

Report on Sweden and Finland

Introduction

This introduction to the Swedish/Finnish section of the WRAMSOC project provides a brief overview of the political and social protection systems of these countries. The main economic and political institutions and interests and their policy stances are described. The financing of social protection in these countries is also analysed (note that the Financing section is incorporated into this Introduction).

Parties and government composition

In both Finland and Sweden, the main cleavage in politics is based on social and economic ('class') issues, with the urban-rural divide also playing a smaller role. Ethnicity and religion do not constitute major cleavages: the only exception to this rule is the very small, economically and socially centre-right Swedish-speaking people's party in Finland. Both Finland and Sweden have Christian democratic parties, but these represent the sole dominant faith in the country, and are not based on a catholic-protestant divide in the population. Their policies tend to be socially conservative. The position of the social democratic political left has historically been more dominant in Sweden where the social democratic party (SAP) has been the hegemonic party for most of the post-war period. In contrast to Sweden, Finnish political left has been less predominant, and more seriously split into communists and social democrats. The originally strongly agrarian Centre party has been more influential than its equivalent in Sweden, reflecting both the comparatively late industrialisation and the less united nature of the political left in Finland.

The main Swedish political parties from left to right are as follows: Left party (Vänsterpartiet), the social democratic party (SAP, Socialdemokratiska Arbetarepartiet), the Greens (Miljöpartiet), the Centre party (Centerpartiet), the Christian democrats (Kristdemokratiska partiet), the Liberals (Folkpartiet liberalerna), and the Conservative party (Moderaterna). (There is also a very small anti-immigration party called Sverigedemokraterna.) The order in which the parties are listed is not a strict left-right ranking as for instance the position of the conservatives and the liberals on social and economic issues varies. The liberals and the conservatives are concerned about the tax burden in Sweden and advocate tax cuts and privatisation of service provision and delivery that would increase people's freedom of choice (at its most radical, this policy platform has been called valfrihetsrevolution, or freedom-of-choice revolution). However, the political right in Sweden is considerably more cautious about the privatisation of social welfare benefits and the welfare state as a whole than Right-wing parties in many other

countries as these enjoy considerable popular support (interview with Bo Lundgren, the Moderate party leader, DN 29.3.2002). The Left party is clearly the most left-wing: for instance, in a recent party conference (titled Power and Ownership conference) it was calling for increased public ownership, reversal of the privatisation trend in care services and education, and the introduction of a new type of wage earner funds (Vänsterpartiet 2002). The parties in the centre of the spectrum (Christian democrats and the Centre party) are mostly concerned about issues such as subsidies for parents caring for their children at home, and are less concerned about the earnings-related aspect of the transfer system. The Greens lack a distinctive profile on social issues but are capable of co-operating with the left-wing parties on these issues.

Following the election of 1998, the social democratic government was able to rely on the co-operation of the Left party and the Greens. This arrangement was dissolved in December 2001 when it was announced that their unofficial co-operation was coming to an end. The stated reason for this was the necessity of clarifying the differences between the parties in the run-up to the 2002 general election. It is very likely that a social democratic minority government will again be returned after the 2002 general election. This would mean that they will have been in power as a single party government since 1994, when they ousted the four-party Centre-Right government of Carl Bildt that had made itself very unpopular due to poor economic management and cutbacks during the early 1990s.

There is some evidence that a growing section of Swedish voters have come to perceive the social democratic party as a centrist, rather than a leftist one. The strong support for SAP in the run-up to the 2002 parliamentary elections seems to indicate that the social democrats have won the battle over the middle ground in Swedish politics i.e. that they have captured the median voter. This is indeed the stated aim of the party (interview with Göran Persson, DN 27 March 2002) that strives to avoid straying too far to the left after its negative experience of the wage-earner funds debate in the 1980s.

