993.

Note: Eurostat employment rates are based on labour force surveys and indicate the total number of people in paid work relative to the working-age population (15–64 years). Unfortunately there are some inconsistencies in employment rates for the same years in different publications, so some caution may be advisable for separate years. Information about trends is more reliable.

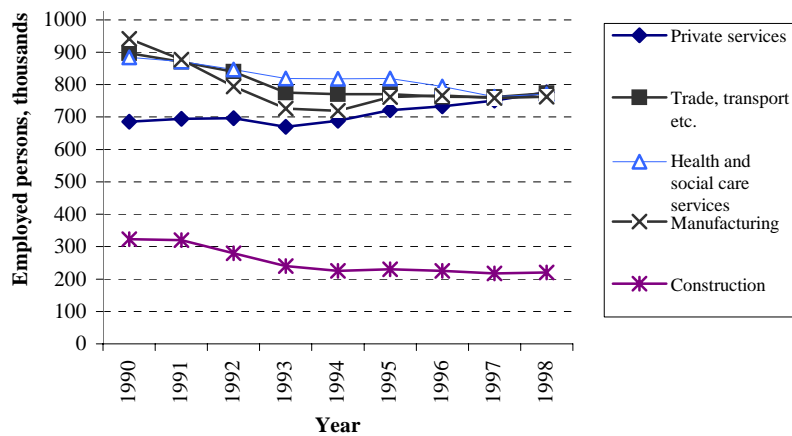
<sup>3</sup> According to non-comparable national sources in Finland the employment rate was 74.1 percent in 1990 and 62.9 percent in 1997 (Labour Statistics 1997). According to Åberg & Nordenmark (2000) in Sweden the share of employed declined from 84.8 percent between 1986 and 1991 to 74.5 percent between 1995 and 1997. Wadensjö (1999) claims employment rates have not returned to the levels prevailing earlier as some of those who became unemployed have exited the labour force, the entrance age of the young to the labour market has increased, refugees are experiencing problems and the long-term unemployed have difficulties in re-entering employment.

## 2.3 Anatomy of the crisis

According to Per Lundborg (2000), the development of unemployment in Sweden can be divided into three phases. Waves of unemployment reached the different sectors of the economy at different times. As a consequence, total unemployment was divided over the whole labour force rather than concentrated in certain sectors. In the "international phase" the overheated economy ran into an expenditure crisis that coincided with an international downswing in demand. The plight of the export sector was worsened by the policy of a strong *krona*. The unemployment that ensued hit the export sector and its dependent sectors hardest. These and certain other factors led to additional problems in other sectors. In the "real interest rate phase" the fixed currency exchange rate policy maintained in the period of relatively high inflation led to high interest rates. When inflation fell and nominal interest rates increased, rising real interest rates led to a fall in consumption and an increase in savings. The falling demand for domestic products caused unemployment in the domestic-oriented manufacturing sector. After the currency was allowed to float in November 1992 employment in the export sector increased. The international phase of unemployment ended, but the real interest rate phase persisted. By now, considerable declines in private sector employment had caused significant budgetary problems in the public sphere. According to Lundborg the government applied no measures to fight unemployment as low inflation had become the goal. Moreover, budget consolidation involved cuts in public expenditure, which in turn exacerbated unemployment in the public sector. This became the third phase of unemployment, the "budget consolidation phase".

In conclusion, the various phases of Sweden's economic crisis resulted in job losses in different sectors at different times. During the international phase (1990–93) unemployment hit the export sector, while in the real interest rate phase (starting 1992) unemployment spread to the domestic private sector, hitting trade, transport, construction and manufacturing industries. This second phase overlapped with the budget consolidation phase (1993–97), characterised by job losses in the public sector, starting with state employment and proceeding to municipal employment. Lundborg explains Sweden's persistently high unemployment rate between 1993 and 1997 by the overlap of the two latter phases, which also had a mutually detrimental effect on employment. The manner in which employment developed in different sectors is presented in Figure 3.

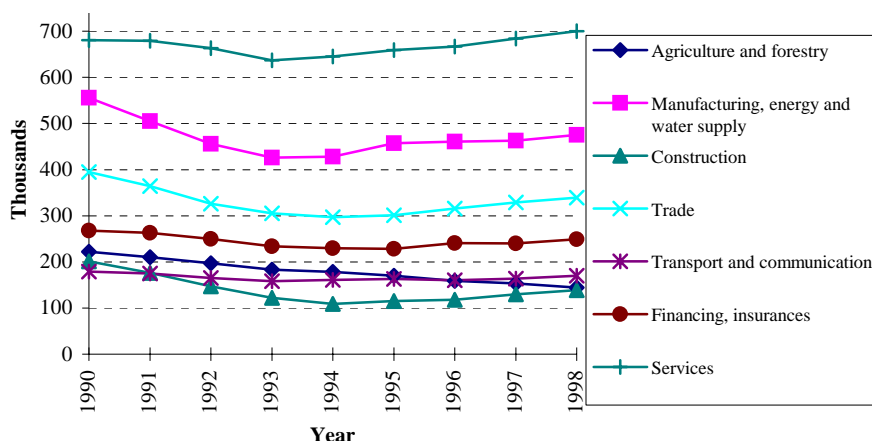
Figure 3. Employed persons by industry in Sweden 1990–98, thousands



Source: AKU (SCB) by Lundborg 2000.

Since big disparities between the two countries can be found in unemployment levels and trends, it is worth contrasting Lundborg's account with the development in Finland. Generally, it can be seen that unemployment spread relatively evenly across the sectors of industry. Yet Lundborg's account of distinct phases with differing consequences for different sectors seems ill-fitted to the Finnish pattern in some respects. This is evident in the next figure, which presents the development in numbers of employed persons by industry sector in Finland (Figure 4).

Figure 4. Employed persons by industry sector in Finland 1990–98, thousands

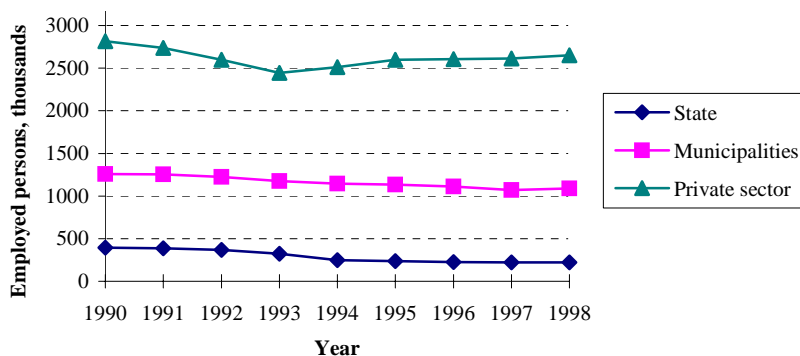


Sources: Labour Statistics 1997, oral information from Ministry of Labour, Finland.

Despite the different classification by type of industry, the figure suggests that between 1990 and 1993 employment decreased in absolute numbers in *all* industries in Finland. As in Sweden, the heaviest drops between 1990 and 1993 were in manufacturing, trade and construction. In absolute numbers most jobs were lost in the manufacturing industry, but in relative terms the fall was most precipitous in construction where about fifty percent of jobs vanished over the three to four years period. The figure also suggests that a major difference from Sweden occurred in the development of the service industry. The post-1993 trends are somewhat different, too. Thus what Lundborg terms the "international phase" seems to apply quite well to the Finnish situation. Similar causes appear to have had similar effects. The additional job losses in other than export and export-dependent sectors could perhaps be explained by the "real interest phase" coinciding with the international phase. Thus Finland's problems with its export industries took place *at the same time* as decreased domestic demand caused lay-offs in the sectors dependent on it. In other words, the first phase was perhaps a combination of the international phase and the real interest phase. The export industry's "new dawn" emerged in the manufacturing and transport industries between 1993 and 1994, at the same time as falling employment levels finally stabilised in other industries. From 1994 onwards the numbers of employed persons increased annually in all sectors, although the overall growth in employment continued to be

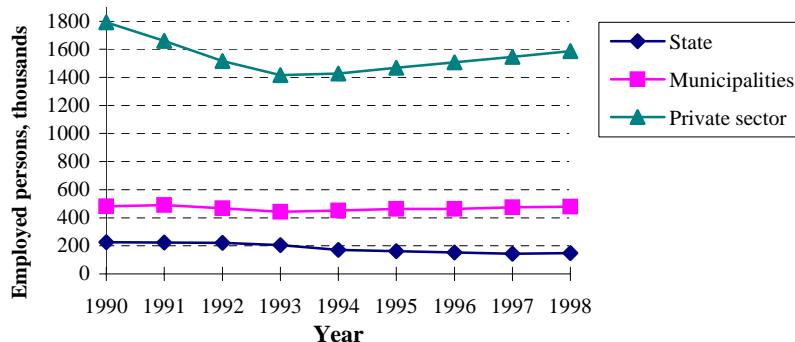
slow. But surely, on the basis of unemployment trends alone one can certainly not draw the conclusion that there was no "budget consolidation phase" in Finland. To examine the differences in employment trends in more detail, statistics on the development in absolute changes in employment by employer status are helpful (Figures 5 and 6).

Figure 5. Employment by employer status in Sweden 1990–98



Source: SCB (Lundborg 2000).

Figure 6. Employment by employer status in Finland 1990–98



Source: Labour Statistics, 1997, oral information from Ministry of Labour, Finland

Comparing developments in employment by sector, the similarity between the countries between 1990 and 1993 is again striking. In Sweden the total employment loss in this period was 538 000 persons, and in Finland 433 000. Of course, in relation to the absolute level of total employment in these countries the loss was more dramatic in Finland; nevertheless, the pattern is quite similar. Most of the decline in employment occurred in the private sector: 400 000 lost jobs in

Sweden and 377 000 in Finland, the private sector thus accounting for about 74 percent of the reduction in Sweden and 86 percent in Finland. Also, both countries have seen private sector employment increasing since 1993.

Interestingly, the crucial difference in the development of total employment for the period 1993–97 lies in public sector employment. In Finland the changes in public employment appear more minor than in Sweden. According to our crude data state employment decreased in both countries but the trends in municipal employment appear to differ. In Finland public employment decreased between 1991 and 1993 but then increased a little during the latter years under investigation. For the period 1993–98 employment by the local authorities increased by 38 000 persons (Labour Statistics 1997: Table A 15 and oral information from Ministry of Labour). In Sweden public employment decreased every year between 1991 and 1997, though in 1998 an increase took place.

Summing up employment trends in Finland and Sweden between 1990 and 1998 it is interesting to note that total employment in absolute figures declined in both countries by 11.4 percent during this period (Table 3). Yet the way this decline was distributed between the private and public sectors was very different. Over the period 1990–1998 total employment in Finland decreased from 2 502 000 to 2 217 000, the private sector accounting for 205 000 persons and public employment (State and municipalities) for 80 000<sup>4</sup>. Particularly interesting is the development in municipal employment; after the fall and subsequent recovery, the difference between 1990 and 1998 is a mere 2 000 persons. (Labour Statistics, 1997, oral information from Ministry of Labour) In Sweden the number of State employees decreased from 394 000 in 1990 to 220 000 in 1998 (job loss of 174 000). At the same time municipal employment fell from 1 258 000 in 1990 to 1 089 000 in 1998 (job loss of 169 000). Overall, public employment decreased in Sweden by a massive 344 000 persons during this period.

<sup>4</sup> Official Finnish statistics include a category for 'employment by unknown sector', but these figures are not included in the table as the point is to show the breakdown between the public sector and private sector. In any case, the number of 'employed by unknown sector' is not considerable (3 000 in 1990 and 8 000 in 1998).



*Table 3. Employment trends in Finland and Sweden, 1990 and 1998, employed persons*

<i>FINLAND</i>	<i>Finland 1990</i>	<i>Finland 1998</i>	<i>Change 1990–98</i>	<i>Change %</i>
Private sector employment	1 793 000	1 588 000	- 205 000	- 11,4
Public sector employment	709 000	629 000	- 80 000	- 11,3
Of which State employment	226 000	149 000	- 77 000	- 34,0
Of which municipal employment	482 000	480 000	- 2 000	- 0,4
Total employment	2 502 000	2 217 000	- 285 000	- 11,4

<i>SWEDEN</i>	<i>Sweden 1990</i>	<i>Sweden 1998</i>	<i>Change 1990–98</i>	<i>Change %</i>
Private sector employment	2 816 000	2 652 000	- 164 000	- 5,8
Public sector employment	1 652 000	1 308 000	- 344 000	- 20,8
Of which State employment	394 000	220 000	- 174 000	- 44,2
Of which municipal employment	1 258 000	1 089 000	- 169 000	- 13,4
Total employment	4 468 000	3 960 000	- 508 000	- 11,4

*Sources:* Labour Statistics 1997, oral information from Ministry of Labour, Lundborg 2000.

Simple conclusions concerning shifts in the balance between private and public employment are complicated by the practice of labelling jobs differently. Some of the apparent job losses in the public sector are not true job losses but mere job shifts. For instance, the continuing downward trend in Finland's State employment is partly explained by the privatisation of Post and Telecommunications in 1994, and Finnish Railways in 1995 (since when their employees are classified under the private sector). Similar changes have occurred in Sweden as a result of privatisation. Without more detailed investigations it is not possible to say whether the two countries have applied different practices of privatisation that would explain the differing trends in public and private employment. Similarly, with regard to public employment some caution is needed when assessing the distribution of employment *within* the public sector. Administrative changes and the practice of decentralisation may underlie some of the reductions in state employment in both countries. Furthermore, the table reveals nothing about the change in the nature of employment. Differences between the countries in the prevalence of part-time work and temporary contracts affect these figures. There may also be differences in the practice of

making these statistics. Nevertheless, the disparity of trends in private and public employment in Finland and Sweden is worth noting, especially as it runs counter to the working hypothesis of a softer welfare state adjustment path in Sweden.

It may be concluded that in both countries the decade started with a private sector employment crisis during the economic crisis years of 1990–93 and continued with problems in public employment. Looking at the change over the period 1990 to 1998, it can be calculated that the contraction of the public sector accounted for 28.1 percent of total job losses in Finland, compared to 67.7 percent in Sweden. These figures would seem to indicate a shift in the balance between private and public employment in Sweden, but not in Finland. A consequence of this is that the two countries are now more similar with respect to the share of public sector employment of total employment. In Sweden, public employment accounted for 37.0 percent of total employment in 1990, and 33.0 percent in 1998. The corresponding figures for Finland are 28.3 percent in 1990 and 28.4 percent in 1998.

## 2.4 Balance sheet for the 1990s crisis in Finland and Sweden

The macroeconomic and employment trends point to a fairly similar picture for both countries over the decade (at least until 1998), particularly in the overall pattern of economic development. Notwithstanding differences in intensity, the similarities are striking in terms of background causes of the economic crisis, as well as macroeconomic developments between 1990 and 1993. Furthermore, the export sector – led economic recovery since 1993 also displays a very similar pattern in both countries. A further similarity can be seen in the unemployment and employment trends during the severest economic crisis years of 1990–93.

Looking at developments over time, the economic turmoil of the 1990s can be divided into two waves: the economic crisis years of 1990 to 1993, which left an employment crisis in their wake. The employment crisis was triggered by the difficulties experienced in the private sector, but unlike the economic problems that began to wither after 1993, the employment problems proved more resilient. If the employment level prevailing in 1990 is used as the benchmark, the employment problem persists in both countries to this day.

While there are good reasons for claiming a general pattern for the dynamics of the crisis, the highlighted differences call for caution;

simplistic conclusions are simply not warranted. Although macro-economic indicators show similar trends, the extent of the economic decline in 1990–93 was much more pronounced in Finland than Sweden. This probably also largely accounts for the big disparity in unemployment levels, not only in 1990–93, but also for the latter part of the decade. A further difference can be noted in the unemployment and employment trends since 1993.

This section has confirmed that Finland experienced more severe economic problems and a much more pronounced unemployment crisis than Sweden. More interestingly, the comparison shows how falls in employment – despite the above mentioned differences – appear to have been equally severe in both countries. This highlights the need to include other factors in future comparisons, such as possible alternatives to unemployment, existing policy differences, or developments in migration. For example, it could be that in Sweden there were more alternatives to unemployment for those who lost their jobs, such as easier access to education, further training, activation measures etc. And although a comparison of migration trends during the period could not be undertaken here, the important differences in migration policy and in the number of refugees absorbed by these countries during the period have certainly influenced employment rates.

The economic crisis and the employment crisis are clearly related, but in terms of their implications for public finances, one should probably avoid drawing hasty conclusions. This section has shown that a change in the performance of the national economy is not the only important issue in the quest to understand the need for policy adaptation. The capacity of public finances and policies to adapt to shocks, and the political choices regarding adaptation to such shocks and timing of adaptation measures are also relevant. For this reason, the state of public finances and budget consolidation measures are addressed in the next section.

### 3 Balancing of public budgets

It has been suggested that public finances in the Nordic countries are especially vulnerable to cyclical fluctuations due to the high levels of revenues and expenditure (TemaNord 1997: 595). From the perspective of public finances the recession of the 1990s represented an attack on two fronts: revenues declined while expenditures increased. Unemployment and other economic and social adversities meant that more people were in need of financial assistance from the public purse. Public expenditure thus soared, though it should be noted that not all of this was due to the increases in transfers systems. In both countries the private sector, especially banking, also needed considerable support. At the same time there were significantly fewer people in employment contributing to the public purse. Moreover, as industrial and trade activity declined, there were falling tax incomes from these sources, too. The first-aid solution to the budgetary problems was to increase borrowing, but as the bad years continued to accumulate and public deficits grew rapidly, it became increasingly obvious, not least due to pressure from foreign financing sources, that some solid remedies for the public finance situation were needed. The expected upturn in the economic cycle was not predicted to be sufficient, and both revenue increases and expenditure decreases had to be considered in order to restore balance. Cutbacks in public expenditure followed, and there were also tax increases in both countries. By 1998 public budgets in both countries had achieved a balance of revenues and expenditure comparable to the situation prevailing before the crisis. In fact, at the turn of the millennium Finland and Sweden in international comparisons were among the countries with the "soundest" budgetary situations. Somewhat paradoxically, the view has prevailed in both countries that the harsh cutback measures have been the best policy for saving the welfare state from future cyclical attacks and cost-pressures created by the ageing population (see e.g. formulations in VM 1998).

But again, looking closer at the balancing of the public budgets, some considerable variations between the countries can be found. This section will identify some of these differences and emphasise that they resulted from deliberate choices made in economic policy and other political areas.

### 3.1 Problems in public finances

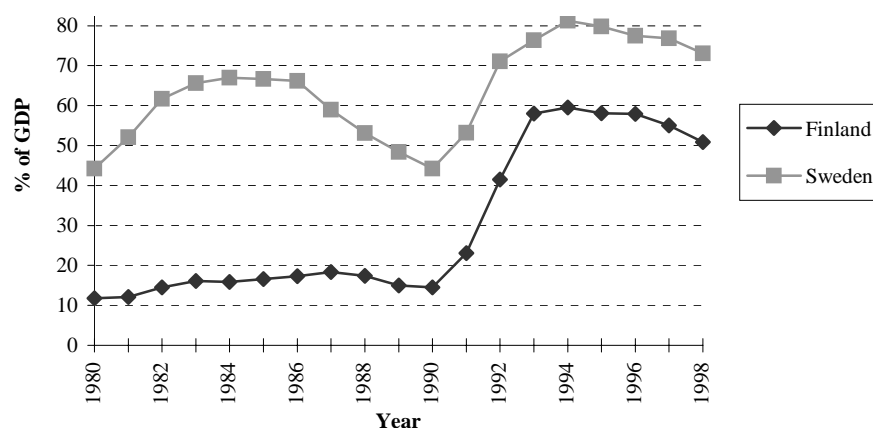
The macroeconomic problems and the inexorable rise in unemployment faced public financing with a situation of increased expenditure and declining revenue. In both countries the imbalance was financed with loans. Figure 7 shows the development of public indebtedness between 1980 and 1998. Data for 1980s are included to illustrate the different borrowing traditions in Finland and Sweden. Between 1980 and 1990 gross debts ranged from 44 percent to 67 percent of GDP in Sweden, 12 and 18 percent of GDP, respectively, in Finland. Finland was quite exceptional in international comparisons in this respect.<sup>1</sup>

The trends from 1990 on are almost identical: a very rapid increase in indebtedness from 1990 to 1993 (in Finland) or 1994 (in Sweden) followed by a slow decline since then. In relative terms the increase in Finland was clearly more alarming.<sup>2</sup> In absolute figures, a debt of 50 billion FIM in 1990 had become a debt of 420 billion FIM in 1998 (Data received from Ministry of Finance 1999, Finland). (Figure 7.)

<sup>1</sup> Net indebtedness in both countries has been at a lower level. For instance, pension funds have allowed Sweden to have a significantly lower net indebtedness level than that suggested by its gross indebtedness. Still even in a comparison of net debts Finland has had a lower level than Sweden.

<sup>2</sup> Still the indebtedness level in 1993 and since at the level of around 60 percent of GDP is close to a European average.

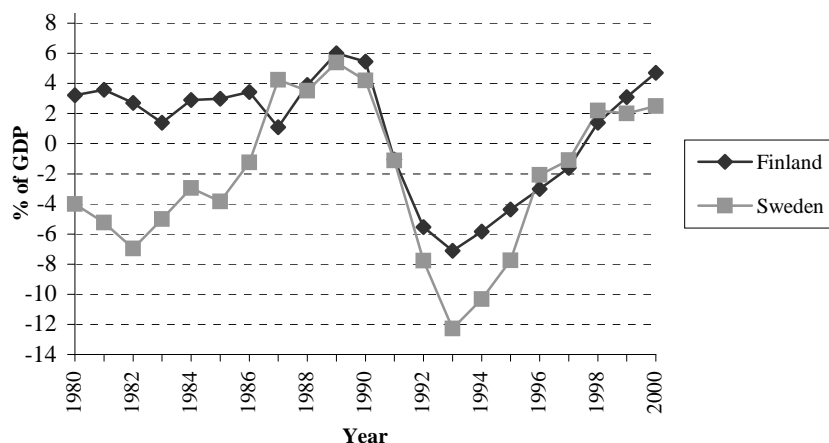
Figure 7. Gross debt of the public sector in Finland and Sweden 1980–98, percent of GDP



Source: OECD Olis database (Summer 1999 update).

The state of the budgetary balance is often taken as another indicator of the "soundness" of public finances. Taking the adverse economic situation into account, it is hardly surprising that between 1989 and 1993 both Finland and Sweden went from surplus to deficit. But as Finland had a deeper drop in GDP performance, which by 1993 had resulted in almost double the unemployment of Sweden, one might expect this to be reflected in public finances, too. But perhaps surprisingly, the figures for public deficits reveal that Sweden rather than Finland had the bigger problems, at least if the share of public deficits is the yardstick. Finland moved from a surplus of 6.0 percent of GDP in 1989 to a deficit of 7.1 percent in 1993, while Sweden went from a surplus of 5.4 percent in 1989 to a deficit of 12.3 percent in 1993. (Figure 8.)

Figure 8. Public deficits as percentage of GDP in Finland and Sweden 1980–98 and estimates for 1999–2000



Source: OECD Olis database (Summer 1999 update).

On the basis of the data on public deficits in 1998 both countries appear to have managed to balance their budgets. In addition to foreign borrowing, both countries obviously reacted to their uniquely bad deficit situation by implementing balancing measures. The shift towards more balanced budgets happened in 1993 in both countries, and by 1998 both had achieved balanced budgets. This was due partly to the economic upswing, but it also to a large degree resulted from policy adjustments. The estimates for 1999 and 2000 included in the figure show that the trend of improving balance is expected to continue in Finland at roughly the same pace, while Sweden is expected to experience an interruption.<sup>3</sup>

The report for the Nordic Council of Ministers by a group of economists argues that the balanced budgetary situation has been a lasting effect of the consolidation programmes (TemaNord 1997: 19). In international comparison few countries have been able to balance their public budgets with such success (see e.g. Mäki et al. 1999). Thus not only were the drop in economic performance and the deterioration

<sup>3</sup> The difference results from policy choices. According to the Finnish Government's long-term budget plans, the aim is to reach a 5 percent surplus in order to create a reserve for future economic downswings and increasing pension expenditures (Ministry of Finance). In Sweden the government has decided to use some of the 'space' created by the improvement (e.g. by restoring replacement levels of certain benefits to those prior to cuts) (Department of Finance 1999).

of public finance at the beginning of the decade unique in the industrial world, but the subsequent recovery and consolidation process also seem to be without parallel. The IMF country reports describe the consolidation in Sweden as an "unqualified success" (IMF 1999a), and use "strikingly successful" for Finland (IMF 1999b).

The similarities with regard to the public deficit and the pace of budget consolidation suggest that *both* countries felt the need to balance public budgets equally strongly. While strictly economic reasons have been underlined as motivation for balancing, in the public debate two additional reasons for the tight fiscal policy have emerged. Firstly, it has been argued a major shift occurred in the economic policy paradigm. Secondly, Finland and Sweden joined the European Union.

On the other hand, there were differences, too. In the recent past Sweden had a history of more fluctuation in financial balances, whereas Finland during the 1980s continuously strived to avoid deficits (Pekkarinen and Vartiainen 1993). The countries also differed in their aspirations concerning EMU membership. For some, the fact that Finland had decided to enter EMU may signal that it took the balancing of deficits more seriously because of the deadlines for meeting the convergence criteria. Thus although data on deficit development show a parallel development, and despite the arguments for a similar shift in the economic policy paradigm in both countries, differences in past history and present preoccupation's may have affected the timing and strength of reactionary measures.

## 3.2 Public expenditures and revenues

Given the described difficulties in the economy, along with high unemployment and problems with public budgets, it seems appropriate to argue that both countries were under the most severe pressure since the 1930s to carry out adjustment measures. The policy reactions to this predicament are now addressed: how did Finland and Sweden respond to the new circumstances?

It was suggested earlier that in addition to possible differences in the severity of cutbacks, there may also have been variations in timing and in the way cutbacks were executed. To consider these issues we first examine the development of total public expenditures and revenues in the two countries to discover how consolidation was undertaken. The interest here is i) in the balance between expenditure cuts and revenue raising, ii) in *when* the cutback measures were introduced, and iii) in *how* savings measures were distributed.



Yet it should first be emphasised that intentional policy changes certainly do not account for all of the improvement that occurred in public finances; part was surely due to the upswing in the economy. If public budgets are "vulnerable to cyclical fluctuations", as economists suggest (TemaNord 1997), it can be expected not only that they deteriorate rapidly and profoundly at times of economic crisis, but also that they recover quickly at times of economic upswing. Public finances may thus improve automatically or intentionally.<sup>4</sup>

In principle, governments can seek to balance public budgets by increasing revenues or (and) decreasing expenditures. The former method means tax increases, the latter involves cutbacks in existing policies and programmes. Neither of these measures offers an easy route forward for governments. There was already some agreement in Finland and Sweden in the 1980s and through to the early 1990s that tax levels were high. Widening of tax bases in the tax reforms in Sweden (1989–90) and Finland (1991) proved one way to reduce the pressure to increase the overall taxation rate without an equal loss in tax revenues (see e.g. Birch Sørensen 1998). As both countries already had relatively high overall taxation rates and were among those with the widest tax bases in the world, there was some pressure to direct consolidation measures towards expenditures.

As a first step to assessing the extent of intentional savings we can look at the expenditure in national budgets.<sup>5</sup> Figure 9 shows how the expenditure trends in both countries are reasonably alike, at least when public expenditure is measured as percentage share of GDP. The figure shows how the share of public expenditure increased when GDP decreased and that its decline since 1993 has been slower than that increase. Comparing the developments for 1990–93, it can be seen that Finland experienced the most pronounced growth between 1990–91.<sup>6</sup> The rising trend decelerated for the next two years, and ceased in 1992. For Sweden, expenditures also increased from 1990 to 1991, but most

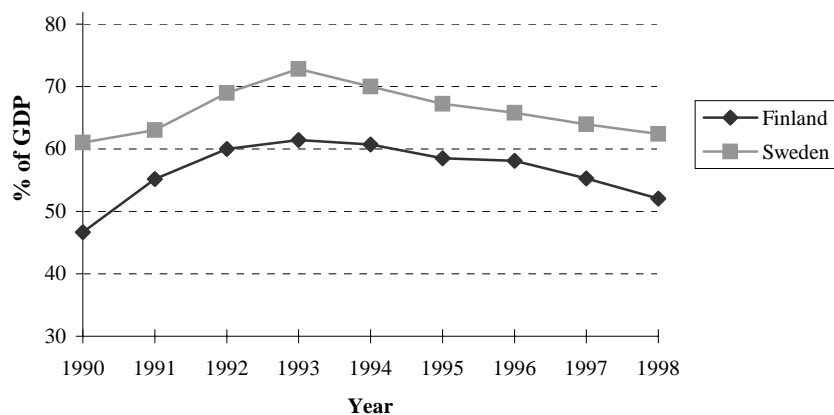
<sup>4</sup> This distinction is a simplification, as of course governments intentionally seek to affect the economic development, too. It is, however, difficult to say how much of the economic recovery is due to government policies and how much to other reasons.

<sup>5</sup> I thank Tuomo Mäki at the Ministry of Finance in Finland for his help in getting OECD data.

<sup>6</sup> This is not only due to economic recession. The Social Democratic Party – led coalition government made their last budget before the Parliamentary elections in March 1991. The budget proposal came up with considerable improvements in the welfare sphere (e.g. a considerable increase in the level of unemployment benefits) - and increased public expenditures.

strongly between 1991 and 1993. Since 1996 expenditures have declined faster in Finland.

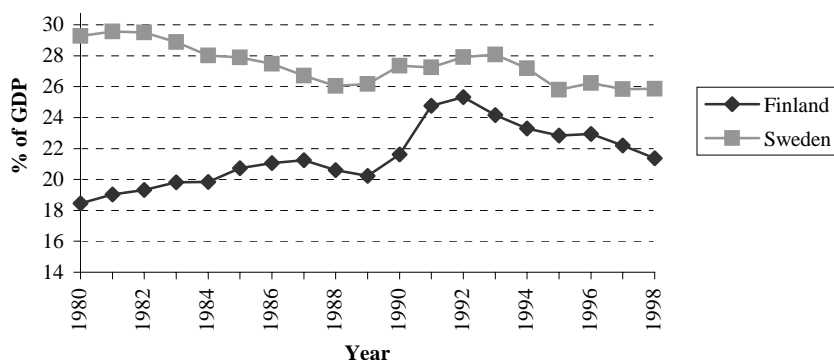
Figure 9. Public expenditure as percentage of GDP in Finland and Sweden 1990–98



Source: OECD Olis database (Summer 1999 update).

A decomposed view of public expenditure development over the period 1980–98 reveals different levels and paths experienced by the two countries. Sweden even had declining trend in public consumption expenditure in the 1980s, while Finland was consistently increasing its share of public consumption expenditure as percentage of GDP. The changes of the early 1990s were much more dramatic in Finland, and the declining trend for Finland since 1992 is again consistent while for Sweden the decreases seem to have halted in 1995. (Figure 10.)

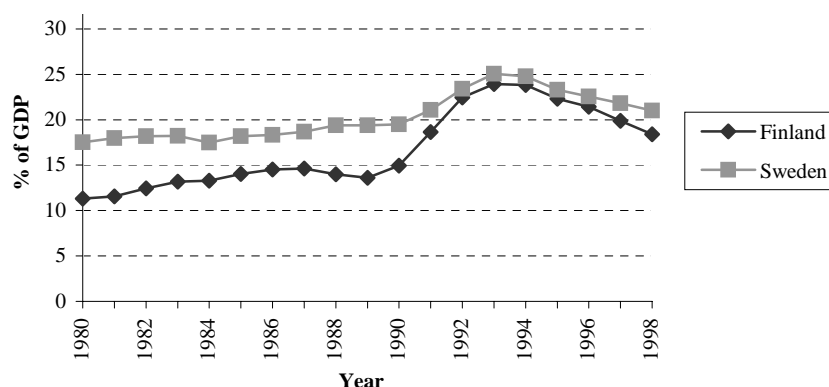
Figure 10. Public consumption expenditure in Finland and Sweden 1980–98, percent of GDP



Source: OECD Olis database (Summer 1999 update).

As regards the share of income transfer expenditures the higher level in Sweden in the 1980s is again apparent (Figure 11). The cost expansion of the early 1990s in Finland aligned it with Sweden within a few years. Since the mid-1990s the curves have again slightly diverged.

Figure 11. Income transfers in Finland and Sweden 1980–98, percent of GDP

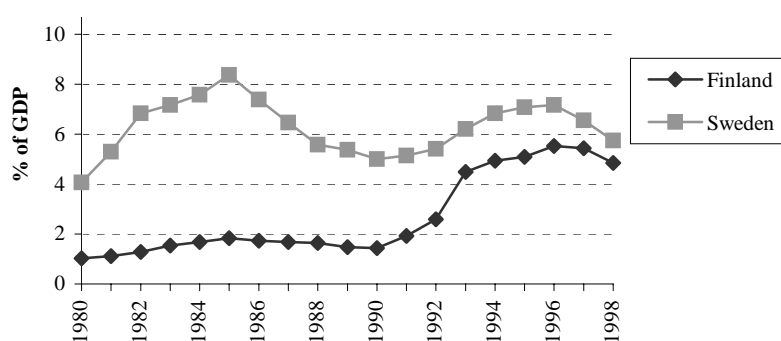


Source: OECD Olis database (Summer 1999 update).

In both countries the budgetary problems have resulted in a higher level of debts to manage than in the early 1990s. This is also visible in public expenditures, as interest costs for debts have to come from other expenditures. Comparing the share of interest costs to GDP, it can be

seen that the situation from 1980 to the present has not radically altered in Sweden (Figure 12). In fact, the figure shows that interest costs peaked higher in relation to GDP in the 1980s cycle than in the 1990s. However, for Finland the 1990s were drastically different from the previous decade, and the after-effects of the economic crisis on public expenditures are also highly visible in terms of interest costs. This contrasting scenario in Finland may be underlined by another ratio: in 1980 interest costs accounted for 2.3 percent of total public spending, in 1990 for 3.1 percent and in 1998 for 9.3 percent (own calculations from budget figures). In terms of interest rate expenditures, the two countries look more similar at the end of the 1990s than at the beginning of the 1980s.

Figure 12. Interest expenditures for public debts in Finland and Sweden 1980–98, percent of GDP



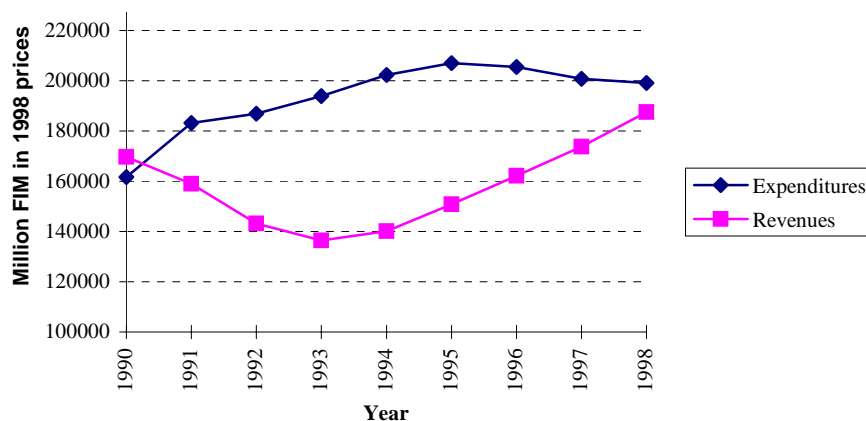
Source: OECD Olis database (Summer 1999 update).

### Budget balancing in Finland

The entire public sector in Finland had higher revenues than expenditures in 1990, after which revenues declined and expenditures increased, as can be imagined. 1993 is the clear turning point for revenue trends; expenditures continued to increase until 1997, and a balance was reached in 1998. The prognosis for future trends is for revenues to continue to increase rapidly, while expenditure development is held stable. The development of state finances is quite similar (Figure 13). Between 1990 and 1993 revenues dropped sharply at the same time as expenditures increased, and the turning point in revenue trends again occurred in 1993. The subsequent marked increase in revenues reflects the enhanced economic activity and improved employment situation. Revenues from taxes have increased by around 6 percent a

year since 1994. Revenues from value-added taxes have risen most, reflecting the recovery of domestic demand. (Ministry of Finance 1999a, Finland).

*Figure 13.* State expenditures and revenues in Finland 1990–98, million FIM in 1998 prices



*Source:* Data received from Ministry of Finance, Finland.

Although a clear improvement in revenues is apparent, it needs to be emphasised that the balancing of state budgets in Finland was not achieved via tax increases. Those that were implemented were minor; they included i) increases in individual social security contributions, and ii) a so-called "loan tax" for the first three crisis years, which involved a delay in paying out tax returns (paid later without any interest). The tax rate remained very constant during the decade. In 1990 the tax rate was 45.2 percent, and fluctuating less than 2 percent in the intervening years it was 46 percent in 1998 (Ministry of Finance 1999b, Finland). Tax increases have thus played only a minor role in the balancing of state budgets.<sup>7</sup> Improvement on the revenue side has occurred more thanks to the upswing in the economic cycle. When assessing budget balancing in Finland one thus needs to look closer at the expenditure development, although the figure does not reveal what this would look like without saving measures. In policy rhetoric it was argued that cuts were necessary to restore trust in the Finnish economy. From this perspective cuts may also have contributed to the balancing

<sup>7</sup> In addition to state tax the Finns also pay a municipal tax. Many municipalities have increased taxes during the 1990s.

of public budgets in an important symbolic way, if they helped to boost economic activity.

According to calculations by Finland's Ministry of Finance, the cuts amount to a total saving of 57 billion FIM between 1991 and 1999 (VM 1998). Of this total, 35 billion FIM was saved between 1991 and 1995 during the government term of the Centre Party – led coalition government, and 22 billion FIM between 1995 and 1999 during the government led by the Social Democratic Party and the National Coalition Party. Overall this is equivalent to 8 percent of the 1999 GNP. Yet as can be seen from the figure above, savings measures of even this magnitude could not curtail the rise in expenditures.

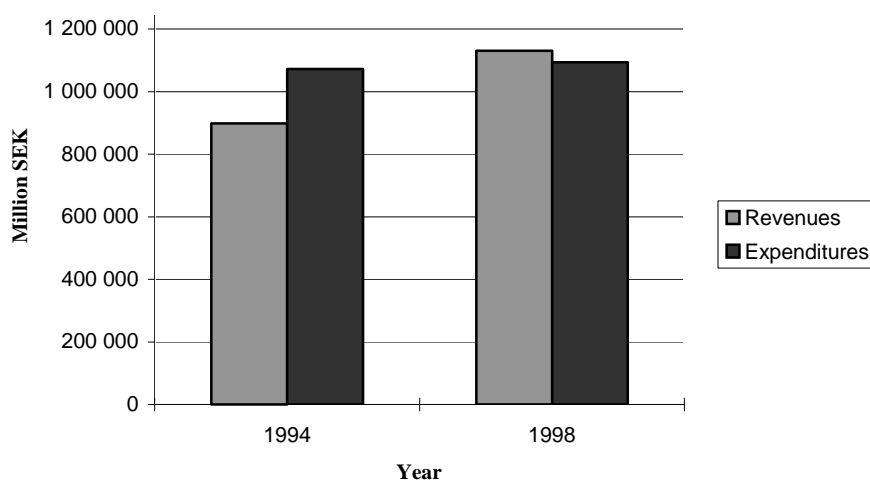
A crude breakdown of savings show that major cuts were achieved by reducing state subsidies to municipalities; 14.5 billion FIM was cut from state subsidies to local authorities. Cuts in various income transfer programmes make up another major savings category, totalling over 25 billion FIM. More specifically, unemployment insurance cuts worth 5.5 billion FIM were implemented, while a cut of 4.5 billion FIM was targeted at employment measures. Expenditure on pensions was reduced by 4.5 billion FIM and sickness insurance by 3.5 billion FIM. Increases in sickness insurance contributions amounted to savings of 1.5 billion FIM. Cuts in family benefits totalled 1 billion FIM, in housing allowances 5 billion FIM, in student allowances 0.5 billion FIM, and cuts in other social protection expenditure totalled 0.5 billion FIM. All other savings (subsidies to agriculture and firms, administration costs and foreign aid being the most important categories) account for a total of 14 billion FIM, (VM 1998).

These figures make clear that the social security system was the main target for savings. Cuts in state subsidies affected the financing base of municipalities and their potential to provide services. As about 80 percent of municipal expenditure goes to health care, social care and education, the state subsidy cuts have substantially affected the financing base of welfare services. Including state subsidy cuts, it can thus be roughly calculated that in Finland about 70 percent of all savings measures were implemented in the social policy sector (transfers and social- and health care services). If one equates cuts in state subsidies with the social and health services, approximately two thirds of social policy – related savings were achieved via transfer cuts, and one third by service cuts.

*Budget balancing in Sweden*

In Sweden, the Bildt government made savings during 1992 and 1993, but according to the Ministry of Finance budget consolidation took place in earnest only between 1994 and 1998. On the basis of estimates of total savings during the 1990s (Ministry of Finance 1999, Sweden) it can be calculated that 85 percent of savings were implemented after 1994. In 1994 the fiscal balance was  $-10.3$  percent, while four years later in 1998 the balance was positive ( $+ 2.4$  percent), having thus strengthened considerably by more than 12 percentage points. Figure 14 shows that revenues increased faster than expenditures declined. As in Finland, the expenditure level was still higher in 1998 than in 1994. Yet in relation to GDP development, it is clear that much of the improvement resulted from the expenditure side (8 percent reduction compared with almost 5 percent increase in total revenues). According to the Ministry of Finance this improvement has chiefly been due to the impact of the government's consolidation programme, not to cyclical or other temporary factors.

*Figure 14.* State expenditures and revenues in Sweden 1994 and 1998, million SEK



*Source:* Data received from Ministry of Finance 1999, Sweden.

The Swedish consolidation programme was designed for 1995–98 (TemaNord 1997: appendix). It contained balancing measures worth 118 billion SEK and was established in connection with the convergence programme of June 1995. In April 1996, a further 8 billion SEK

of savings was added to the programme. Altogether this corresponded to savings of 8 percent of GDP for the four-year period 1995–98. According to calculations by the Ministry of Finance the impact of the measures was mostly felt between 1995 (3.5 percent of GDP) and 1996 (2.0 percent of GDP).

The Swedish consolidation programme included both tax increases and cuts in expenditures. The savings programme was estimated to yield 59.5 billion SEK as increased revenue, and 66.1 billion SEK as reduced expenditure (TemaNord 1997: appendix). Prime Minister Göran Persson's book "*Den som är satt i skuld är inte fri*" lists the savings and how they were distributed over time (Table 4). Two thirds of the savings were introduced during the short period between November 1994 and Spring 1995.

Table 4. Timing and impact of savings decisions in Sweden 1994–98

Savings decisions	Billion SEK saved
Savings decisions prior to 1994	19.0
Savings decided in November 1994	42.5
Budget measures 1995	39.7
Spring measures 1995	13.0
Spring measures 1996	26.0
Negative effect from decreases in incomes	-14.7
<b>Total</b>	<b>125.5</b>

Source: Data received from Ministry of Finance 1999, Sweden.

Of the tax increases, the most notable was the introduction of the individual social insurance contribution (*allmän egenavgift*) in 1993. The contribution has since gradually been increased and in 1998 it was planned to amount to 6.95 percent of gross income (TemaNord 1997: appendix). The national income tax was raised from 20 percent to 25 percent for incomes above a given level (i.e. for those with the highest incomes). Another important tax increase involved the property tax. There were other changes directed at raising more revenues, too, and the total impact of the consolidation programme on revenues was 69.0 billion SEK.

Almost all expenditure cuts during the Bildt government and prior to 1994 were targeted at social security. They amounted to 9.4 billion SEK (cuts in pensions 2.2 billion SEK, in sickness insurance 0.6 billion SEK, in family policy 0.9 billion SEK, in rent allowance 1.8 billion SEK, and in housing subventions 3.9 billion SEK). Between 1994 and 1998 heavier cuts were introduced and they were more evenly distributed between different administrative sectors. According to the



detailed information on cuts in the various Ministries budgets, it can be only roughly calculated that cuts in the Ministry of Social Affairs budget amounted to less than 50 percent of all cuts. This sum does not include cuts in labour market policy measures. On the expenditure side the programme included cuts in pensions, sickness insurance, unemployment benefits, child allowances, changes in indexing of social security benefits, and other measures. It is noteworthy that a deliberate policy choice was not to make cuts in services, as it was thought shortcomings in health care or child day-care might have negative effects on health and life opportunities (Palme and Wennemo 1998: 19).

### 3.3 Balance sheet on budget consolidation in Finland and Sweden

While collecting material for this report it proved to be difficult to obtain detailed information on how consolidation was achieved. The account given here was based on general lists from the Ministries of Finance in both countries, and should thus be taken as a rough indicator of developments. More detailed investigations would surely be helpful to further evaluate policy choices regarding cutbacks.

On the basis of the material accessible for this report, a preliminary conclusion on the robustness of the intentional balancing measures is that the governments in both countries consolidated public budgets equally successfully. National assessments made at the Ministries of Finance come up with a very similar picture: in Finland the savings amounted to 8 percent of GDP (GDP in 1999 figures), and in Sweden also the savings amounted to 8 percent of GDP (GDP in 1998 figures). As a result of the consolidation measures, public deficits were transformed into a surplus in both countries in a roughly similar manner and speed, but the way this was achieved differed.

In the light of the information presented some major differences in budgetary adaptation between the two countries can be detected:

- the savings worth 8 percent of GDP in both countries seem to be spread over a longer time period in Finland;
- according to information from the Finnish Ministry of Finance (1998) concerning the share of cuts between the two Finnish governments, most of the savings, i.e. 60 percent, were introduced between 1991 and 1995, specially in 1992 and 1993. Information for Sweden suggests the share of cuts prior to 1994 of all cutbacks

was about 19 percent. On the basis of this comparison, Finland was quicker to introduce balancing measures;

- the savings in Finland were thus weighted in the early 1990s, while in Sweden the severest cutbacks took place between 1994 and 1995;
- the consolidation was achieved in a different way: Finland opted far more for cuts in expenditures, while in Sweden the consolidation programme was based almost half-and-half on tax increases and cuts in expenditures;
- these different consolidation strategies mean that cuts carried out in social policy appear both absolutely and relatively higher in Finland, when contrasted with the size of social protection expenditures;
- looking only at cuts, the division between social policy cuts and other cuts was estimated at about 70/30 in Finland, while in Sweden the share of social policy – related cuts appears lower;
- the division between cuts in transfers and services was estimated at roughly 70/30 in Finland, while social policy cuts in Swedish state budgets were intentionally targeted exclusively at cash benefits;
- According to the latest policy formulations Finland seems to be continuing its tight budget policy, while Sweden has decided to use part of the surplus for policy reforms.

## 4 Adaptation in social policy

After the assessment of budget consolidation as a whole, we next concentrate on policy changes in the social field. A group of Nordic economists has suggested that countries which have achieved success in budget consolidation are "characterised by an emphasis on expenditure cutbacks, particularly in transfer payments" (TemaNord 1997:19). In addition to such transfer cuts, social policy has been affected by changes in the local arena responsible for welfare services. In the previous section it was possible to show that countries differed in the way they implemented revenue and expenditure strategies, with regard to timing of adaptation measures and in the way cutbacks were divided between different policy sectors. Here the interest is on how adaptation is achieved within the social policy sector.<sup>1</sup> The section starts with a more general description of adjustment regarding total social protection expenditure and premises for service provision. Thereafter follows a separate focus on changes in four policy areas.

<sup>1</sup> While economic reasons have been the main justifications for policy adaptation, not all changes in social policy have aimed at cost-containment. Reforms have been implemented to make the social policy system more responsive to changed circumstances and new needs.

## 4.1 Social protection expenditure

Notwithstanding the problems involved<sup>2</sup>, a description of development of social expenditure as a share of GDP may be a helpful starting point to reveal the trends and difference in levels (Figure 15). Despite the marked difference in unemployment between the countries, the share of social expenditure as a percentage of GDP has always been on a much lower level in Finland. Simplifying a lot, one can say that coverage-wise the differences have been smaller than in a comparison of compensation rates: Finland has usually had lower compensation rates than Sweden<sup>3</sup>.

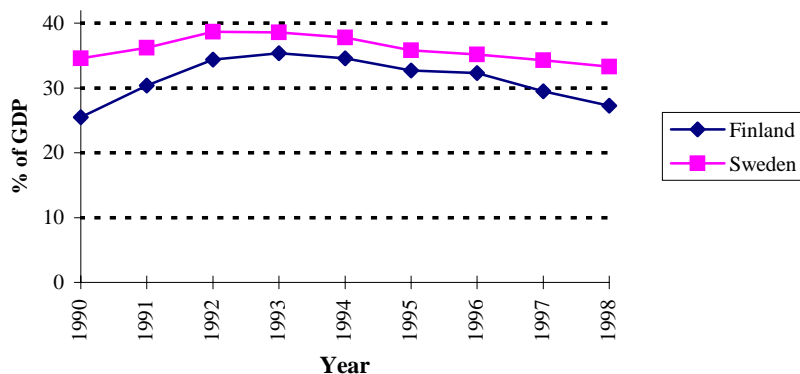
The sharp increase in the share of social protection expenditure in Finland between 1990 and 1993 is very visible, and owes much to the steep rise in unemployment. Since 1993 social expenditure as a share of GDP has decreased in both countries, but levels are still very different. It may be that the slightly faster GDP growth and greater reductions in unemployment in Finland contribute to the somewhat more pronounced drop in social protection spending, although the cuts certainly affected it too. According to the estimates for 1998 and 1999, the drop continues to be rapid, and in 1999 the share of social protection expenditure as percentage of GDP was expected to be 27.0 percent (Social assistance 1997). In a EU comparison this means Finland returns to the European average, even though unemployment is still among the highest in Europe. The disparity with Sweden is considerable, both when one considers the relative scope of social

<sup>2</sup> On a macro-level an increase or reduction in the social expenditure share of GDP may be caused more by changes in the economy than in the social policy system itself. A further problem concerning the interpretation is that 'needs' for support from various programmes also change over time. Changes in unemployment account for much of the changes in the expenditure for unemployment programmes and, indeed, of the whole of social security expenditure. In other words, benefit levels and changes in compensation rates explain only a part of the expenditure development. Thus, for example, even harsh reductions in benefit levels may not bring savings if the number of beneficiaries increases. Besides, there is a certain flow of people from one programme to another. Rule changes may be efficient e.g. in reducing the number of benefit recipients in one programme, but may not result in a reduction of total numbers of benefit recipients if people move from one benefit to another.

<sup>3</sup> The fact that Finland developed its system later is one reason that contributes to the difference. For instance, in pensions Finland introduced the earnings-related pension scheme later than Sweden and therefore average pensions paid out are on a lower level.

protection spending in the overall economy and with regard to the downward trends in expenditure share during the latter part of the decade.

Figure 15. Social protection expenditure in Finland and Sweden 1990–98, percent of GDP



Source: Nososco 1999, 2000.

## 4.2 Premises for service provision

It holds for both countries that while cash benefits are the responsibility of the state (or other institutions at the national level), services are a local responsibility. Throughout the Nordic countries municipalities or other local authorities are, together with the state, key actors in social policy, unlike in many other welfare states. Municipalities are legally responsible for providing services to their residents. Depending on the nature of the service, a municipality may decide to provide the service itself, buy it from another provider, or unite with other municipalities to secure a better financing base in relation to the size of its population. Local authorities provide the majority of social and health care services themselves, and to a large extent are also responsible for their financing. The state channels subsidies to them to guide the provision and ensure a certain level and quality of services, as well as to even out regional differences. Since the mid-1980s the relation between the central and local governments has been shifting, and following a long process of decentralisation

local authorities in the 1990s found themselves with considerably more independence in how services within their area were arranged.

Considerable autonomy in provision, funding and decision-making are believed to account for the large variations between the municipalities in the quantity and quality of services, and this certainly presents a major challenge to any attempts to describe developments on the national level. There are differences between municipalities and, within service production in individual municipalities, between different services. In addition to this variation, the administrative shifts that have occurred, together with reforms in the way statistics are compiled, make it difficult to construct a clear picture of the development. For instance, in Sweden the shift of elderly care services from the health sector to the social care sector has complicated the compilation of reliable time-series regarding elderly care, even on such crucial issues as resources, personnel and functions. Nevertheless, if one wants to assess development trends between two countries the only real option is to rely on national statistics. While variation within a country cannot be captured, an assessment of the direction of national development should be attainable.

In addition to a wave of reforms concerning the position of the municipalities and their powers to decide on service provision,<sup>4</sup> local authorities were also faced with a very different economic setting at the dawn of the 1990s. The economic crisis naturally also hit the municipalities, thereby affecting the options for service provision in various ways. Firstly, the economic situation and unemployment undermined municipal tax revenues. Secondly, as local authorities in Finland and Sweden are partly dependent on state subsidies, the problems in state finances were also felt at the local level if and when cuts in subsidies were implemented. To balance this loss and the rising running costs of services, municipalities increased local taxes and user fees for health and social services.

Table 5 gives some basic background figures on the size and role of local authorities in Finland and Sweden by comparing the situation in 1990 to that prevailing in 1995. The table suggests local authorities in both countries were quick to adjust their expenditures to changes in GDP, and then to re-structure their financing. As can be seen, the share of local authorities expenditure as percentage of GDP remained about the same in both countries, whereas as a share of total public expenditure it decreased markedly. In both countries subsidies played a lesser role in local authorities' total financing, while user fees increased their relative weight. Tax incomes in total financing increased, especially in

<sup>4</sup> State subsidy reforms are undoubtedly among the most important ones.

Sweden. The declining impact of subsidies, especially the faster decrease in their role as a source of income in Sweden, is noteworthy.

*Table 5.* The role of local authorities in the public sector in Finland and Sweden 1990 and 1995

	Finland 1990	Finland 1995	Sweden 1990	Sweden 1995
Local authority expenditures, percent of GDP	19	19	25	24
Expenditures of local authority sector, % of public sector expenditures	41	32	41	35
Taxes, % of local authorities' income	56	56	66	72
State subsidies, % of local authorities' income	41	39	29	22
Fees, % of local authorities' income	3	5	4	7

*Source:* Kurri & Loikkanen 1998, collected from different tables.

*Note:* expenditures are total expenditures, including capital expenditures, but excluding business firms owned by municipalities.

The changed circumstances at the local level also meant changes on the demand-side. For instance, increased unemployment in Finland meant that the demand for child day care decreased. Furthermore, there were changes in the political balance, ideological changes concerning the role of public authorities, and calls for more citizen participation in the running of services. By and large then, the economic premises for local service provision altered considerably, but there is also a mixture of other reasons and justifications for the changes in the ways and means of service provision (see SOU 2000:38). These, too, probably influenced access to services during the period.

In short, there are many reasons to believe that major changes have taken place in all areas of social protection, both in cash benefits and in care services. In the following, adaptation in the social sphere is illustrated by examining changes in cash benefits, elderly care, child care and activation measures.

### 4.3 Case 1: Adjustments in income transfers

In both countries social expenditure accounts for more than a third of all public expenditure and is thus a natural target for savings measures. And as we have seen, the bulk of savings measures were realised in the transfer sphere. The 1990s economic situation and accompanying

public discourse about the detrimental effects of the welfare state on the overall economy and on incentive problems may have enhanced the willingness for cutbacks in the social field. Although the economic crisis emphasised the economic motivation for cutbacks, there were ideological motives involved, too. However, as Pierson (1994) has shown, reducing social expenditure is not a simple task. From a savings perspective the benefits that account for most of the expenditure could yield the biggest savings, even with minor cuts. However, from a political perspective the benefits accounting for the highest expenditure usually serve a large part of the population. Pensions are a case in point: a cut in pensions would affect a great number of benefit recipients (and voters) and thereby result in significant political losses. Earlier research on cutbacks (Alber 1988; Marklund 1988; Pierson 1994) has showed that cuts are often targeted at more selective programmes. Institutional factors, government composition (majority/-minority governments) and parliamentary procedures may also have an important influence on the passage of savings laws. Thus, where cuts should be attempted, and which will ultimately succeed, are by no means obvious.

Figure 15 showed how on an aggregate level social protection expenditure share has declined in both countries since 1993, but because this provides no clues on where and how cutbacks have been implemented a more detailed look is needed. However, comparing cutbacks between two countries is complicated by the many areas where cutbacks are possible and by the variety of ways of implementing cost-containment. Even such an easy question as "how much was cut?" may be difficult to answer, as some savings have had a cumulative effect. Delaying indexation is an example of a savings measure that cannot be detected as a "cut" in expenditures. Some of the "cuts" affect future benefits, as is the case for pensions in Finland.

For the purposes of this report there was no easy way to compare the severity of cutbacks in the two countries, at least in numerical terms. OECD has a "Social Expenditure Database (SOCX)" that gives statistics on expenditure development in the period 1980–95. However, certain administrative shifts, as well as differences between the countries on what is classified under different categories, meant that efforts based on this data to compare expenditure development for different programmes sometimes proved more misleading than enlightening.

From the point of view of "Nordicness" it is most important to assess whether the adjustments have resulted in structural changes. Ploug's examination of cuts and reforms of the cash benefit systems in four Nordic countries suggests that between 1980 and 1995 there had



been changes in most programmes by differing methods, yet the basic elements and structures had remained intact (Ploug 1999). It has also been suggested that the adjustments to benefit levels in the four Nordic countries have been changes "in degree, not in kind" (Kvist 1999). Palme and Wennemo (1998: 37) conclude that the Swedish system "has remained encompassing". Similarly, Heikkilä and Uusitalo (1997: 183) state that the cuts carried out in Finland "have not changed the basic features of the Finnish system".

Yet it is not very easy to make a qualitative assessment. Although social policy cutbacks often involve savings of hundreds of millions, even billions of FIM or SEK, researchers have paid scant attention to the overall cash benefit changes. One explanation is the multiplicity of programmes with different rules, which would be very demanding to master; there are so many different programmes containing a variety of benefits and forms of assistance. Some offer basic security and some earnings-related security, while some are means-tested. The coverage of programmes also varies, not to speak of calculation rules for determining benefit levels (see e.g. Korpi and Palme 1998). Most importantly, policy changes can affect qualifying conditions, coverage, compensation rates and the length of benefit reciprocity, but there are still other influences on the conditions for receiving a benefit. The way programmes in a country are designed varies, and there are differences between countries in this design variation. Here, no frame for a more qualitative comparison could be developed.

For these reasons there are no easy ways to summarise the changes, not to speak of comparing them, as there are few overall assessments of changes during the 1990s available to start from. There are three concise national assessments of how cutbacks in social security systems were implemented; one for Finland by Kosunen (1997) and two for Sweden by Palme and Wennemo (1998) and Palme (2000). With the help of these an overall description of adaptation patterns is drawn on a country by country basis.

*Adaptation in Finland*<sup>5</sup>

In Finland the first tough measures to stem the growth of public expenditures were presented as early as March 1991 (Kosunen 1997:31). The first savings programme was introduced to parliament in the summer of 1991 and contained estimated savings worth 10 billion FIM in 1992. This savings package involved a large number of cuts in social benefits and services. However, differing opinions over the cuts meant that only 4 billion FIM of savings was actually achieved. With the economic outlook growing ever more gloomy, tougher measures were deemed necessary. The job of looking for further savings was given to the budget chief in the Ministry of Finance, who presented a major savings plan in October 1992. It is revealing that some of the suggestions in this "Sailas Paper" were implemented as early as the beginning of 1993. The "Sailas Paper" proved the most comprehensive agenda of cutbacks, as it suggested reductions in almost all social policy programmes. (Kosunen 1997: 29–39.)

Until 1993 there were no major changes in *unemployment benefits*; the *basic unemployment allowance* remained at the level of 1991. *Earnings-related benefits* were cut by 3 percent from the beginning of 1992, and in 1993 the qualifying conditions were tightened. In 1994 the structure of unemployment security was renewed; work history was introduced as a precondition for obtaining the basic unemployment allowance and a limit to the payment period was introduced. Those without a work history would henceforth receive *labour market support*, which equalled the allowance in its level, but differed in the qualifying conditions. Thus young people entering the labour market with no previous work experience would only qualify for labour market support, while long-term unemployed would become recipients of labour market support after the unemployment benefit or allowance period (500 days) was exhausted. Activation measures were also introduced in connection with the new allowance system. In 1995 qualifying conditions for receiving unemployment benefits were again tightened, in 1996 qualifying conditions for labour market support for the young were tightened, and in 1997 there were further changes in qualifying conditions.

*Sickness benefits* have been revised often. The Centre Party -led government's raising of the basic security allowance was index-linked, but the compensation rates of earnings-related sickness benefits were

<sup>5</sup> What follows is mainly based on the 'cuts-register' compiled by Virpi Kosunen at Stakes, Kosunen 1997 and Ministry of Finance 1998. This is still far from being a complete and systematic list of changes.

reduced in 1992 and 1993. The thresholds of subsidies for medicines, examinations and care were raised. In 1994 child extras were abolished. In 1996 the rules for receiving sickness benefits were revised to reduce the coverage of the system. In 1997 paid maternity leave was slightly extended.

The *housing allowance* was the target of major cuts in 1993, but some 25 percent of those living in rented apartments had already stopped receiving assistance in 1992 after reforms affecting qualifying conditions. Forty-two percent of home owners stopped receiving assistance. The 1994 reform of family supports targeted housing allowances to families with children by relaxing the terms for receiving them. At the same time the terms for childless couples and single adults were tightened. In 1995 further cutbacks were introduced.

*Family policy* changed substantially. Tax deductions for children were abolished and the saving gained was shifted to the amelioration of family benefits. *Child allowances* therefore increased from their 1990 level. In March 1990 the annual child allowance for one child was 3 060 FIM, whereas by March 1995 it had grown to 6 840 FIM. In 1990 there was a reform in the child day-care law which allowed the choice of either municipal child day-care or *home care allowance*. The law guaranteed child day-care or a home care allowance for parents of children under the age of three. Yearly home care allowance revisions were index-linked, but in 1994 the index revision was not made. In 1995 the basic allowance decreased for the first time from 1 958 FIM to 1 908 FIM.

To understand the changes in income transfer schemes some *taxation* modifications need to be highlighted. Overall, taxation has changed since the reform of 1991. Some major deductions (sickness costs, child costs) have been abolished, and sickness insurance contributions have been raised. In 1994 part of the responsibility for financing the unemployment insurance and earnings-related pension scheme was transferred from employers to employees. In 1993 the employees contributed 3 percent of their earnings to the pension scheme and 0.2 percent to the unemployment scheme, but in 1994 the unemployment contribution rose to 1.87 percent of gross income. In 1995 the pension contribution rose to 4 percent.

The changes made in both taxation and the social security system show that the first years of the slump (1991 and 1992) saw relatively few reforms. As the recession continued and proved deeper than expected, further reform proposals came in 1993, and 1994 continued the trend in savings measures. Despite the change of government in 1995, the cutbacks continued: all previous measures were kept in place

and in addition the Social Democrat -led government enacted more savings in the beginning of July 1995.

The Social-democrats had accused the previous Centre Party -led government of failure to deal with unemployment, which at that time was around 15 percent. The new government adopted the same goal of reducing public sector indebtedness, but with a different set of tools. Boosting domestic markets rather than export-led growth became the central aim. The government started by presenting a savings package of 20 billion FIM for 1996 and plans for additional savings between 1997 and 1999. But the budget framework still proved too small, and by February 1996 the government had agreed an additional 1.6 billion FIM of savings for the year. The cuts continued in the budget of 1997 and amounted to 6 billion FIM. Calculations from the Ministry of Social Affairs and Health suggest that as a result of these savings between 1991 and 1996, social expenditure was 8.6 percent lower than it would have been without them. (Kosunen 1997: 29–39.) Despite these cuts, however, state spending increased rapidly from 1990 and the budget savings from 1992 on were only able to slow down the expenditure increment.

#### *Adaptation in Sweden<sup>6</sup>*

Despite the similar timing of the economic crisis, one could argue that economic problems reached Swedish politicians with a considerably longer delay (Jonung 1999). While there were important cutbacks in social policy during the Bildt government, they began in earnest only after the change of government in 1994 (Palme and Wennemo 1998).

Palme and Wennemo (1998) have presented an assessment of the cutbacks in social security in Sweden. Since 1993 the share of all social security programmes as percentage of GDP has been reduced. This is partly due to the recovery of the economy (which has increased GDP), but according to Palme and Wennemo (1998) all benefits have also been subject to cuts.

Ending indexation has been the most important way of reducing *pension* expenditures. The basic pension was reduced by 2 percent in 1993 and further cut in 1996. Qualifying conditions for early-retirement pensions were tightened, while compensation rates were decreased.

<sup>6</sup> The description below gives a mere glimpse of the reforms. For more detailed information see Palme and Wennemo 1998 and Palme 2000.

As in Finland, *sickness benefits* have been under heavy attack. Coverage, compensation rates and length of reciprocity have all been renegotiated. In 1993 the compensation rate was lowered from 90 percent to 80 percent. In 1996 a further reduction took place, this time to 75 percent. In 1998 the compensation rate was restored to 80 percent.

The Bildt government tried to implement a number of changes in *unemployment benefits*. A compulsory fund was introduced, while terms for requalifying for unemployment benefit were tightened. The Social-Democrats abolished these changes when they came into power. As in sickness benefits, compensation rates have been lowered, first from 90 percent to 80 percent and then to 75 percent. In 1998 an increase to 80 percent was implemented.

*Housing allowances* were cut considerably. One aim was to target the housing allowance more towards families. Housing allowances (like child benefits) were raised to compensate for the changes resulting from the taxation reforms. Following these reforms expenditure increased rapidly and cuts were introduced in 1995 and 1996 to decrease the allowance levels.

#### *Balance sheet on adjustments in income transfers in Finland and Sweden*

The rhetoric of "economic necessity" prevailed in both countries in the early 1990s and the severe economic problems can also be claimed to have promoted a sort of general "crisis consciousness" in both countries. It is also hard to accuse governments of "blame avoidance" (Pierson 1994) with regard to cutbacks; in both countries cutting of expenditure became close to a political virtue in the changed conditions, which may help explain why some of the cutbacks were relatively easy to implement. Even lacking a detailed comparison, it can certainly be said that severe cutbacks have been implemented in both countries.

Still there are major differences, although unfortunately to weigh these in more detail we need to wait for more comparable evidence. At present no detailed comparison exists, and the views expressed so far are somewhat conflicting. For instance, Pekka Kosonen (1993) argues that social policy in Finland "has been more subordinated to "economic necessities" than in other Nordic countries" (Kosonen 1993: 50, 1998). The present account of budget consolidation suggests some crucial differences in adaptation strategy, especially regarding the intensity of total cutbacks and of targeting of the social policy sector, with Finland implementing more austere measures.

On the other hand, when Staffan Marklund (1995) compared the 1996 budgets for Finland and Sweden, he concluded that the solutions were very similar. Both countries were cutting expenditure in earnest, but Marklund's view was that measures in Finland were more gradual and less dramatic. He concluded by saying that as a result of cuts the Finnish welfare state appears less damaged than the Swedish (Marklund 1995: 411). Marklund's judgement is affected by the year of comparison, however, as his task was only to compare budgets for a certain year. This report reveals that the cuts in Finland appeared mainly during 1993 and 1994, while in Sweden 1996 was one of the most intense cutback years. Also, so far there have hardly been any real "improvements" in the social security system in Finland, whereas in Sweden the cuts came over a shorter period (1994–96) and were followed by some expansive reforms (e.g. to increase compensation rates) from 1998.

On the basis of this report a preliminary conclusion could be that heavier reductions, earlier timing and extending on of cuts over a longer period characterise Finland, while a later, shorter and – within that period – tougher adjustment strategy characterises Sweden.

What could be the explanation for these differences in timing and severity of cutbacks? Kosonen (1996) argues that Finland differed from other countries, especially in the way savings were planned. Instead of a committee or working group appointed by the government, the planning of savings was left in the hands of one person and the savings programme was prepared and implemented by civil servants. It could be that this "political neutrality" also contributed to the quick passage of savings legislation. The fact that the savings were proposed by a civil servant and carried out by civil servants at the Ministry of Finance may also be important from the perspective of "blame avoidance". In this way no political party had to bear excessive political responsibility; the savings plan could be accepted as "neutral". This may also explain why the cuts introduced by the Centre-Right coalition government were retained by the Social Democrat -led government. In addition, the majority governments in Finland probably had an easier task than the minority governments in Sweden in passing savings laws through Parliament.

## 4.4 Case 2: Adaptation in elderly care

From a Nordic model perspective Finland and Sweden have long stood out as exceptionally "public" states in international comparisons. This feature arises from their unique scope of publicly provided services rather than from an exceptional programme of cash benefits (see e.g. Kohl 1981; Castles 1998; Birch Sørensen et al. 1998). Services make up a significant part of the GDP, and of all social expenditure the share of social and health services in 1997 was 41 percent in Sweden and almost one third (31 percent) in Finland (Nososco 1999). These figures testify that both countries have invested hugely in services. The character of services differs from elsewhere, too; in comparison, there is a greater variety of public services that cater for a broader spectrum of the population. Access to services has been based on citizenship, and lately on residence, rather than on merit or prepaid rights, and services are provided according to need. To satisfy all needs, it has been the aim for services to be of high quality, and run by professional staff. With these characteristics, service provision in the Nordic countries can be said to be founded on the principle of universalism.

As publicly arranged social care services are a distinguishing feature of the Nordic model (e.g. Sipilä et al. 1997), elderly care and childcare services are examined here; they form the core of social care services, whether measured in expenditures or numbers of people served. Did the nineties mean changes in the way these services are resourced? Are the services as universal as before? First comes an overview of developments in both countries regarding expenditures and personnel numbers. Thereafter follows a look at changes in the coverage of services. We start with elderly care services.

### *Resources*

There is no one correct picture of old age -related expenditure, as statistics are not formed on the basis of age, but rather on functions. Sometimes the responsibility for functions is renegotiated, as for example in Sweden, where old age services were shifted from the health to the social sector in 1992 (Ädelreform). This has had some repercussions on the way statistics are compiled. As a consequence, estimates on elderly care expenditure development during the 1990s differ depending on the source (Szebehely 2000).

Statistics are also being revised following a shift to the Esspros system coordinated by Eurostat. The Esspros system is now guiding EU countries to classify their social expenditures in a similar way, and

the latest statistics both in Finland and Sweden are compiled accordingly. For this reason Esspros statistics are chosen for comparison, although due to the on-going revision of older data, the figures presented for Sweden only start from 1993. A further crucial limitation on comparability is the practice in Finland not to include the costs for long-term care of the elderly in health centre bed-wards in elderly care expenditure, which leads to a picture of unrealistically low expenditure on elderly care in Finland.<sup>7</sup>

Nevertheless, in Esspros statistics an attempt is made to classify expenditure items according to various social risks, old age being one of them. The classifications should also be consistent over time. As Esspros statistics on old-age related expenditure include income transfers and services, they provide a way to compare the division of costs and their development over time, even if some doubts are reserved about the possibilities of comparing levels between countries.

In all countries expenditure related to old age forms the biggest spending category. However, there are major differences in the way this expenditure is divided between pensions and other income transfers and services. According to Esspros statistics, expenditure in Finland related to old age accounted for about 9 percent of GDP in 1997<sup>8</sup> (about 55.4 billion FIM in 1998), and 30 percent of all social expenditure. In Finland the weight is clearly on the cash benefit side: pensions and other transfers absorb 89 percent of the expenditure, while social care services account for 11 percent. In Sweden expenditure related to old age accounted for close to 13 percent of GDP in 1997 (222,7 billion SEK), and 36 percent of all social expenditure. Of all old-age related expenditure the share of services is 22 percent. (STM 1998:15, Socialdepartementet 1999.) The differences between the countries in overall expenditure levels are substantial, and the same discrepancy emerges in Nososco statistics (1998:123) covering expenditure of services to elderly and disabled people; the spending figure for Finland is 10 billion FIM and for Sweden 65 billion SEK. Even taking account of exchange rate differences and population size we have a great disparity in spending levels. Explanations have been sought from among user fees, wage levels and staff ratios, since the discrepancy cannot be explained solely by a different practice of

<sup>7</sup> Care in health care centre bedwards is comparable to care in nursing homes in Sweden. As in the Swedish Esspros statistics costs for nursing homes are included, Esspros statistics show a major difference in expenditure levels, which is not warranted by reality.

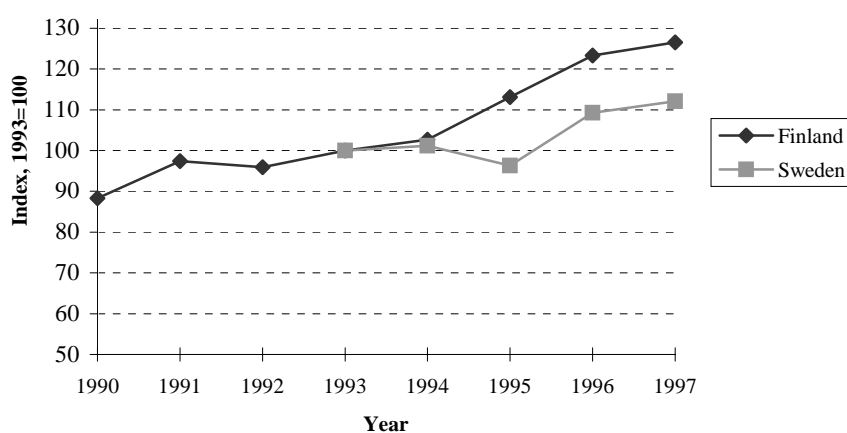
<sup>8</sup> Again it should be remembered costs for long term care services are not included in this category, which affects the balance and level.



calculating expenditures. Finnish elderly care expenditures are simply markedly lower. On the other hand, a recent Swedish report describing service expenditures for the elderly (Ds 1999:61) gives more similar public net spending figures (purchasing power parity corrected) for services for the elderly in the two countries: 38 000 SEK per elderly per year in Finland and 48 000 SEK in Sweden.

More work is clearly needed to explain the disparity in levels. Instead of delving deeper into the expenditure figures, the Esspros figures are here indexed in order to focus on trends (Figure 16). The figure shows no decreases in resources for Finland, and for Sweden the trend since 1993 is a slowly increasing one.<sup>9</sup> After 1993, the data suggest a more pronounced relative resource increase in Finland.

Figure 16. Development of expenditures on elderly care services in Finland and Sweden 1990–97, 1993=100



Source: Calculations based on STM 1998:15 and Socialdepartementet 1999 Esspros figures.

Here it should be pointed out that due to the major difference in expenditure levels, a trend comparison like this also becomes problematic. Finland has a much lower starting level, both for institutional care and home help services, and increases in expenditures may just reflect this initial disparity. A country-by-country examination based on national statistics is therefore a more appropriate way to proceed. According to

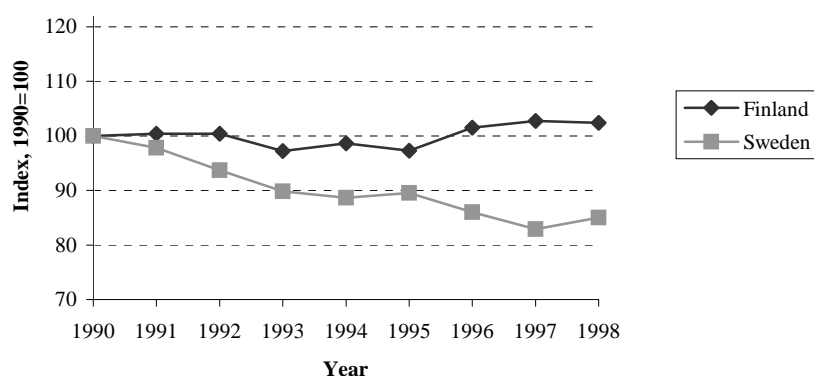
<sup>9</sup> For Sweden the bump in Esspros figures for 1995 may be explained by an equivalent bump in expenditures related to disability, more than by an actual decrease in spending that year. Yet the possibility of a real decline should not be ruled out as 1995 was the year of the most pronounced cutbacks in Sweden.

national data for Finland expenditures did not increase much during the economic crisis years. On the other hand, no decrease in expenditures occurred either. Since 1994, expenditures have again started to increase. According to national sources (STM 1998:15) expenditure for institutional care is more than double that for home help. Expenditure on institutional care has increased modestly over the period. Home help expenditures in turn were stable in 1990–94, followed by faster growth thereafter.

For Sweden, a picture emerges of slowly increasing expenditures over the 1993–97 period. The difference from Finland seems to be that in Sweden expenditure on home help has developed at a slower rate than expenditure on institutional care (Socialdepartementet 1999.)

As a great deal of the expenditure on elderly care services stems from personnel costs, it is appropriate to balance the picture of resource development with a figure describing the development in personnel between 1990 and 1998. As many needs of the elderly are answered by the health care sector, both health care and elderly care personnel are included. Since no comparable statistics on personnel exist, Figure 17 should be interpreted only as a rough estimate of trends concerning personnel development in Finland and Sweden. The Swedish data are from AKU data with no adjustments for full-year employees, while the Finnish data are register based. Due to discrepancies in sources, information on number of employees has been indexed.

Figure 17. Personnel in the health care and elderly care sector in Finland and Sweden 1990–98, 1990=100



Sources: Stakes Statistics, AKU

Note: The number of employees for Sweden is the sum of workers in health care and elderly care services according to labour force surveys. The number for Finland is calculated from social and health care personnel statistics so that the child care personnel number is subtracted from the sum of all social and health care workers. These give only rough estimates of the development for each country, not comparable ones.

Figure 17 suggests personnel development has been more favourable in Finland, which accords with the description of public employment development earlier. While the trend in Finland has been very stable over the period, there has been a smoothly diminishing trend caused by reductions in personnel in Sweden between 1990 and 1997. The trend seems to reverse after 1997.

More specifically, for Finland it is apparent that there have been some reductions in personnel in health care, although not very pronounced, whereas personnel numbers in the social care sector have on the whole increased a little from 1990 to 1998, with some fluctuation in between. It is worth noting that at no point in time did social care personnel fall below the number in 1990. The number of personnel in the health care sector in 1998 almost equals that in 1990 (111 700 in 1990, 111 100 in 1998), while the overall number in the social care sector (not taking into account child day-care personnel) increased from 41 000 in 1990 to 45 300 in 1998. While the situation has been stable in institutional care, there has been growth in the number of home help workers, as suggested by expenditure data. For Finland, the figures for developments in expenditure and personnel thus provide a similar picture to the development in resources during the 1990s: until 1993–94 resources remained fairly constant, followed by a slow increase since then.

Owing to different ways of classifying personnel and also to the substantial administrative changes, no similar information is readily available for Sweden. Yet it seems clear that the development in personnel has been different from Finland. According to Szebehely (2000) the number of persons employed in the health care sector and within elderly care and care for the handicapped decreased by 94 000 people between 1990 and 1998. Most of this reduction occurred in the health sector. For Sweden the expenditure rise after 1993 is not reflected in increases in personnel, at least until 1998.

Summing up resource development the main message is that the economic downswing did not result in a similar downturn in the resources for elderly care in Finland, while it was more straightforwardly associated with expenditure and personnel reductions in Sweden.<sup>10</sup> Perhaps surprisingly, the index-based examination of resource development adopted here shows a more favourable overall development in Finland than in Sweden, which is interesting given the different economic background and this account of the differing way the cutbacks were implemented. Certainly, in the search for explanations the different starting levels should be kept in mind.

Yet, even for Finland the overall surprisingly positive picture of resource development hides some less positive developments. It should be remembered that although no jobs were lost during this period practically no new recruiting happened, either, and workers have become older and the client group has continuously expanded. Productivity has increased, but so also has the amount of work done. Part-time and temporary work have become more common, there have been organisational changes, and for some groups of workers work tasks have undergone rapid changes. As a consequence, there are research findings of increasing psychological stress and fatigue among social care and health care personnel (Elovainio and Sinervo 1997).<sup>11</sup> Similar findings come from Swedish sources (SOU 2000:3).

It is also important to realise that in both countries the reductions in state subsidies were compensated by an increase in other revenue sources, and without that the picture portrayed above would look much more gloomy. During the 1990s the tax revenues of the municipalities indeed were important to compensate for the subsidy losses, although the tax roof imposed on Swedish municipalities at the beginning of the

<sup>10</sup> Although Esspros expenditure data is not available for prior to 1993, national expenditure data for Sweden confirm reductions between 1990 and 1993 (see SOU 2000:3, figure 2.2:1).

<sup>11</sup> Quality of services (not considered in this section) could have been affected, too.

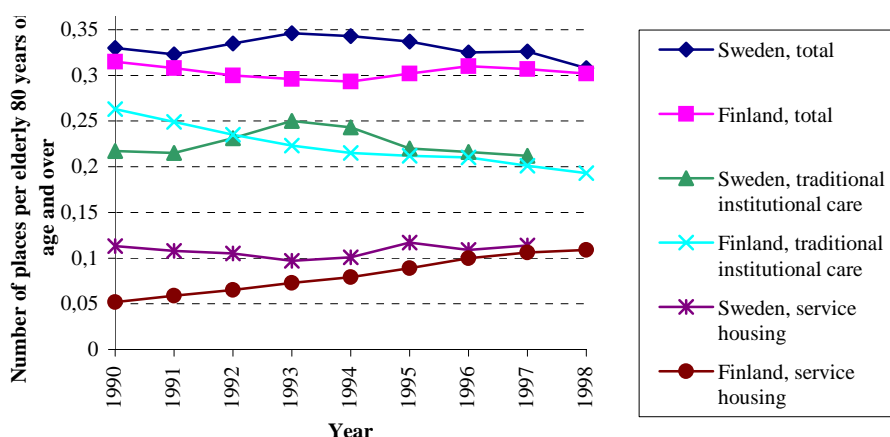
1990s should be kept in mind as a possible explanation for the resource cutbacks there. Also, there have been savings in other than personnel expenditures, especially in health care. From a clients perspective one of the most important changes over the decade was in user fees; a growing share of the costs was shifted to service users. In Finland, for instance, according to Lehto (1997) municipality revenues from user fees grew between 1993 and 1995 by 23 percent in home help services and by 7 percent in institutional care. From a Finnish service users perspective the shift from institutional towards non-institutional care has also meant an increase in user fees, as these are more prevalent in non-institutional services (for instance, service housing is usually more expensive for the client than being in an old-age home). In Sweden user fees do not depend on the type of institution. Of course, there is local variation in both countries regarding user fees.

### *Coverage*

Moving from resources to outputs provides a further view of the development. Elderly care can be examined from various angles, yet one of the most common ways is to make a distinction between institutional care and home-based or residential care. Old-age and nursing homes are traditional forms of institutional care, service housing being developed as a service form that offers more home-like housing with easily accessible care when in need. Home help has been the most common form of residential care.

Again there are difficulties in obtaining comparable data on the development; even national time-series are not 100 percent trustworthy due to the changes that have taken place. To solve these problems we here present a figure that groups together different forms of institutional elderly care, i.e. for Sweden, places in nursing homes, old-age homes and service housing, and for Finland, places in old-age homes and long-term bed-wards for the elderly at health care centres, and service housing. In order to achieve some comparability the sum of institutional care places available has been divided by the number of people 80 years of age and over. To distinguish trends between traditional institutional care and service housing, total figures have been decomposed. The ratios obtained make it easy to compare the developments in traditional institutional care and service housing. The results of this exercise are displayed in Figure 18.

Figure 18. Institutional care in Finland and Sweden 1990–98, number of places per elderly over 80 years of age



Sources: Stakes statistics for Finland, Ministry of Health and Social Affairs 1999 for Sweden, Szebehely 2000 for the elderly population, own calculations.

Note: For Sweden, traditional institutional care includes places in nursing homes and old-age homes, for Finland, places in old-age homes and long-term bed-wards for the elderly at health care centres.

It is evident that the countries have developed quite similarly when we take the totality of institutional care, i.e. both traditional institutional care and service housing, into account. The absolute numbers of places have slowly increased, although the overall pattern revealed by the figure is a slightly diminished supply of services when we take the growing elderly population into account. Yet the way this overall development has taken place differs somewhat. In Finland deinstitutionalisation has occurred quickly. Places per number of elderly in service housing have increased rapidly, while the number of places in traditional institutional care has decreased over time. National statistics furthermore reveal that this decrease has mainly focused on places in old-age homes, as the numbers of elderly in long-term care in health care centre bed-wards looks stable. In addition to the information given in the figure, Finland has experienced a significant fall in the number of elderly in psychiatric hospitals (from 1700 in 1990 to 200 in 1998 according to Stakes statistics) and there has been a move to abolish care functions from hospitals. For Sweden a relatively similar broad development pattern of institutional care can be detected. Along with the goals of de-institutionalisation there has been a move towards more service housing, especially since 1994. Finally, it is

worth noting how, after differing trends, the two countries seem to be more alike in their pattern of institutional care in 1998.

In most countries there has been a deliberate move from institutional care towards more residence-based care, and this has also been the case in Finland and Sweden, although not accompanied by such an efficient build-up of support services. In fact, the coverage of home help services seems to have decreased sharply. According to Nososco statistics, home help services are on an equal level in Finland and Sweden, and for the more elderly population perhaps even slightly to the advantage of Finland (Table 6).

*Table 6. Home help for the elderly in Finland and Sweden 1997, percentage of the age group*

	<i>Finland, over 65 years</i>	<i>Sweden, over 65 years</i>	<i>Finland, over 85 years</i>	<i>Sweden, over 80 years</i>
1997	11.4	11.5	35.0	28.1

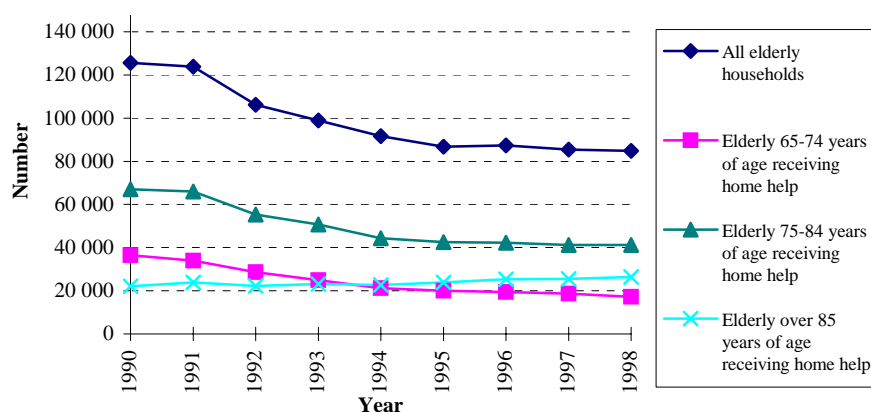
*Source:* Nososco 1999: 109.

However, this table may be misleading. In the search for trends it proved to be difficult to present comparable figures on the development of home help due to large differences in statistical reporting and changes in reporting practice. Finland classifies services for elderly households, Sweden for elderly persons. Categories for age groups also differ. In addition, there is no comparable information on how often home help service is given, nor on the length of visits. Moreover, for Finland the practice of having auxiliary services (support services such as cleaning, bathing and meal services are not included in the figures for home help) as an additional category blurs the picture, as recipients of auxiliary services may or may not simultaneously receive home help services. And in Finland there is some confusion concerning the extent of home help given to elderly in service housing. Since 1995 home help to elderly living in service housing is not reported if there are personnel on site, so longitudinal data for the nineties are not comparable in this respect. Again, due to these problems of comparability national descriptions follow.

In Finland the drop in home help services was most pronounced between 1991 and 1994, but the trend continued thereafter, albeit at a much slower pace (Figure 19). In percentage terms, in 1990 21 percent of the population over 65 years of age received home help services, but by 1997 the share was down to 11 percent. Only for the oldest age group was there a slight increase in the number of home help recipients. Thus while the number of personnel stabilised, and then

increased towards the latter part of the period, the number of persons receiving home help services decreased. This apparently odd situation is explained by a change in the content of home help services, which became more and more targeted at the households with the oldest and most frail elderly. While the number of households receiving home help decreased by 28 percent between 1989 and 1993, the number of visits increased by 22 percent (Lehto 1995). This targeting of the frailest elderly has also meant that time spent per client has increased (Vaarama and Noro 1997). In contrast, those deemed to have less severe needs have been left without home help services. Moreover, there has been an even more dramatic reduction in auxiliary services. In 1990 200 000 people over 65 years of age received auxiliary services, while in 1997 the number was down to almost half (103 000). Furthermore, for these services too, user fees have risen heavily.

*Figure 19.* Home help services for elderly households in Finland 1990–98

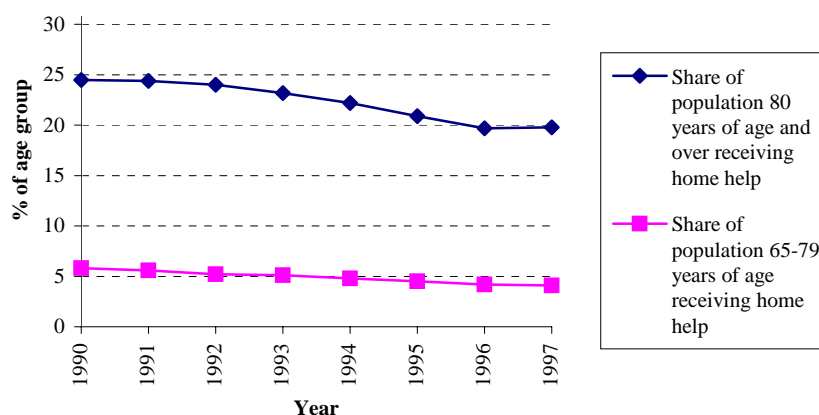


*Source:* Stakes statistics.

Home help services as a support service have also been reduced in Sweden, and in a very similar manner (Figure 20). Between 1990 and 1997 the number of recipients of home help and home nursing decreased by 36 000 (from 182 000 to 146 000) (Szebehely 2000), and underlying this trend lies a targeting of services at the older elderly (see also SOU 2000:3: 170–172). In both countries the development in the 1990s in home help services has resulted in a situation where less receive more. The difference between Finland and Sweden is that in Sweden the reductions started already in the 1980s, while in Finland they have clearly been a phenomenon of the 1990s, and much more severe.



Figure 20. Home help services for elderly persons in Sweden 1990–97, percent of age group



Source: SOU 2000:3, figure 2.2:21.

#### *Balance sheet of adaptation in elderly care services*

Summing up the development in elderly care services, it seems both countries have followed a relatively similar path. At times of economic problems elderly care services have been unable to respond to the growing numbers of elderly with an increase in service provision. The amount of institutional care has declined somewhat when we take into account the development in the number of older elderly. Deinstitutionalisation seems to have taken the form of leaving those already in institutions to continue living there, while being reluctant to take in more. Instead of institutional care we see growth in service housing, along with a reduction in services promoting living at home. There has been a major reduction in absolute numbers of clients of home help services. Targeting of home help services could perhaps be interpreted as a result of efforts to prevent institutionalisation. While home help services may have been able to promote independent living at home for the frail elderly, the consequence of this targeting at a time of no or minor growth in resources has been that a number of elderly deemed to have less need for care have been left without services. Although care needs are hard to measure, it is difficult to imagine that the care needs of the elderly have diminished along with the disappearance of home help services. It is more likely that the care needs of a growing number of elderly are more often answered by relatives, or by voluntary organisations and private market solutions.

Contrasting this picture with the ideal type of Nordic "public service state" or "caring state" reveals that the reality does not match the idealised picture very well. First, during the early 1990s there was a shift from the public service state towards the transfer state, at least if we measure the balance between cash and care by expenditures. In both countries the share of services declined between 1990 and 1993 as expenditure on pensions and other income transfers continued to increase while the local authorities were considering savings in social care services for the elderly. Towards the latter part of the period under investigation here, expenditure on services increased faster than expenditure on cash benefits, and the balance moved toward the "public service state" again. This return was more marked in Finland.

Assessing the development from the perspective of caring, home help is the indicator which should receive most attention. Home help has traditionally been the form of service distinguishing the Nordic countries from the rest of Europe, but with the radical reductions in absolute number of services and consequent push for more family- or market-based care, Sweden and Finland seem to have moved further away from an idealised "caring state". Evidence that granting of services may depend on the proximity of relatives and the sex of the caregiver (see Szebehely 1998, 2000) suggests that the idealised picture of individual rights to services should probably be scrutinised more closely. Furthermore, heavy increases in user fees may lead to a change in the clientele and challenge the principle of universal rights (see e.g. Lehto 1998). For those with the lowest incomes even symbolic user fees may in practice mean a steep threshold for access to services. Those with high income may in turn be inclined to look for private care as an alternative, especially if there is a belief that the quality of services has also decreased. Altogether, the changes that took place during the decade suggest that the "Nordic model" of elderly care services has been eroded on several fronts, in both countries.

#### 4.5 Case 3: Adaptation in child day-care services

In many broad comparisons services are often analysed in an aggregate way, which loses the different character of services for young children as compared to older people. While with elderly care services one should keep an eye on developments in the health sector, an analysis of child care services should be linked more to the education sector and to employment. The provision of child care services can be understood as

a means of facilitating both parents to participate in the labour market. Childcare services have also been supported as a means for the socialisation and education of children. In recent years pedagogic aspects have received more emphasis. In Sweden an administrative shift of responsibility for day-care from the social sector to the education sector took place in 1996, and this has also been discussed in Finland, although no reforms have been undertaken. Ideas about the role of family for children and about women's position have also influenced the way child care services are provided in the Nordic countries. Institutional and ideological differences have resulted in different choices when it comes to how childcare is arranged.

In Finland there are three main forms of support for children (and their parents) under school age.<sup>12</sup> After the parental benefit period (44 weeks) ends there are then two options for arranging child care: public child day care or supported home care. Home care is supported by means of a *home care allowance*: a cash benefit is payable to parents after the parental benefit finishes and before the child reaches the age of three, on the condition the child is not using public day care. In Sweden the parental benefit period lasts a little longer (64 weeks). Another important difference is that there is no home care allowance system (*vårdnadsbidrag*) in Sweden.<sup>13</sup>

While all countries have many different measures to support families with children, in accordance with their "public service state" image the Nordic countries have differed from other welfare states in the extent of public day care provision. But close inspection of levels and trends across the Nordic countries reveals marked disparities. Sweden and Denmark have had far more day-care places than Norway and Finland. The difference is most visible in places for children between 7–10 years. For instance, Nososco figures for 1997 reveal that while 47 percent (or 223 000) of children between 7 and 10 years attended childcare after school hours in Sweden, only 4 percent (or 10 000) had the opportunity in Finland (Nososco 1999). As childcare for those above 6 years in Finland is practically non-existent, we here concentrate on comparing childcare for those under school-age.<sup>14</sup> As

<sup>12</sup> Child benefits apply to all children, not only those under school-age.

<sup>13</sup> Such a system was introduced in 1994 during Carl Bildt's government, and abolished when the Social Democrats returned to power in 1995.

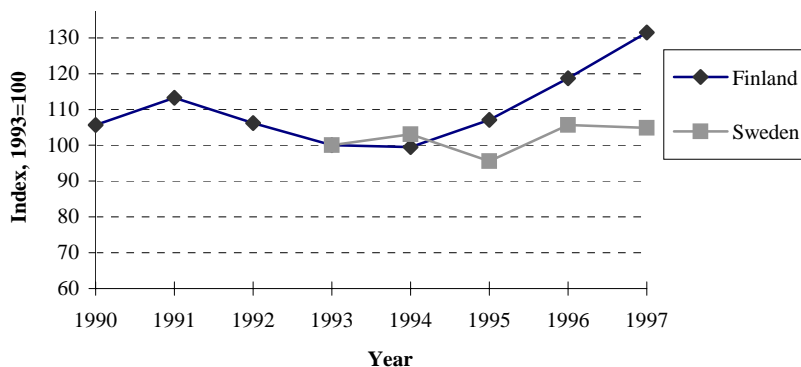
<sup>14</sup> Basically this means the age group between 1 and 6 years, although there are some differences between the countries in the age day care arrangements start and end.

with elderly care, the development in public child day-care is examined first in terms of resource development and then in terms of coverage.<sup>15</sup>

### *Resources*

Figure 21 shows the development of resources in both countries (with the data limitations described earlier). Although the trends for Sweden are missing for the 1990–92 period, information from other sources confirms that in both countries expenditure on childcare first decreased and then increased. Szebehely (1998) reports for Sweden that childcare expenditure over the 1990–1997 period remained constant, with a slow decrease at the beginning of the decade followed by a gentle increase in the following years. As was the case with elderly care, relative growth since 1994 has been faster in Finland. Yet the different starting levels should again be remembered.

*Figure 21.* Development of expenditures on child day-care in Finland and Sweden 1990–97, 1993=100



*Source:* Calculations based on STM 1998:15 and Socialdepartementet 1999 Esspros figures.

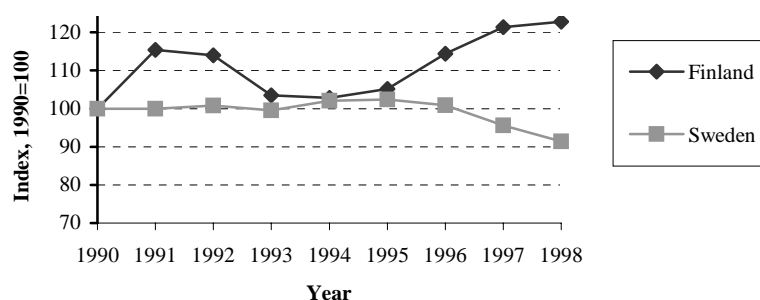
Looking at the period overall, expenditure on public childcare in Finland has increased faster than other expenditures related to children under school-age. The trends for Finland provide some insight into developments during and after the economic crisis years. Between 1991 and 1994 childcare expenditures decreased somewhat, partly as a

<sup>15</sup> As with elderly care, issues related to quality of care, regional differences and user fees would undoubtedly be important for a thorough assessment over the period. However, as there are no comparable data, and not even much national data on these issues, the subjects are not covered here.

result of the reduced demand for services. Since the economic upswing expenditures have risen, reflecting a rebound in demand. The recession years saw a rise in the number of parental benefit recipients, the increase being especially rapid for fathers (from 27 000 in 1990 to 43 000 in 1992). Expenditures also rose for home care allowances, as the number of recipients increased from 81 000 in 1990 to 95 000 in 1993. After 1993 there followed a decline in the number of transfer recipients. Some have regarded child-related transfers during the recession years as a reflection of problems in the labour market, in the sense that having children may have been some sort of alternative to unemployment. In Sweden however (Hoem 2000) states that declining numbers of women had children during the 1990s. She sees fertility development as having been very much related to resources and labour market development. The fact that – unlike Sweden – fertility rates did not fall in Finland during and after the recession years could partly be an outcome of the different social policy systems and suggests that there is not necessarily a direct relationship between declining economic resources and fertility.

Figure 22 shows the development in personnel in both countries. Again, the data are not comparable as the Swedish data for childcare employees comes from labour force surveys and no full-day, full-year etc. adjustments have been done. The Finnish data comes from Stakes statistics. If no changes in reporting practice have occurred, the trends can be compared. According to the figure, the trends in personnel development are very different. The trend in Finland follows the expenditure trend: an increase between 1990–91, a decrease between 1991–94, and an increase since. The number of employees has not fallen below the 1990 figure, despite the reductions between 1991 and 1994. For Sweden the trends in employment are very stable until 1996, but according to AKU figures employment decreased somewhat after 1996.

Figure 22. Personnel in child day care in Finland and Sweden 1990–98, 1990=100



Source: Stakes statistics, AKU, own calculations.

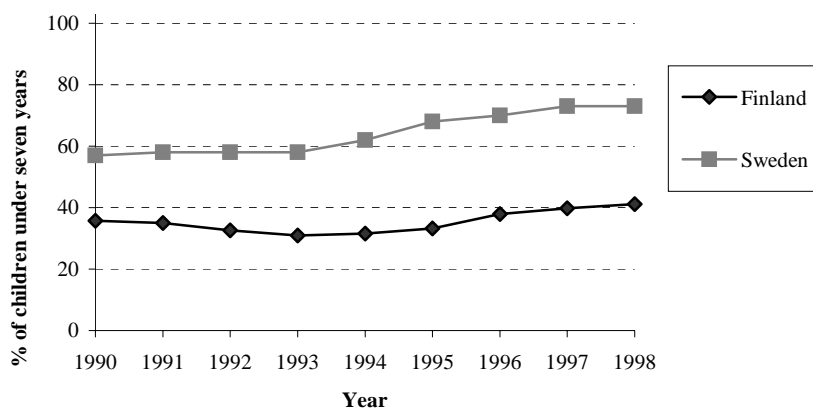
### Coverage

To make an assessment of public childcare coverage, information about public childcare places and family day care has been united here. Historically, the coverage of day care (measured as the percentage share of children attending childcare of all children) has always been lower in Finland, and this is still true according to the latest national statistics (Figure 23). In 1997, 49 percent of children aged 0–6 years attended public child day care in Finland (Stakes 1999). In the 0–3 years group the share of children in public day care was very small, 18 percent in 1995, compared to 55 percent for the 3–6 years group (Taskinen and Muuri 1997). In 1997 the coverage of public day-care in Sweden for the age group 1–6 years was 73 percent (Statistics Sweden). As in Finland, the percentage shares were higher for the group aged 3–6 years (78 percent in 1997) than for the 1–2-years-olds (59 percent respectively).

When it comes to trends, there are both differences and similarities. In Sweden 57 percent of children between 1 and 6 years were in public day-care in 1990 and the percentage share has since grown continuously to reach 73 percent. A breakdown of the age groups shows that for those aged 3–6 years an increase from 64 percent in 1990 to 78 percent in 1997 took place, while for the age group 1–2 years an expansion from 44 percent to 59 percent occurred. In Finland there were no increases in the younger age group: 33 percent of the 1–2-year-olds attended day-care in 1990 and 31 percent in 1996, while for the age group 3–6 years there was a small increase in coverage (from 55 percent in 1990 to 61 percent in 1996), but still not comparable to that in Sweden (SVT 1998:1, table 53). For the entire age group below

7 years, the coverage grew from 35.7 percent in 1990 to 41.1 percent in 1998.

Figure 23. Share of children under seven years of age in day care in Finland and Sweden 1990–98, percent of age group.



Sources: SCB and Stakes Statistics.

In Sweden there has thus been a stronger trend of fewer parents staying at home and the number of children in public day-care increasing. According to Szebehely (1998) the pattern to emerge is of increasing numbers of children in public day-care centres (kindergartens) and decreasing numbers in family day care (a childminder taking care of a small group of children in his/her own home). At the same time the use of private care solutions has increased in Sweden, from 16 000 children in private care in 1990 to 58 000 in 1998. Thus the share of private day-care places has increased from 4 percent in 1990 to 12 percent in 1998 (SOU 2000:3:119).

In Finland the decline in the numbers of children in public day-care in the early 1990s is almost totally accounted for by a reduction in family day-care (a loss of 28 300 places between 1990 and 1993 compared to an increase of 2 200 places in day-care centres) (SVT 1998:1, Table 53). A breakdown of coverage rates for the age groups 1–2 years and 3–6 years reveals that the decrease primarily occurred in the care arrangements for the youngest age group. Thanks to a change in legislation that since 1996 has guaranteed childcare for those below school age, and a downturn in unemployment that has revived the demand for childcare, the number of children in family day-care has again been rising, along with an expansion of places in day-care centres. Private day-care has remained marginal, although some

increase can be detected, especially recently. In 1997 3.6 percent of children under school-age were in private day-care (Kauppinen 1999).<sup>16</sup>

#### *Balance sheet on adaptation in child day-care services*

Summing up the development in childcare services, in both countries we find a relatively similar pattern regarding expenditures: a decrease followed by an increase. Unlike Finland, the expenditure decrease in Sweden was accompanied by a reduction in personnel, although with a time lag. The rising numbers of children attending day-care in Sweden resulted in less expenditure and fewer employees per child (SOU 2000:3: 116).<sup>17</sup> The employees per child – and expenditure per child – ratios developed more favourably in Finland because there was a reduction in the number of children needing care, and less reduction in employee numbers. In addition to reduced expenditure, there have been increases in user fees in both countries. User fees have played a role in improving municipal finances and decreasing demand. In Finland user fees increased from 11 percent of total expenditure in 1990 to 15 percent in 1995; in Sweden the increase was from 10 percent in 1990 to 14 percent in 1995 (Lehto et al. 1999).

Despite increases in user fees and modest expenditure development, both countries have experienced a trend of increasing childcare provision. This has occurred via an increase in both public day-care places *and* private places. Child day-care coverage rates continue to be much higher in Sweden. One explanation for the disparity in levels and the differing trends during the decade, at least for the youngest age group, is undoubtedly that the Finnish home care allowance system makes it possible not to be reliant on public child care.<sup>18</sup> In 1997, of the age group under 3 years 24 percent were in day-care, while 29 percent were being cared for with the support of parental benefits and 41 percent by home care allowance (Stakes statistics; Ministry of Health and Social Affairs).

<sup>16</sup> Unfortunately no reliable long time series exist on the development of private care.

<sup>17</sup> For many this is a sign of decreasing quality, although group sizes do not necessarily correspond with quality.

<sup>18</sup> In 1993 the recipient statistics show there were 96 000 families with 160 000 children receiving home care allowance.



*Conclusion on elderly care and child day-care service adjustments*

In the light of the expenditure developments, it seems that elderly care and child day care services did not experience cutbacks as severe as could have been imagined in the light of the problems in public finances. Surprisingly, expenditures for Finland seem to have developed more favourably than for Sweden. It is surely the case in both countries that at least the employees have been under more pressure (unemployment and worse working conditions, increased need for services), while service users have felt the savings measures in their purse as higher user fees.

In terms of coverage of services the development patterns in elderly care and child day-care are divergent. While elderly care has seen a remarkable decline in the coverage of home help services, child day-care has enjoyed an increase in public service provision. In elderly care services the reductions in institutional care, and especially in home help, have probably contributed to more care being provided by relatives, markets and voluntary organisations. In child day-care the trend is towards increased public care in day care centres, although some expansion in the private sector has taken place, too, especially in Sweden. In terms of Nordic characteristics it could be concluded that elderly care services in both countries have retreated from the Nordic ideal, whereas in child day-care Finland and Sweden have become even more "Nordic" in nature.

In many respects the trends for Finland appear more positive during the latter part of the period under investigation. This, however, may only be an illusion created by the remarkably lower absolute levels at the beginning of the period and faster growth at the end, both in expenditures and coverage. And even with Finland's relatively faster growth, considerable differences in service provision between the countries persist. Regarding coverage trends, for elderly care services it seems the differences have diminished, while for child day-care differences in coverage have increased.

## 4.6 Case 4: Adaptation in active labour market policies

Active labour market policies have various goals that meet at the interface of stabilisation policies, policy reaction to growing unemployment, and goals of social redistribution. In international comparisons the Nordic countries, especially Sweden, have been used as a point of reference when it comes to the scope and status of active labour market

policies. Labour market policies in Sweden have played a central role in economic policy since the early 1900s, and active labour market policies (almp) started to play an important role after the 1940s when the so-called Rehn-Meidner model was developed (e.g. Regnér 2000). In addition to the obvious goals related to the functioning of the labour market, active labour market policies have always had both macro-economic and social aims. Almp can be used as a form of stabilisation policy: in times of economic up-swing they aim to better serve the demand for labour, and during downswings they aim to fight unemployment. Almp also serve a redistribution goal, as they aim to improve the position of the weakest part of the labour force. Finland has historically followed the example of Sweden when it comes to overall policy formulation and goals, but its volume of active labour market policy measures has never reached the high levels of Sweden. This could be taken to signal that in the hierarchy of policies in Finland almp have yet to achieve their status in Sweden.<sup>19</sup>

It is very interesting to see whether Finland and Sweden showed some continuity during this exceptional period; but there is an additional concern. As Drøpping et al. (1999) have pointed out, to invest in almp is, at least in the short run, quite costly for the government. The fate of almp in a context where a deliberate policy goal has been to balance public budgets is therefore interesting.

The scope of almp can be measured in different ways. The OECD makes international comparisons possible, and "Employment Outlooks" contain figures based on OECD definitions (see Drøpping et al. 1999 for a discussion of the definition of active and passive measures and different ways to measure the degree of activation). OECD practice mostly involves expenditure comparisons. Eurostat collects statistics on the volume of almp and defines an activation rate in relation to the number of registered unemployed people. A problem for comparisons is that countries have a somewhat differing practice of defining "registered unemployed". Here we assess the development with the help of national statistics on almp. The interest is on the volume of almp, measured in terms of participation to different almp measures during a year. To be able to compare development in the two countries the number of persons in the labour force is used as denominator, instead of the number of unemployed. The obtained ratios of almp participants to the labour force provide a clue about the differences between the countries, although it is naturally not possible to capture differences in lengths of activation measures, possibilities to switch from one measure to another etc.

<sup>19</sup> This is of course not to say almp have been unimportant in Finland.

Compared to the situation of full employment in 1990, not only the level of unemployment but also its structure have changed. Almp have needed to react to differing circumstances not only by an increase in volume but also by a differentiation in policy measures. In both countries the 1990s saw substantial changes in this area, one of the most visible being an increase in the number of measures. At the beginning of the 1990s there were just three policy measures to cater for adult unemployed people in Sweden (vocational training, subsidised employment and employment support), whereas by 1998 a number of new measures had been implemented (Regnér 2000). The development in this respect has been similar in Finland. The fact that new measures have been created and that there are movements of people from one measure to another, creates some difficulties for a comparison. Here, to simplify matters, we divide the various policy measures into two categories: vocational training<sup>20</sup> and subsidised employment.<sup>21</sup>

So in order to reach a meaningful comparison the number of participants in all the various almp measures during a year was compared to the number of people in the entire labour force. Comparing developments in Finland and Sweden, it can be seen there are variations in both levels and trends of this ratio (Figure 24). The difference in 1990 in the level of almp is clearly visible, with Sweden having far more participants in almp measures; in Sweden in 1990, the ratio was 3.1 compared to 1.8 in Finland.<sup>22</sup> At the end of the period the ratio was higher in both countries: 5.9 in Sweden and 4.5 in Finland. While Sweden was still far ahead of Finland in terms of the scope of almp measures, it is worth noting that the difference between the countries narrowed over the period. For trends, the similarity for the period 1990–94 is again visible. Both countries intensified almp

<sup>20</sup> 'Arbetsmarknadsutbildning' in Sweden and 'työvoimakoulutus' in Finland.

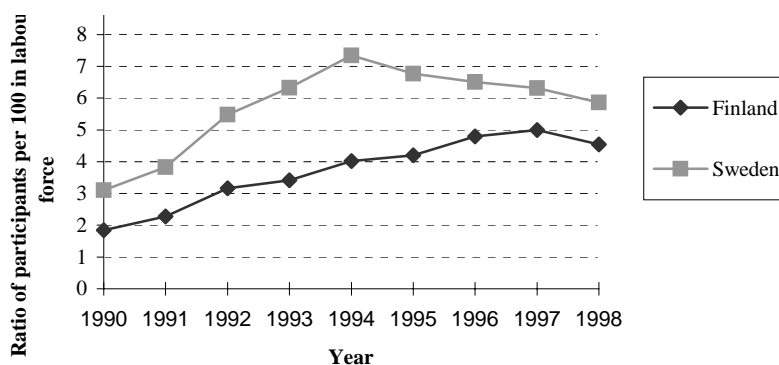
<sup>21</sup> For Sweden this category includes 'beredskapsarbete, handikappåtgärder, rekryteringsstöd, ungdomsåtgärder, utbildningsvikariat, arbetslivsutveckling, datortek, arbetsplatsintroduktion, starta eget, kommunala program för ungdomar, offentligt tillfälligt arbete, individuellt anställningsstöd, resursarbete i offentlig verksamhet, projektarbete med a-kassa, IT-satsning'. For Finland this includes 'valtion työllistämät, kuntien työllistämät, työllistäminen yrityksiin, yrittäjäraha, osa-aikalisä, vuorottelupaikkaan työllistetyt, työmarkkinatuen työharjoittelu'.

<sup>22</sup> As statistics on almp are based on the total number of participants in programmes during a year, the ratio used here should not be compared to e.g. unemployment rates, that give an average rate of unemployment during the year.

measures as unemployment rose, although in Sweden the increase was much more pronounced.

The development since 1994 is especially interesting because of the disparities in the unemployment and employment trends. By the ratio measure, the volume of almp in Sweden decreased each year after 1994, while in Finland it continued to increase until 1997, despite the declining trend in unemployment from 1994. In other words, the difference is that in Sweden a stabilising unemployment situation was met with less efforts in activation. In Finland there was more emphasis on active measures while unemployment was decreasing.

*Figure 24.* Participation in active measures in Finland and Sweden 1990–98, ratio of participants in almp measures per 100 in labour force (15–64 years)



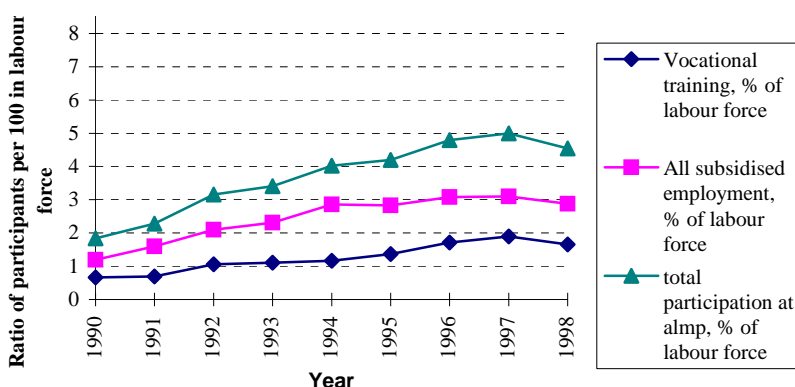
*Sources:* Finnish Labour Review 1–2/1999, Oral information from Ministry of Labour in Finland; SCB, Regnér 2000: Table 5.1 for Sweden, own calculations.

Figure 25 shows in a little more detail the development of almp participation in Finland for the years 1990–98. In addition to total participation, the individual trends for vocational training and subsidised employment are presented. The volume of subsidised employment increased each year until 1997. The ratio of participants in vocational training to the total labour force also increased until 1997, although at a slower pace. The figures for 1997 and 1998 show the first decrease in volume. The trend in vocational training is very different from Sweden: the ratio of participants more than doubled over the period in Finland, while in Sweden the ratios in 1998 and 1990 were about the same.

The trend in Finland resulted from a clear policy choice: the government wanted to shift the emphasis to active measures and shift

the balance of almp towards vocational training (Ministry of Labour 1999b:55).<sup>23</sup> Comparing almp trends with unemployment trends, it can be seen that while unemployment has decreased since 1994, the volume of active measures has continued to increase.<sup>24</sup> According to recent Finnish policy goals, almp will from now on follow unemployment trends with some minor adjustments in scope depending on the structure of unemployment (Ministry of Labour 1999b). The structural features of unemployment have been a key justification for continuing a high intensity of almp measures ( Oral information from Ministry of Labour 1999)

Figure 25: Participation at almp in Finland 1990–98, ratio of participants per 100 in the labour force (15–64 years)



Source: Finnish Labour Review 1–2/1999, Oral information from Ministry of Labour.

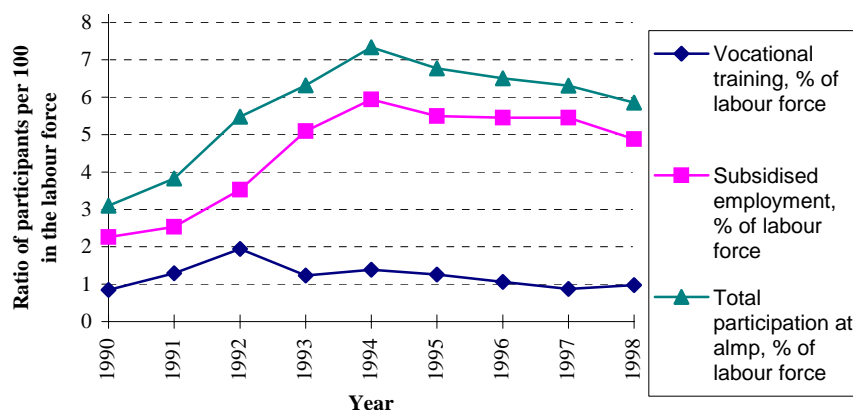
A similar figure for Swedish development trends shows that active measures in Sweden have been weighted towards subsidised employment (Figure 26). As indicated above, total almp measures decreased during the period 1994–97, although the unemployment rate remained stable. Subsidised employment decreased most markedly in 1997–98, coinciding with the drop in unemployment. In turn, vocational training

<sup>23</sup> Since 1997 there are more people starting training than entering subsidised employment (Ministry of Labour 1999).

<sup>24</sup> In the government programme for 1995 it was explicitly mentioned that almp are used to decrease unemployment and that the goal is to increase the share of almp participants to 5 percent of the labour force.

increased a little despite the drop in unemployment between 1997 and 1998.

Figure 26. Participation at almp in Sweden 1990–98, ratio of participants per 100 in labour force (15–64) years



Sources: SCB, Regnér 2000: Table 5.1.

In conclusion, the figures presented seem to show that Finland and Sweden grew more similar over the period in terms of the total scope of almp. Although during the crisis years Sweden invested much more in almp than Finland, in the latter part of the period almp was emphasised relatively more in Finland. However, this does not mean almp have been abandoned in Sweden; on the contrary, compared to the situation in 1990 Sweden invested even more in activation in 1998. It is more that Finland has been able to catch up with Sweden due to a relatively low starting level. One could say that when it comes to the scope of activation measures, Finland became much more "Nordic" during the decade, while Sweden remained the standard to follow. Yet a de-composition of the overall development was able to show that the two types of almp measures developed in different directions, with Finland accentuating vocational training.

## 5 Economic welfare

In this final section we examine changes in people's welfare with a focus on three different dimensions: unemployment, income distribution and social assistance. Disparities in how unemployment problems were distributed in the population according to age and gender can be seen as indicators of welfare outcomes. In turn, data on income distribution reveal how overall inequality in income distribution developed among the population during and after the economic crisis, while more detailed breakdowns show how the crisis period affected disposable incomes of different categories of people. Finally, information on social assistance exposes another aspect of economic welfare: the adequacy of incomes to cover necessary expenditures. After the overall picture, breakdowns according to age and household type are presented.

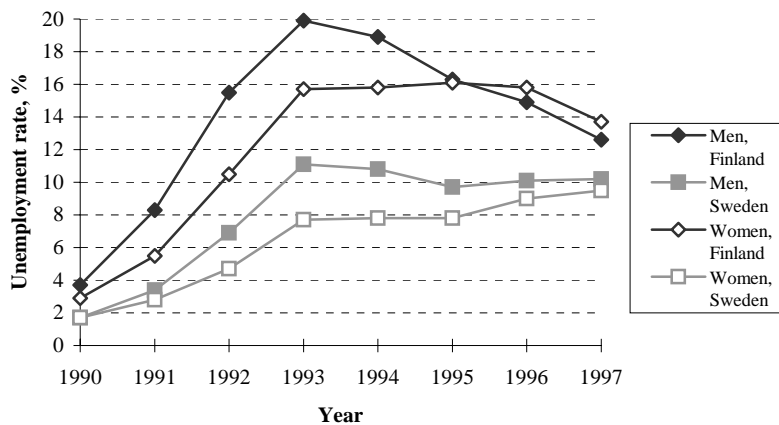
### 5.1 The distribution of unemployment

When assessing welfare state development during the 1990s, the sharp increase in unemployment to unprecedented levels is clearly the most striking factor. The persistent nature of the unemployment of the 1990s has had consequences for public budgets as well as for adaptation in social policy. Moreover, unemployment is not only problematic from a financing perspective, but also because it may have negative societal consequences for example related to social cohesion. Apart from these dimensions, unemployment itself may be used as an indicator of living conditions among the population. As a welfare indicator, not only the level, but also the distribution of unemployment across social categories are important.

Here, Eurostat employment statistics are used to obtain a comparable picture, even if they give slightly different information about the level of unemployment than national sources, and despite the lag in data production. Trends should be reliable, however. Unemployment is clearly higher for both men and women in Finland (Figure 27). As regards the development of unemployment rates for both sexes, a

certain similarity between Finland and Sweden can be detected. During the deepest economic crisis years unemployment affected men more than women in both countries. This is understandable given the description in section one of how unemployment hit industries in the private sector. With the recovery in the private sector in Finland, men's unemployment rate started to drop, and judged by the time-series provided here women's unemployment worsened. In Sweden men still had a higher unemployment rate also in the latter part of the period. The bend in the curve for women's unemployment is also very similar in both countries: since 1993 some years of more or less stable development, followed by a decrease in unemployment in Finland since 1996 and in Sweden since 1997 (AKU data, not shown here). According to national data, the trend continued in 1998.

*Figure 27. Unemployment rates for men and women in Finland and Sweden 1990–97, percent*



*Source: Employment in Europe 1998, 1996.*

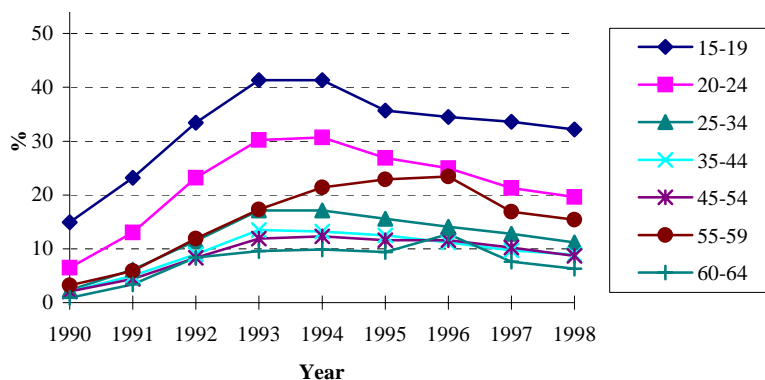
*Note:* figures for 1992 and 1993 taken from *Employment in Europe 1996* publication, other figures from the 1998 publication. Figures vary somewhat in different yearly publications.

Looking at the development in unemployment by age one sees it is clearly age-related in both countries (Figures 28 and 29); the younger the age group, the higher the unemployment rate (although here the Finns between 55–59 years are an exception). The situation of the two youngest age groups is much worse in Finland than in Sweden. Another interesting difference between the countries is the trend of the



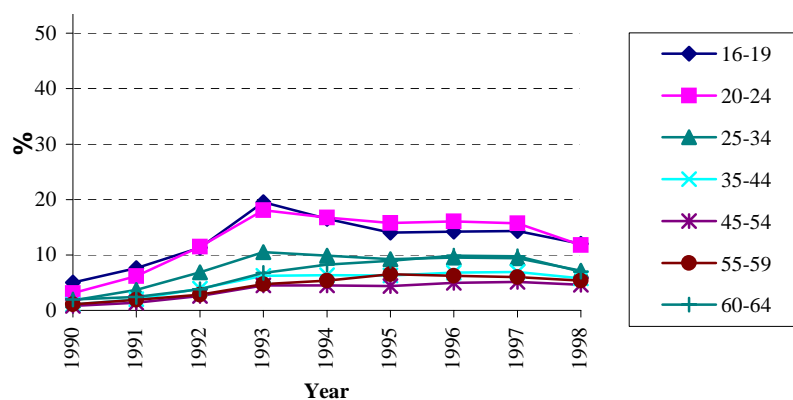
age-group 55–59 years. Unlike any other group in Finland, their unemployment continued to increase until 1996, which appears to contrast with the trend for the oldest age group (60–64 years) in Sweden.

Figure 28. Unemployment rates by age in Finland 1990–98, percent



Source: Finnish Labour Review 1–2/1999.

Figure 29. Unemployment rates by age in Sweden 1990–98, percent



Source: Lundborg 2000.

## 5.2 Income distribution

In the late 1980s Finland and Sweden had among the most even income distributions in the world (Atkinson, Rainwater and Smeeding 1995). While income inequality started to worsen in most Western countries with slightly differing timing in the 1970s and 1980s (as in Sweden), it

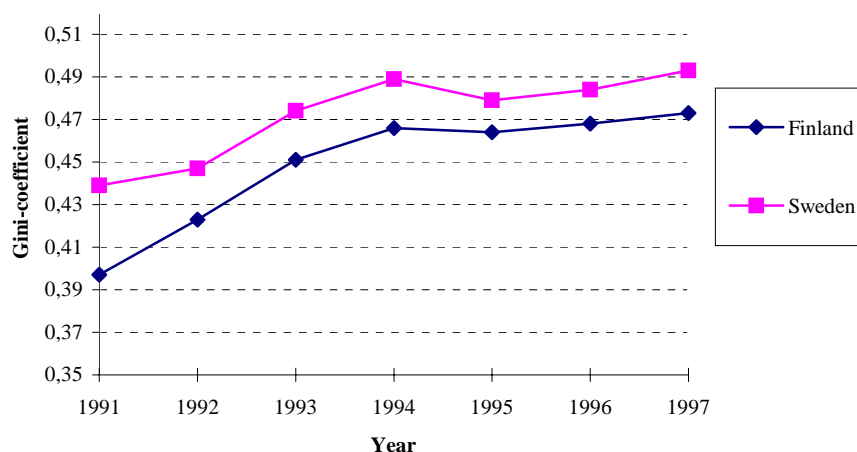
did not do so in Finland during the 1980s growth period (Atkinson, Rainwater and Smeeding 1995; Gustafsson et al. 1999). Even during the recession years the distribution of equivalent disposable income continued to be stable in Finland (Uusitalo 1997; Gustafsson et al. 1999). According to these sources the development trends during the 1980s and early 1990s were somewhat different for Finland and Sweden. Yet the latest data from the years *after* the economic recession show that income differences have indeed started to grow in Finland, too. So combining this information with the latest analyses from Sweden suggests the paths of Finland and Sweden are not that different after all.

In the following examination, data from Statistics Finland analysed by Uusitalo (1997, 1999) and from Statistics Sweden compiled for the "Balance Sheet" commission (Jansson 2000) are compared to study income distribution trends. The figures presented here are drawn from national data calculated using different equivalence scales.<sup>1</sup> The first figures display the development with the help of national equivalence scales. The figures portraying development according to socio-economic groups, household types and age in the latter part of this section are drawn using a new equivalence scale as employed by Jansson (2000). The Finnish figures are calculated according to the so-called OECD-equivalence scale, where the first adult has a weighting of 1.0, other adults a weighting of 0.7, and children a weighting of 0.5. The scale used for the Swedish data is based on the social assistance norm of 1996, where the first adult has a weighting of 1.0, other adults a weighting of 0.55, and children a weighting of 0.47 (for further information see Jansson 2000). As the choice of equivalence scales might affect the level of the distribution of equivalent income, it is not possible to compare *levels* of inequality (nor income levels between households) between the two countries. Also, it is more advisable to compare the development of relative differences between households than to look at the absolute differences between them. However, as e.g. Fritzell (1999) has pointed out, trends are less likely to be affected by the choice of equivalence scale and thus evolution over time can be compared. First an overall picture of trends will be displayed, followed by an examination of decomposed trends.

<sup>1</sup> Although there is agreement that it is important to be able to compare incomes between different households, and that this is best done using consumption-unit scales, it has often been pointed out that there is no one right scale. Different scales have been used in both Finland and Sweden.

Figure 30 displays inequality in equivalent factor incomes (i.e. wage and capital income) in Sweden and Finland between 1991 and 1997.<sup>2</sup> The trends look very similar; there is a clear tendency of increasing inequality in incomes in both countries when taxes and transfers are not taken into account. This is not a 1990s phenomenon, however, as inequality in factor incomes has increased trend-wise in Sweden since the 1960s, and in Finland since the 1980s.

Figure 30. Gini-coefficients for equivalent factor incomes in Finland and Sweden 1991–97

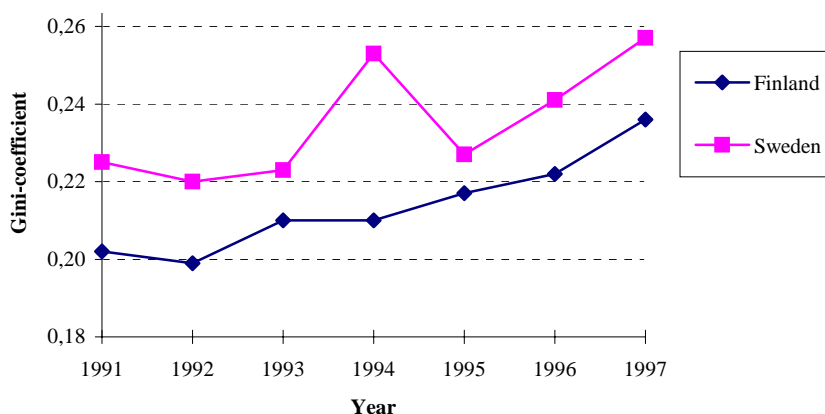


Sources: Statistics Finland data by Uusitalo 1999, SCB data by Jansson 2000.

From the point of view of the actual welfare of individuals, inequality in equivalent disposable income (factor income plus transfers minus taxes adjusted by the equivalence scale) is more important, and also interesting because it reveals the impact of the welfare state. Comparing disposable equivalent income, the relatively stable situation between 1991 and 1993 should first be noted. Since 1993 this relative stability has turned into a trend of increasing inequality in both countries. (Figure 31.)

<sup>2</sup> For earlier development see Gustafsson et al. 1999. All time series presented here start from 1991 to avoid the effect of the 1990/91 tax reform in Sweden. There was a change in 1994 in the way income distribution statistics are compiled in Finland and therefore figures for 1991-93 and 1994-97 are not comparable in the strictest sense. However, as the effect is not that strong (gini-coefficient for factor income changed from 0.458 to 0.466 for 1994 with the move from the old system to the new), no corrections are done here.

Figure 31. Gini-coefficients for disposable equivalent income in Finland and Sweden, 1991–97

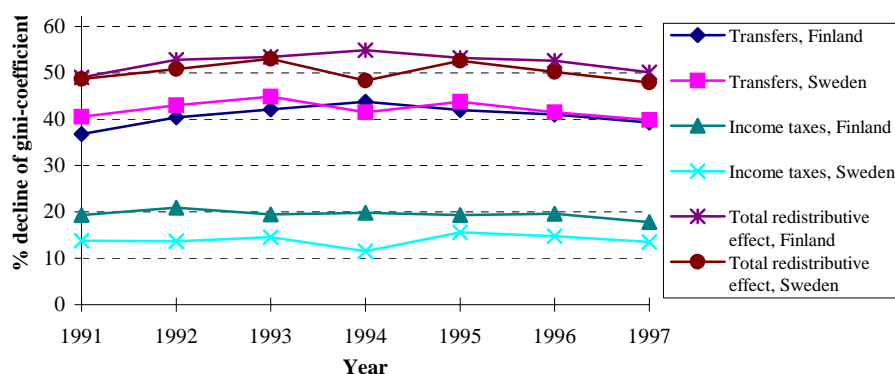


Sources: Statistics Finland data by Uusitalo 1999, SCB data by Jansson 2000.

Overall, the figures (if one ignores the fluctuation for Sweden in 1994 caused by changes in taxation rules for realising capital gains) on income distribution show relatively similar trends for both Finland and Sweden when the latest data are added. In both countries income inequality increased, especially during the latter part of the period. It remains to be seen whether this is a phenomenon created by the economic recovery phase or if there is a more profound shift in progress. Yet, even if increasing differences emerge, it should be remembered that in international comparisons Finland and Sweden still have among the most equal income distributions in the world.

Moreover, the overall redistributive effect of the two welfare states looks quite similar (Figure 32). A closer look reveals that the redistributive effect of transfers is somewhat stronger in Sweden, whereas the redistributive effect of taxes accounts for a greater reduction in the gini-coefficient in Finland. Here, the difference between the countries has persisted.

Figure 32. Redistributive effect of transfers and income taxes in Finland and Sweden 1991–97

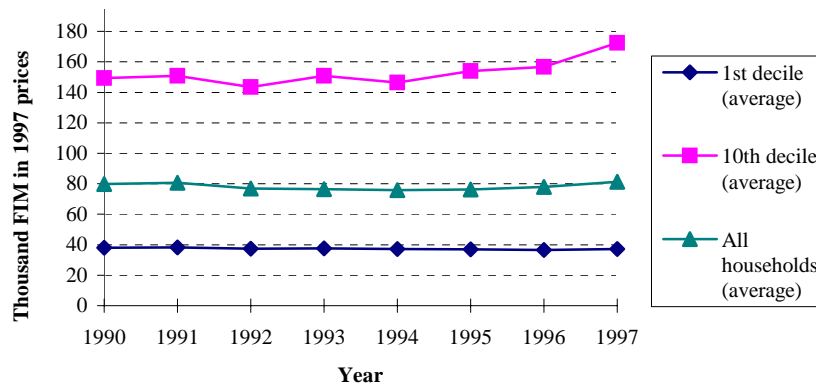


Sources: Statistics Finland data by Uusitalo 1999, SCB data by Jansson 2000.

In terms of the effects of the economic changes over the decade, it is vital to note that income inequality did not change during the period of the biggest economic problems and rapidly rising unemployment. Rather, income inequality started to increase *after* the recession, since the turnaround in the economy. This development can at least partly be explained by the role of transfers and taxes. At the time of the recession the redistributive role of transfers and taxes grew. The compensating impact of income transfers has been most important. Uusitalo (1997) has pointed out that even with the cutbacks in income transfers in Finland, their redistributive effect continued to increase (until 1994). This conclusion seems to apply to the Swedish situation, too. When the economy started to prosper again, factor incomes started to form a bigger part of the disposable income at the same time as the volume of transfers declined. Uusitalo (1999) explains this as partly an effect of decreasing unemployment and partly of cutbacks in transfers.

In Finland the growing differences in disposable income since 1995 result largely from an increase in disposable incomes among the tenth decile (10 percent of the population with the highest incomes). There is not much change for the lowest decile, and on average, disposable household equivalent income for all households has remained stable. The increase in incomes for the highest decile is mainly due to a marked increase in capital incomes (Figure 33).

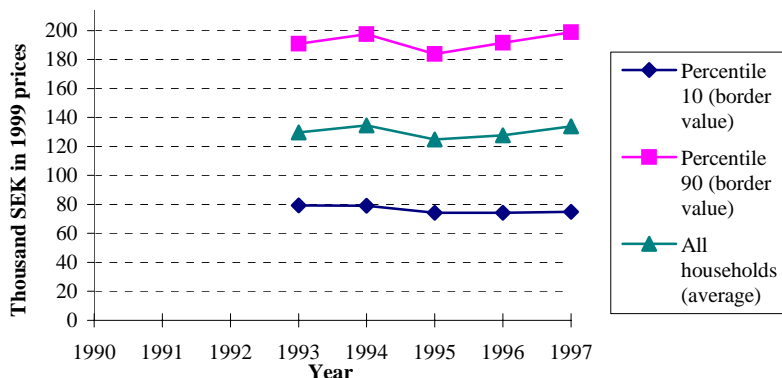
Figure 33. Disposable average equivalent household incomes in Finland 1990–97, 1997 prices



Source: Uusitalo 1999.

A not fully comparable figure (Figure 34) for Sweden also shows that the increasing inequality is mainly due to a pronounced rise in incomes among the highest decile (at least for 1993–97) (see also SOU 2000:3: 106). The relative growth in incomes of the highest decile appears to be a little faster in Finland in the period 1993–97, although the data disparities should be remembered. In both countries average disposable incomes were on a higher level in 1997 than 1993. In Sweden the border value of disposable income defining the lowest decile appears to have lowered, while in Finland average disposable income for the first decile has stayed at almost the same level.

Figure 34. Disposable equivalent household incomes in Sweden (capital gains included), 1993–97, percentile values in thousand SEK in 1999 prices



Source: Jansson 2000.

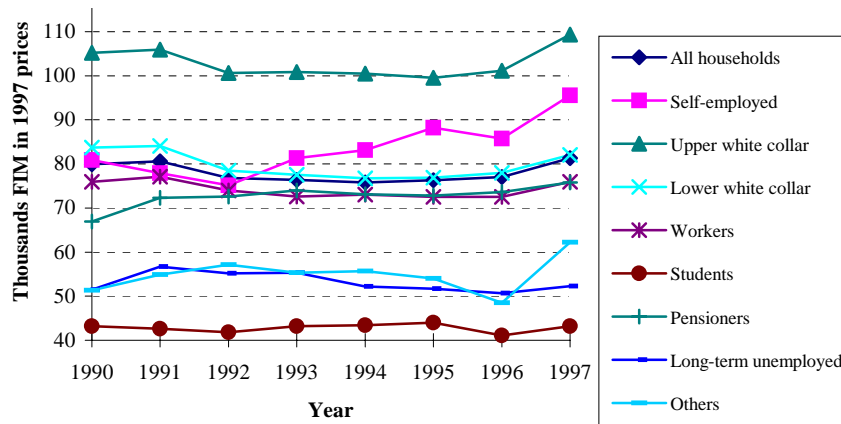
#### *Development based on socio-economic groups, household types and age*

The above development is derived from aggregate data and deciles (the population divided into ten equal groups according to size of income). An examination based on population groupings reveals more about the development in different socio-economic groups, households and age groups. The findings of Jansson's (2000) study for the commission identify three losers during the 1990s in Sweden: youth, lone-parents and families with more than three children. The following data is not strictly comparable due to differences in income distribution statistics, and therefore the data are reported country by country.

Looking first at all socio-economic groups in Finland, it can be confirmed that the major changes in the distribution of income first occurred between 1991 and 1992, and then again between 1996 and 97 (Figure 35). Between 1991 and 1992 disposable equivalent income fell for all socio-economic groups, except pensioners. In fact, for those of pension age the development during the economic crisis years was positive, as their disposable equivalent income increased every year between 1989 and 1993. After 1992 two groups stand out: the self-employed increased their incomes markedly while those of the long-term unemployed fell. For other groups the development between 1992 and 1995 was quite stable. A clear increase in incomes occurred for all

groups between 1996 and 1997, particularly among the self-employed (who have thus considerably improved their incomes since 1993) and upper white-collar group. While there was also some increase for the long-term unemployed between 1996 and 1997, their overall situation has deteriorated since 1992. (Uusitalo 1997, 1999.)

*Figure 35.* Disposable equivalent household income by socio-economic group in Finland 1990–97, thousand FIM in 1997 prices



Source: Uusitalo 1999.

For Sweden, a table by Jansson (2000) reveals an overall picture where those outside the labour market – excluding old-age pensioners – had decreasing incomes between 1993 and 1997, while those in the labour market enjoyed growing incomes. The biggest fall occurred in students' incomes. As in Finland, the increase was most marked for the self-employed. In Sweden, incomes appear to have increased for all groups between 1995 and 1997. (Table 7).



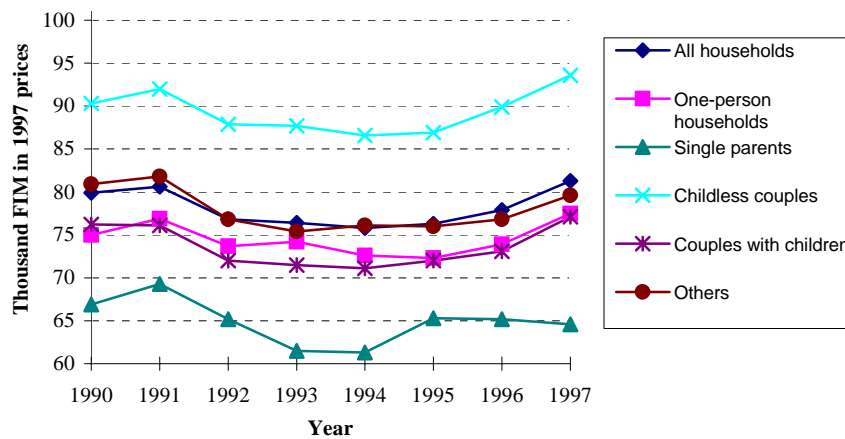
Table 7. Disposable equivalent household income by socio-economic group in Sweden, 1993–97, median in thousands SEK in 1999 prices

	1993	1994	1995	1996	1997	Change 1993–97, %
Blue-collar	125.2	125.5	122.3	125.0	126.8	1.2
Lower white-collar	143.6	141.8	136.9	140.3	143.2	-0.3
Middle white-collar	148.0	147.1	140.5	144.2	151.8	2.6
Upper white-collar	170.9	174.4	166.2	168.2	173.2	1.4
Farmers, self-employed	115.0	120.1	116.7	119.4	121.9	6.0
Other employed	115.3	113.8	109.9	113.8	114.6	-0.6
All employed	135.6	135.5	131.5	134.6	139.1	2.6
Students	97.6	93.7	84.4	88.9	90.6	-7.2
Unemployed, recipients of sickness benefits and pensioners	120.6	118.9	111.7	112.7	115.3	-4.3
Other non-employed	79.0	83.0	76.3	74.7	78.4	-0.8
All non-employed	111.0	108.5	99.6	100.2	101.5	-8.6
All 20-64 year olds	128,7	128,6	123,4	126,0	129,4	0,6

Source: Jansson 2000.

Examining changes for different household categories, it seems that in Finland they have been very similar. There was a marked increase in incomes in 1989–1991, a decline between 1991 and 1994, and thereafter a slight improvement. The best situation is and has been for childless couples, while single parents have had the worst of it. Again, disposable equivalent income increased for all household types until 1991. Between 1991 and 1992 all household types experienced a very similar drop in their incomes. Between 1992 and 1993 the income situation stabilised for all other households except single parents, who experienced a further year of falling incomes. Perhaps owing to the change in child benefits, between 1994 and 1995 single parents seem to have experienced the most pronounced increase in their incomes. Their situation has again stabilised since then. For couples with children the period was also difficult. Their incomes fell between 1990 and 1994 and the improvement that took place between 1994 and 1996 was not enough to return them to the income level before the recession. The last year, 1997, again shows a marked increase. All in all, disposable equivalent income for all households was almost at the same level in 1997 as in 1990. With the exception of single parents no major deviation in trends for different household types can be reported. (Figure 36.)

Figure 36. Disposable equivalent household income by household type in Finland 1990–97, thousand FIM in 1997 prices



Source: Uusitalo 1999.

In contrast, it is interesting to note that for Sweden extracts from a table by Jansson (2000) show differences between the households (Table 8, see the original full table in Jansson 2000, Table 5). Although the different equivalence scales used should again be remembered, it is credible that single parents have the most negative situation and couples without children the highest incomes in both countries. The trends are a little different though, and show that the situation of single parents in relation to other households has deteriorated more in Sweden: the average disposable income of single parents decreased continuously from 1993 to 1997. Elderly couples in turn have increased their disposable incomes.

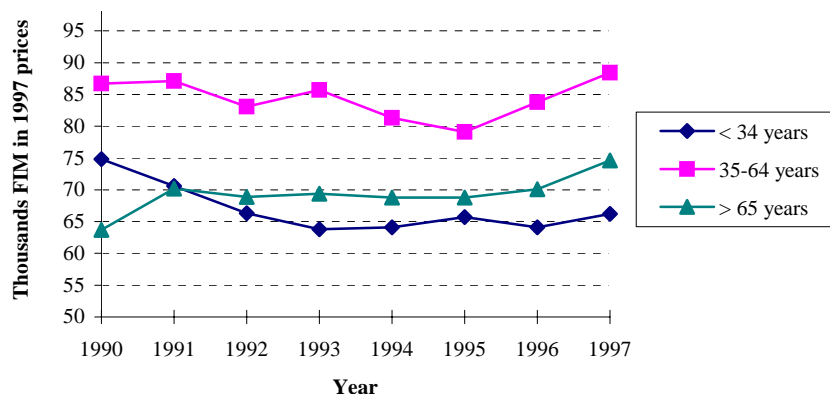
*Table 8.* Disposable equivalent household income of some household types in Sweden 1993–97, median in thousand SEK per consumption unit, 1999 prices

	1993	1994	1995	1996	1997	Change 1993–97 %
Single without children, 18–29 years	102.6	100.2	95.4	93.6	97.7	-4.8
Single without children, 65–74 years	101.3	102.6	101.1	103.0	104.1	2.8
Single parent with children aged 0–19 years	99.4	94.4	92.5	90.7	89.5	-9.9
Cohabitant without children, 18–29 years	143.1	138.4	136.6	138.7	139.6	-2.5
Cohabitant without children, 75 + years	101.7	104.3	110.6	110.4	112.5	10.6

*Source:* Jansson 2000: table 5.

Finally, Table 8 also suggests that examining the development for different age groups reveals the biggest differences that occurred during the decade. Among the household data there are clear age-group differences in the development of equivalent disposable income. For instance, among one-person households in Finland, incomes have fallen markedly for the young (below 34 years of age), whereas for pensioners (above 65 years of age) the situation looks much brighter. For those below 34 years of age incomes fell between 1990 and 1993 and have not recovered as fast as for other age groups since then. In contrast, pensioners now earn on average more than young people. Percentage wise, in 1990 the young had 14,2 percent higher income than the pensioners, whereas in 1997 they had 11.3 percent lower incomes. The trend for the 35–64 years age group is provided for reference. (Figure 37.)

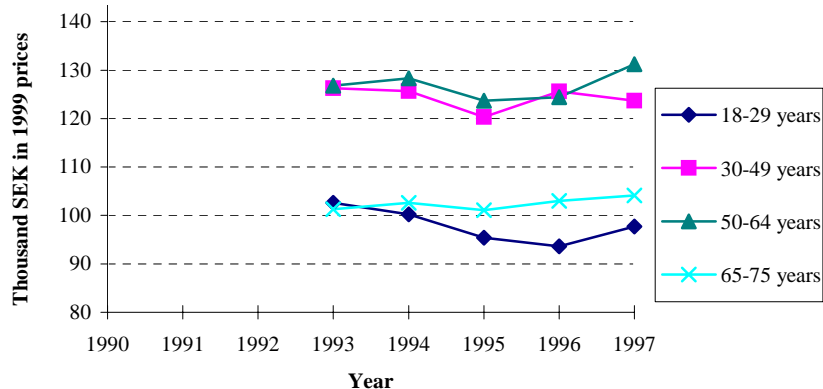
Figure 37. Disposable equivalent household income for one-person households by age in Finland 1990–97, thousand FIM in 1997 prices



Source: Uusitalo 1999.

A similar age-specific pattern holds for Sweden, too (Figure 38). Between 1993 and 1997 incomes for the youngest age group (18–29 years) fell below those of pensioners (65–75 years). In 1993 the youngest age group had an income 1.3 percent higher than pensioners, but in 1997 it was 6.1 percent less. According to Jansson (2000) the young and families with children in 1997 had still not regained the income levels prevailing in 1990.

Figure 38. Disposable equivalent household income for one-person households by age in Sweden 1993–97, thousand SEK in 1999 prices



Source: Jansson 2000.

### 5.3 Social assistance

Measuring income distribution reveals a broad picture of the development with regard to economic resources, but it is still only one of the measures available for examining developments in economic welfare. Incomes are of course important, but from the point of view of everyday life, expenditures also matter.

Although income distribution studies reveal a pattern of quite stable development and relatively little change, to understand changes in economic welfare it is important to know *how* the income distribution remained stable. Above, it was reported that during the early 1990s almost all decile groups, socio-economic groups and households experienced a fall in their incomes during the recession years in both countries. While in terms of equality between groups this can be considered a good thing, it is still the case that the experience of falling income is very different for the least well-off compared to those in the highest decile group, for example. Therefore a decline in incomes accompanied by changes in prices, housing costs, user fees etc. may result in economic difficulties for some groups notwithstanding an even development in income distribution.

Other measures are thus needed to supplement the picture of the development in economic welfare. In the absence of an accurate and commonly accepted measure of economic problems, social assistance is sometimes seen as an outcome indicator that reflects "real" economic problems among the population. However, research has shown that social assistance should not be taken as an indicator of real economic need, as not all of those who would qualify for social assistance actually apply for it (Heikkilä 1990; Halleröd 1991). Moreover, it is known that not all social assistance recipients are "poor" in the sense of relative poverty measures; different poverty measures do not necessarily overlap (Kangas and Ritakallio 1996).

While there seems to be a view that the social assistance system is rather more underused than overused, this has not been a hindrance to lively debates related to incentives. In addition to growth figures, issues such as support dependency and effects of the assistance system on incentives have become topical. The latest developments reveal that

changes are occurring here, too, partly motivated by the aim of discouraging supposed abuse of the system.<sup>3</sup> Also, as the granting of social assistance is the responsibility of municipalities, there is wide variety in practices, levels and development in both countries. There is little known about the variety of practices, but according to the research available municipalities have tightened the rules for receiving social assistance in both countries (Mäntysaari and Maaniittu 1998; Bergmark 2000).

Here, the focus is first on development in both take-up of social assistance, and expenditures in the light of national level data. This is followed by a look at reciprocity of social assistance by age and household type. Finally, co-variation between unemployment and social assistance is examined.

#### *Development in social assistance: number of recipients and expenditures*

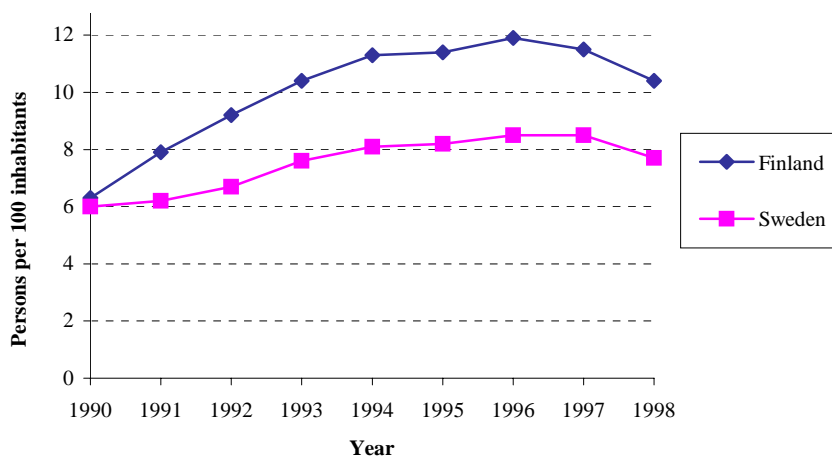
During the 1990s the number of social assistance recipients grew tremendously in both countries (Figure 39). In Finland the number almost doubled: 182 000 households were receiving social assistance in 1990, with 314 000 persons in these households compared to 610 000 (11.9 percent of the population) in 1996, which was the peak year for the numbers receiving social assistance during the year. In 1997 the number of individual assistance recipients fell slightly to 594 000. The first decrease in numbers for both households and individuals thus came between 1996 and 1997 (Social assistance 1997). The latest data (Stakes, forthcoming) confirm that the decline in social assistance

<sup>3</sup> Lately, the activation of social assistance recipients has become topical in Finland, and the municipalities have been given the right to reduce the amount of if the assistance recipient does not accept activation measures. Since 1996 municipalities can reduce the basic amount of social assistance by 20 percent if the person refuses work or participation in almp measures. In 1998 the Finnish government implemented some changes in the basic benefit systems in order to shift some social assistance recipients out of 'last-resort temporary assistance'. Housing allowance and unemployment benefits were improved a little to ease some of the need for social assistance. The aims were to shift the balance from last-resort assistance to the primary benefit system, decrease social assistance expenditure, stop the growth in the number of assistance recipients and shorten the duration of assistance reciprocity. This coincided with some tighter rules regarding the payment of social assistance. (Keskitalo & Heikkilä 1999). In Sweden, too, a lot has happened to link activation and social assistance (see e.g. Johansson 2000).

recipients has continued. In 1998 there were 313 000 households and 535 000 persons; 10.4 percent of the Finns had received social assistance during the year.

In Sweden there was a similar increase in the number of persons and households receiving social assistance. In 1990 there were 517 000 persons receiving social assistance. As in Finland 1996 was the peak year, with 753 000 social assistance recipients (8.5 percent of the population). Numbers thereafter decreased to 692 000 persons in 1998 (7.7 percent of the Swedish population).

Figure 39. Social assistance in Finland and Sweden, 1990–98, recipients per 100 inhabitants



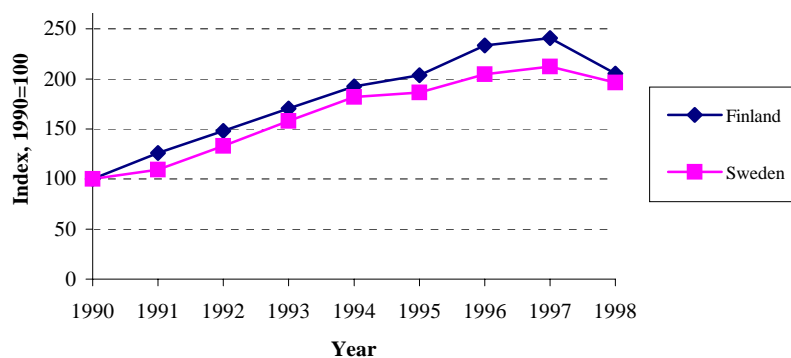
Source: Socialstyrelsen 1998, Social assistance 1997, forthcoming data from Stakes.

Gross expenditure on social assistance has reflected this increase in both countries (Figure 40). In Finland expenditures almost tripled between 1990 and 1997: from 1 350 million FIM in 1990 (in 1997 prices) to 3 050 million FIM in 1997 (STM 1998:15).<sup>4</sup> According to the statistics on municipality economy, 1998 was the first year in the decade that expenditures actually decreased: costs for social assistance

<sup>4</sup> This is still only a small proportion (1.6 percent) of total social expenditure; in 1997 total social expenditure was 185 billion FIM (Social assistance 1997 1998:1). Yet the growth is also marked in percentage terms, as in 1990 the expenditure on social assistance accounted for 0.8 percent of all social expenditure.

in 1998 amounted to 2 767 million FIM (Statistics Finland), representing a substantial decline in expenditures. Likewise, expenditures in Sweden increased each year until 1997, again followed by a marked decrease in 1998.

*Figure 40.* Gross expenditure on social assistance in Finland and Sweden 1990–98, 1990=100



*Source:* Socialstyrelsen 1998, Social assistance 1997, forthcoming data from Stakes, own calculations.

*Note:* Calculations based on gross expenditure according to national sources, for Sweden in million SEK in 1998 prices, for Finland in million FIM in 1997 prices, except the figure for 1998, which is in 1998 prices.

Although the main trends appear broadly similar, there are some interesting differences. Firstly, the increase in the number of social assistance recipients has been far more pronounced in Finland. From a relatively equal starting point in 1990, the growth recipients in Finland has been almost 100 percent, contrasting with 40 percent in Sweden (Bergmark 2000). Secondly, the proportion of social assistance recipients at the end of the period (1998) is considerably higher in Finland (10.4 percent) than in Sweden (7.7 percent). Thirdly, with 691 000 recipients during 1998 Sweden had a total expenditure of 11.4 billion SEK, while Finland with 534 000 recipients spent "only" 2.8 billion FIM.

This major difference in expenditure calls for some explanations. Basically, costs are affected by the number of recipients, the average duration and the average sum of social assistance. As there are no major differences in the average duration of benefits (5.6 months in Sweden in 1997 and 5.8 months in Finland according to national sources), the difference lies in the average amount paid to recipients. In Finland the amount of social assistance paid to households has



remained very stable over the period, despite the pronounced increase in total expenditures. In 1990 the average amount paid to each household per month was 1 622 FIM (in 1997 prices), and in 1997 1 658 FIM per month (Social assistance 1997:56). From the Swedish statistics on social assistance (Socialstyrelsen 1998), it can be calculated that the monthly assistance per household in Sweden in 1997 was around 5 600 SEK.

The far lower expenditures per household in Finland could perhaps partly be explained by the fact that many social assistance recipients only receive a small amount to top up their incomes from other sources. There is unfortunately no information on how many social assistance recipients are paid the full norm (2 047 FIM/month) and how many receive less than that. Some clues for assessing this are provided by statistics showing that 77 percent of social assistance recipients also received other benefits.

If it is the case that there are more "fully dependent" social assistance receivers in Sweden than in Finland, there is justification for looking at differences in the primary support systems. An obvious candidate here is the universality of the unemployment insurance system. In Finland the unemployment security system covers almost 100 percent of the unemployed, offering at least some basic income even to those without a work history and no membership of an unemployment fund. According to statistics from the Ministry of Labour, there were 372 400 unemployed job-seekers in Finland in 1998, and 369 600 persons receiving some form of unemployment security (*earnings-related unemployment insurance, basic unemployment assistance or labour market support*) (calculations based on Finnish Labour Review 1–2/1999: Table 23). In contrast, about 20 percent of the unemployed in Sweden are without any compensation from unemployment funds or from the basic security system (KAS) (Regnér 2000: table 4.1). Other explanations for the differences in expenditure could be sought in the rules for housing allowance systems, for example.

Furthermore, there is certainly a difference in the ethnic composition of social assistance receivers. In Sweden almost half of the expenditures for social assistance system are paid out to people with other than a Swedish background; refugees alone account for almost a fifth. There are no data based on the ethnic dimension for Finland.

*Development according to age and household type*

Next we move from the broad development patterns to examine differences in how social assistance reciprocity is spread across the population. Table 9 shows how social assistance recipients are divided among age groups. The developments look very similar. Social assistance has especially become more common among young persons aged 18 to 24 years in both countries. On the other hand, towards the end of the decade the decrease in social assistance reciprocity became more pronounced for this age group. Also, the share of recipients aged 50–64 years of age has increased in both countries.

*Table 9.* Households receiving social assistance by reference person's age in Finland and Sweden 1990 and 1998. Percent of populations in each age group

	<i>Finland</i> <i>1990</i>	<i>Finland</i> <i>1998</i>	<i>Sweden</i> <i>1990</i>	<i>Sweden</i> <i>1998</i>
18–24 years	21.1	25.0	21.1	26.1
25–29 years	15.0	12.9	17.7	13.6
30–39 years	25.1	21.8	27.5	25.1
40–49 years	18.7	20.8	17.2	17.9
50–64 years	12.9	14.4	9.3	11.0
65 + years	7.3	5.1	6.4	5.9

*Source:* SOU 2000:3, Social assistance 1997, forthcoming data from Stakes and own calculations.

A cross-sectional comparison by age group for 1998 reveals that the division of recipients is very similar between the countries; about 20 percent of those aged 20–24 years received social assistance during the year. Overall, Sweden has a somewhat younger constituency of social assistance recipients than Finland; 65 percent of social assistance recipients are below 40 years old, while in Finland the respective share is 58 percent ( table 10 ).

*Table 10.* Households receiving social assistance by reference person's age in Finland and Sweden, 1998, percent of age group

<i>Age groups</i>	<i>Sweden</i>	<i>Finland</i>
18–19	4	5
20–24	22	20
25–29	14	13
30–39	25	22
40–49	18	21
50–59	9	12
60–64	2	2
65–74	4	3
75–	2	2

*Sources:* Socialstyrelsen 1998 table 14 for Sweden, forthcoming statistics from Stakes for Finland.

Looking at the development by household type in the national statistics one can see how receipt of social assistance became more common across the board. Yet the most marked growth occurred for single households in both countries (SOU 2000:3:93–94; Social assistance 1997). In Sweden there are more single-parents among recipients, whereas in Finland the share of couples receiving social assistance is higher. (Table 11.)

*Table 11.* Households receiving social assistance by type of household in Finland and Sweden, 1990 and 1998. Percent of all households of each type receiving social assistance

	<i>Finland</i> <i>1990</i>	<i>Finland</i> <i>1998</i>	<i>Sweden</i> <i>1990</i>	<i>Sweden</i> <i>1998</i>
Single men without children	39.0	38.3	37.6	36.1
Single women without children	24.5	25.6	22.3	25.5
Single men with children	1.3	1.1	2.2	1.9
Single women with children	10.9	9.9	17.7	15.5
Couples without children	10.0	11.3	5.7	6.1
Couples with children	14.2	13.7	14.5	14.9

*Source:* SOU 2000:3, Social assistance 1997 forthcoming data and own calculations.

Comparing the shares of different household types receiving assistance (Table 12), some variations between Finland and Sweden can be seen. In Finland there are higher proportions of assistance recipients among single men without children, couples without children and couples with children. The shares for single women without children are similar. The main difference seems to be in the share of single parents. Unfortunately, due to reporting differences a breakdown by gender is not available for Finland (share in Sweden 32.3 percent for women with children plus 12.4 percent for men with children, while the sum for both sexes is 31.3 percent in Finland).

*Table 12.* The share of social assistance recipients among different household types in Finland and Sweden, 1998, percent of household types

	<i>Finland 1998</i>	<i>Sweden 1998</i>
Single men without children	19.4	13.6
Single women without children	12.0	12.6
Single men with children	31,3a	12.4
Single women with children		32.3
Couples without children	5.9	2,2
Couples with children	9.6	6.0

Source: SOU 2000:3, Social assistance 1997, forthcoming data and own calculations.

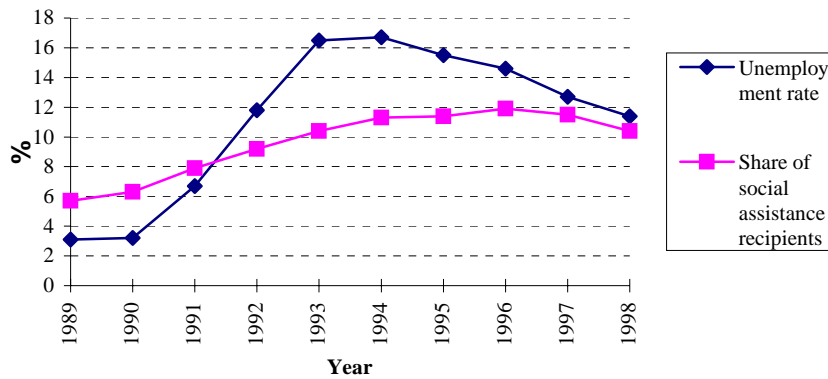
*Note:* a the figure 31.3 for Finland is for men and women.

### *Unemployment and social assistance*

Unemployment has clearly been the main factor underlying social assistance benefits, and the developments of the early 1990s certainly provide ample reasons for the growth in social assistance recipiency. Both unemployment and social assistance recipiency are pronounced among the young.

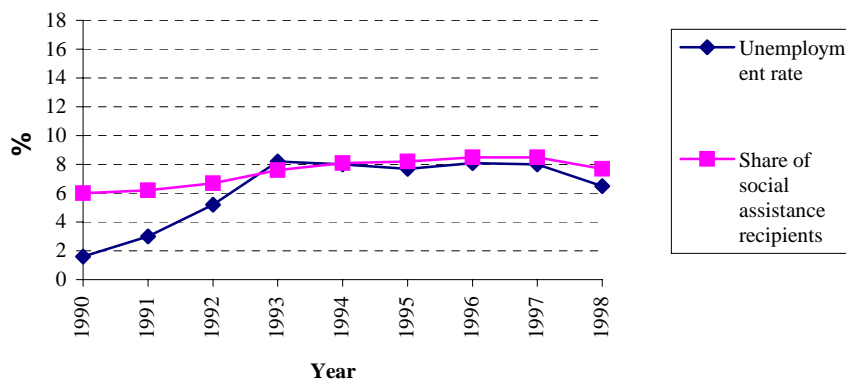
To contrast the co-variation of unemployment and social assistance in the two countries, developments in unemployment and social assistance are reported here in a similar manner to Bergmark (2000). Bergmark reports for Sweden that social assistance recipiency follows a similar trend pattern to unemployment. The number of social assistance recipients increases when unemployment increases, and continues to rise somewhat after unemployment stabilises. Both curves again start to fall by a similar magnitude after 1997. For Finland social assistance also increases as unemployment rises, but less dramatically than unemployment. As in Sweden there also appears to be a time lag: recipiency of social assistance continues after an improvement in unemployment rates has occurred. Unemployment has fallen considerably since 1994, but the trend reversal in the share of social assistance recipients occurred only in 1997. (Figures 41 and 42 .)

Figure 41. Unemployment rate and share of social assistance recipients in Finland 1990–98, percent



Source: Social assistance 1997, forthcoming statistics from Stakes, Labour Statistics 1997.

Figure 42. Unemployment rate and share of social assistance recipients in Sweden 1990–98, percent



Source: AKU, Socialstyrelsen 1999, Bergmark 2000.

Although the co-variation in Finland seems less obvious than in Sweden, it has been stated that unemployment as a cause of social assistance in Finland became more important during the 1990s (Mäntysaari and Maaniittu 1997). This can be seen from the cross-sectional statistics gathered each November, which list the main source of livelihood of social assistance recipients. In November 1990 there were over 59 000 households receiving social assistance, of which

17.3 percent declared unemployment benefits as their main source of livelihood. By contrast, in November 1997 there were over 146 000 such households, of which 52.6 percent declared unemployment benefits as their main source of livelihood. (Social assistance 1997:59.) This information appears to confirm that social assistance has become a system to supplement inadequate unemployment security (Mäntysaari and Maaniittu 1997).<sup>5</sup>

In conclusion, although the basic principles of the social assistance systems in Finland and Sweden in terms of their status as a last-resort system, link to social work and local responsibility, for example, are quite similar, the examination shows that some major differences also exist. In both countries the social assistance system was, at least in principle, designed to be a short-term, last-resort safety net. The tremendous growth in numbers of recipients has strained this notion, as has the fact that income support has become a continuing means of support for many, especially among the unemployed. Although some co-variation between unemployment and social assistance exists in both countries, the way the social assistance system relates to the unemployment insurance system differs. The description of the development of the systems in Finland and Sweden points to institutional differences concerning the role of social assistance in the totality of the income support systems.

Although there are fewer social assistance recipients as percentage of the population in Sweden, the overall expenditures per recipient are much higher. In other words, fewer need more in Sweden. It was suggested that some explanations could be found in the institutional differences in the unemployment insurance system and the housing

<sup>5</sup> In Finland there are two forms of unemployment assistance for those who are not members of unemployment funds: *basic unemployment allowance* and *labour market support*. These assistance forms provide an income which is very close to the guaranteed minimum income norm of social assistance (the norm is 2 047 FIM/month for a single person). On top of this basic allowance, most benefit recipients probably need housing allowance. However, as the housing allowance is meant to cover only 80 percent of the housing costs, it is likely that the basic unemployment allowance or the labour market support minus 20 percent of the housing costs will result in a disposable income less than the social assistance norm, and therefore many seek additional support from social assistance. As it is less likely that those with an earnings-related unemployment benefit need to resort to social assistance, co-variation between the number of persons receiving social assistance and the number of unemployed persons not receiving earnings-related unemployment allowance was tested. As expected, co-variation was much more pronounced.

allowance system. On the other hand, the share of social assistance recipients in Finland is higher, but the expenditures are significantly lower. It was suggested that compared to Sweden more Finnish people need to top up their incomes from other sources to make ends meet. Developments in social assistance may then be seen as an indicator of how the rest of the social security system is operating. From a policy perspective this assessment could be interpreted as Sweden having bigger gaps in the coverage of its social insurance system, while the shortcoming in Finland seems more to be related to compensation rates and/or the level of minimum benefits. It is quite possible that in addition to growth in unemployment *per se*, cutbacks in the compensation rates and coverage of cash benefits have resulted in increases in the number of social assistance recipients, but the relationship is certainly not a simple one, and very little research has so far been done on it.

## 5.4 Balance sheet on changes in economic welfare

It may be concluded from this section that the way unemployment was divided between men and women and between different age groups in Finland and Sweden shows similarities. In both countries unemployment hit the young hardest. Gender-wise, men suffered more from unemployment in the early 1990s, although since unemployment began to decrease the young and men have experienced more favourable development.

The overall result of the comparison of income distribution trends suggests that in both countries the years of recession passed by with surprisingly minor changes in income inequality. In both countries income inequality has increased since the mid-1990s as factor incomes have risen, unemployment has decreased and the impact of cuts has begun to show. It may be concluded here that in both countries the welfare state functioned as it should in a time of economic crisis and was able to soften its effects at the individual level.

A more detailed breakdown of income distribution trends for different socio-economic groups suggests that reductions in disposable income were very evenly spread in Finland. Perhaps because Sweden experienced a less dramatic economic slump, the consequences were less evenly spread. In Sweden a more visible dividing line is apparent between the employed and non-employed. It seems that income



development for different household types was also more similar in Finland, although comparability is not the best possible here. True, in Finland single parents stand out, but less clearly than in Sweden. It is also less easy to identify winners in Finland. In terms of income distribution by age the young seem to be the clear losers in both countries.

While the comparison of income distribution did not reveal big differences between the countries, the examination of developments in social assistance showed Finland in a much worse light. The number of people forced to resort to last-resort social assistance grew tremendously, and the share of the population still receiving it remains huge. In a more detailed scrutiny the young again stand out as a group, in both countries. There was variation in the distribution of social assistance between different household types; single parents were more often recipients in Sweden, while the share of couples receiving social assistance was much higher in Finland.

## 6 Concluding remarks

This report has aimed to provide the reader with comparable information about the nature of the 1990s economic crisis in Finland and Sweden, and the consequent policy adaptations and developments in economic welfare of the two populations. This final section gives a summary of the data and findings.

### *A broadly similar development pattern...*

Overall, the report suggests the economic crisis of the 1990s may be divided into three phases. The economic crisis turned into an employment crisis, which in the third phase transformed into problems in public financing. Generally this pattern seems to hold for both countries. Although both the economic and employment crises emerged from similar seeds and at the same time, the employment problems have turned out to be a more persistent phenomenon; by 1998 employment rates had still not recovered to the level prior to the macro-economic downturn. The consequences of the economic turmoil very soon became visible in public budgets, but policy reactions to the growing imbalances were delayed, unless one counts borrowing a policy reaction. Effects to redress the imbalance started in 1993, and by 1998 budgetary balance had been achieved in both countries. Persistently high levels of unemployment, high indebtedness and interest costs have created a more or less stagnant public sector, as exemplified by long-term commitments to self-imposed ceilings on public spending in both countries. Tight budget policy and spending limits are expected to continue in the near future, both for improving the indebtedness situation inherited from the crisis years and to prepare for future budgetary pressures. Therefore, it can be argued that the effects of the economic recession are still evident in both countries' public finances and social policy programmes. Information about the developments in economic welfare, measured in terms of income inequality, show that in both countries the depression caused surprisingly little disturbance. During the deepest years of the

recession, income inequality did not increase overall. This is partly explainable by the even distribution of economic misfortunes and unemployment across the population, and partly by the compensating impact of the welfare state, above all in the form of income transfers. Nevertheless, if social assistance is taken as an indicator of problems in making ends meet, falls in disposable incomes forced a growing section of the population to rely on last resort public support in both countries.

*...with national peculiarities*

While this can now be described as the general pattern of the development for both countries during the 1990s, the report has also aimed to present more accurate and specific data, in order to allow differences within this broad picture to be identified. The Introduction provided a working hypothesis on what to expect about the differences when developments between the two countries are compared (The working hypothesis was summarised in Table 1).

The report addressed the three dimensions in the table in separate sections, while attempting to delve deeper into the component aspects. Firstly, according to the findings, the *economic crisis* can be divided into three aspects: an economic, employment and public financing crisis. Secondly, *policy reactions* were scrutinised from various angles starting with a macro-focus on total public budget adjustment, and on changes in social protection expenditure and preconditions for local service provision. Policy reaction within social policy was examined more closely in four cases: cash transfers, elderly care services, child day-care services and activation measures. Finally, *welfare* was addressed using data on the distribution of unemployment in the population, income distribution data and social assistance data.

Addressing first the nature of the *economic crisis*, dividing it into three elements makes it possible to distinguish differences in the severity of the crisis. Clearly, Finland experienced a much steeper macro-economic decline and a far more pronounced growth and final level of unemployment. But in terms of employment rates the relative falls in the two countries appeared equal. This could be interpreted as there being more alternatives to unemployment in Sweden than Finland, whether in the form of education, vocational training or other activation. It was later shown that at least in activation the emphasis in the early years of the 1990s was stronger in Sweden. The report contains no material to assess whether holding back unemployment growth in Sweden was a deliberate policy decision or not. Anyway, problems in employment in part led to an equally severe public financing crisis

for both countries. As the magnitude of economic problems was not clearly related to the employment and public financing problems, it was suggested that differences between the countries in existing policy and in the capacity to adjust to shocks could be fruitful areas for closer examination.

Turning secondly to *policy reactions* one can argue that although balancing of public budgets was by and large achieved in five years in both countries, the way this adjustment took place differed. Finland seems to have been quicker than Sweden to initiate cutbacks in 1992, and continued them with undiminished vigour in the latter part of the decade. The estimates for 1999 and 2000 show that the countries seem to be diverging somewhat, with Finland continuing a tighter budget policy. Although Sweden also introduced cutbacks in 1992-93, the weight of savings was predominantly in the period 1994-95, suggesting a slower reaction – but then again, more determined cutbacks within this limited period. Another big difference in policy choices seems to be the way adjustment was designed. In Finland cuts in expenditures featured considerably more than tax increases, while in Sweden cuts were accompanied about fifty/fifty by tax increases. Thus cuts carried out in social policy appeared more severe in Finland.

The examination of social protection expenditures showed how unemployment forced social protection expenditures to soar in Finland. By 1993 the share of income transfers as percentage of GDP had increased from 13 % to 23 %, and Finland was on equal terms with Sweden. The catch-up was partly caused by increased expenditures, and partly by the sharper drop in GDP. Anyway, by 1993 the countries were more similar than ever in the post-war period with regard to their social protection expenditures, measured as percentage of GDP. Both countries made vigorous cuts in benefits. It may be that the strategy of "cutbacks rather than tax increases" in Finland, together with policy choices to restore the compensation levels of some benefits in Sweden, has accounted for the steeper declining expenditure curve in Finland since 1993. The faster decline in expenditures in Finland is visible in both income transfers and total social protection expenditures.

Surprisingly, the comparison of expenditure and personnel development in elderly care services and childcare services revealed more minor reductions in Finland than Sweden, although the large disparities in starting levels should be remembered here. In both countries the trends in service outputs did not favour the elderly. Institutional care was reduced in relation to the elderly population and home help was subject to heavy cutbacks. By the end of the period Finland had become more like Sweden in terms of coverage. In contrast, the number of places for children in public day-care increased in both countries. In Sweden,

which at the beginning of the period already had much higher day-care coverage levels, the increase in the share of children in public day-care places was much faster and thus the disparity between the countries further increased.

In the fourth policy area adopted for comparison, the volume of active labour market policies during 1990-94 expanded faster in Sweden than Finland. While after 1994 the number of participants in activation measures as a proportion of the labour force declined in Sweden, the ratio continued to increase in Finland until the trend ended in 1998. In 1998 Sweden was still the more activist country, but the relative difference had narrowed over the period. A difference could be detected in the focus of activation efforts; Sweden seemed to favour subsidised employment, while Finland emphasised vocational training more.

Thirdly, there were many similarities in developments in economic *welfare*. The way unemployment was divided between men and women and between different age groups showed a rather similar pattern in Finland and Sweden. In both countries unemployment became more noticeably a problem for the young and the men, but since the recession years these groups have been able to improve their situation. Looking at the development in incomes, the years of recession went by with surprisingly minor changes in income inequality among the populations at large, though. In both countries income inequality has increased since the mid-1990s. According to the data presented income distribution developed less evenly across different socio-economic groups and household types in Sweden. Non-employed and single parents were more clearly the losers in Sweden than Finland, but on the other hand, the young seemed to be the more obvious losers in Finland. In both countries single parents and the young also increased their share among social assistance recipients; in other words, falls in their disposable incomes also meant genuine problems in making ends meet.

#### *What about the working hypothesis?*

Contrasting these findings with our working hypothesis shows that the reality displays more nuances; a more detailed comparison would doubtless add further detail and variety to our conclusions. Nevertheless, on the basis of this report it seems justified to draw three conclusions concerning our working hypothesis.

First, what seems important, at least when further discussing public policies, is that the economic recession years, maybe through different

processes and mechanisms, led to equally severe problems of employment and problems for the public economies of both countries.

Second, while on the basis of overall policy adaptation one could be tempted to argue that Finland carried out more considerable cutbacks, on closer look no simple assessment regarding mildness or harshness of policy reactions can be given as the judgement ultimately seems to depend on the sphere of investigation. For instance, on the basis of this report one could basic-ally argue that income transfers were under heavier attack in Finland, while the premises for service provision seem to have altered more in Sweden. By giving examples in four cases the report has hopefully provided evidence that even this conclusion should be further elabor-ated by looking at variations within the different programmes (both cash and care programmes)

Finally, it could be argued that the expectation of more uneven development in economic welfare in Finland did not receive unquali-fied support from this report. Even with deeper macro-economic problems, higher unemployment and more extensive cutting of income transfer programmes, the trends in economic welfare in Finland did not seem that different from Sweden, at least in terms of the data on income distribution (see also Fritzell 1999; Halleröd and Heikkilä 1999). This is an unexpected conclusion that calls for both theoretical and methodological consideration. Economic welfare at the individual level is not a mirror image of macro-economic development and policy adjustments, as these impact different groups differently and because there are other factors at play, too. Against this one could argue that other measures, such as the social assistance indicator, point a gloomier picture of the social reality in Finland, and one more in line with common expectations. A conclusion here could be that aggregate macro-data should be supplemented with more micro-level data on individual welfare.

#### *Are Finland and Sweden still two of a kind?*

Finally, in the light of these findings, can Finland and Sweden still be considered as "two of a kind", and what do the trends of the 1990s reveal about the "Nordicness" of the two countries? To answer these questions comprehensively would ultimately need a fuller comparison encompassing countries outside the Nordic grouping, too. A more complete description of differences in levels would be helpful in such a task, not to speak of effective methodological solutions to assess conformity.

Still, an overall conclusion based solely on this report is that Finland and Sweden have developed very similarly, there being few clearly divergent trends. And in those instances where differing trends could be found, the outcome is often that Sweden and Finland have drawn closer to each other. Examples here could be public employment, the trends in public consumption expenditure, and institutional care for the elderly. In some other areas the trends are very alike, suggesting that the countries were quite similar in the beginning, followed similar paths, and remain two of a kind. Here one might for instance consider the trends in income distribution.

Yet some objections to this conclusion stressing similarity are also evident, although perhaps not yet strong enough to challenge it. Regarding social policy adjustment we lack a more detailed comparison of developments in the income protection sphere, but the trends during the latter years suggest that cutbacks in social security in Finland were rougher and have, together with rapid economic growth, been efficient enough to quickly reduce the social protection expenditure level close to the EU average. The fact that Finland still has one of the highest unemployment rates in Europe and that 10 % of the population have received social assistance during a year calls into question the extent to which Finland and Sweden remain two of a kind; at least the gap between them has grown in these respects during the last few years. It is interesting that in some respects developments especially *after* the economic crisis years display divergence.

Regarding the ideal-typical characteristics of the Nordic welfare state we see examples of both continuity and breakaway development. On one hand, high taxation and high public spending as percentage of GDP still characterise both Finland and Sweden, much due to circumstances. Income inequality, although lately growing, seems to remain on a relatively lower level than elsewhere (see Fritzell, forthcoming). In the sphere of child day-care Finland and Sweden have become even more "Nordic" as their systems of public day-care have been expanding, notwithstanding that in Sweden part of the demand for provision has been absorbed by private solutions.

On the other hand, there are examples of changes, which would appear to distort the ideal typical picture. While full employment has sometimes been regarded as one of the cornerstones of the Nordic model, the 1990s have seen anything but. Here we cannot judge whether the countries differed in their will to promote employment, nor whether there occurred a change in emphasis. What is clear is that cracks in this cornerstone forced governments to consider the whole spectrum of their social policy measures. It seems one consequence of the changes during the 1990s has been that the principle of univer-

salism is now weaker than before after adjustments made in both the cash transfer side and to services.<sup>1</sup> The universalism of policies can be questioned by the extent of the targeted means-tested social assistance and the fact that it has increasingly become a perpetual form of support for parts of the population. Developments in elderly care also raise questions about the elasticity of the concept of universalism.

Evidently then, no straightforwardly simple "yes" or "no" answer to the question of whether Finland and Sweden have lost some of their Nordicness can be given, as we see somewhat differing trends in various policy areas. Here, too, the answer depends on our judgements about what we consider to be the important dimensions.

<sup>1</sup> Yet in comparison to developments in other European countries Nordic distinctiveness in transfers and services seems to have persisted (e.g. Clasen et al. forthcoming; Lehto and Rostgaard forthcoming).



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