In Finland, a five-party rainbow coalition (comprising the Left-wing alliance, the social democrats, the Coalition party, the Greens and the Swedish People's party) has been in power since 1995, and this has arguably facilitated a fairly smooth programme of cutbacks and fiscal rectitude in the aftermath of the recession (for theories of coalition decision making and blame avoidance see Kitschelt 2001). As in Sweden, the party system is based on a socio-economic cleavage, although the urban-rural divide is manifest in the strong presence of the Centre party: in fact the social democratic, Centre and Conservative parties enjoy roughly equivalent amounts of support among the electorate. The Coalition party is the most right-wing of the parliamentary parties, and the most enthusiastic advocate of tax cuts and involvement of private providers in the health and social care sectors. The Swedish-speaking people's party has a centre-right stance on most social and economic issues. The Centre party has traditionally been a proponent of universalist, flat-rate benefits and differs in this respect from the social democrats and the conservatives as both are wage-earners' parties in the sense that they are strongly committed to earnings-related benefits (although for different reasons). The Left-wing alliance has the most 'redistributivist' profile and is opposed to further (non-targeted) tax cuts that may undermine the financing of social welfare.

Organised interests and their influence

Given that the most critical views of the Finnish and Swedish welfare state *status quo* have been recently expressed by business interests, whereas the pro-welfare state views of employees' representatives are well-known and have changed little in the recent years, this section will focus on employer groups' views. However, it is important to note some points regarding organised employee interests. In contrast to arguments concerning the divergence of employee interests and the formation of cross-class coalitions between export sector trade unions and employers in the Nordic welfare states (see e.g. Clayton and Pontusson 1998), there is no evidence of such a split (Timonen 2001). Trade union influence in Sweden and Finland also continues to extend to many areas: wage determination, labour legislation, working hours, education and training, as well as taxation and social policy, and as such they are very important socio-economic actors (Timonen 2003). This is despite fact that Sweden has moved to a decentralised (but still co-ordinated) incomes policy negotiation whereas centralised incomes policy agreements were concluded in Finland during the latter half of the 1990s (although bargaining for 2000 was conducted on a sectoral rather than a central basis).

Unionisation rates in both Finland and Sweden remain very high, although there are indications that young people and employees in some new sectors of the economy are more reluctant to join unions. Whereas the unionisation rate in Finland was 80 % in 1995, it had fallen to 70 % by 2001. This does not mean that the total number of trade union memberships has decreased; on the contrary, it has increased. However, the number of wage earners has increased even faster, and the share of unionised workers of all workers has therefore declined. Some of the possible reasons for the decline are the introduction of a new non-trade union unemployment insurance fund (the so-called YTK fund), the increasing number of temporary contracts and the lack of a culture of unionisation in many new branches of the economy. It remains to be seen whether this decline in unionisation rates will result in declining political clout of employee interests, possibly to the benefit of pensioners' organisations that are gaining in membership as the populations age.

In both countries, trade unions argue that large tax cuts are not affordable, and that any tax cuts should first and foremost be directed to low-wage employees. Unions remain strongly committed to earnings-related benefits (and earnings-related unemployment benefits in particular) to the extent that they are reluctant to allow increases in other benefits unless they are extended to the earnings-related component (Lehtonen et al. 2001: 120).

Business interests in Finland have called for lower income taxes for both low-income earners and for those on high incomes. The Finnish Entrepreneurs' organisation (Suomen Yrittäjät) and Service Sector Employers' Organisation (Palvelutyöntajat) have been particularly active in calling for income tax cuts (see e.g. Helsingin Sanomat 12.1.02). Their argument for lower taxes is based on the assumption that these will have a positive dynamic impact on the economy through increased economic activity that also results in higher aggregate tax revenue (despite tax cuts). In addition to income tax cuts, reduction in non-wage labour costs and value-added

tax are claimed to contribute to the development of such virtuous circles. These interest groups argue that unemployment can only be brought down by lowering taxes on the labour of the less educated and the less productive sectors of the labour force (the private service sector): as these people's skills are poor or out of date, and as it is therefore not economical for employers to hire them at high wages, the only way of ensuring that employing them is profitable is through low wages. The state should aid in employing these sections of the labour force by taxing their incomes more leniently, which would also prevent a drop in their after-tax incomes. Most of the jobs that would be created in this way would be in the private service sector. Business interests are also calling for lower social security contributions for employers, especially for those operating in the low-wage sector.

Bringing down taxes on high incomes has also become a policy target for Finnish business and their representatives. TT, the main representative body of employers and industry in Finland, campaigns for reduction in the highest marginal income tax to 50 per cent by 2007 (in 2002, the highest marginal tax was 56-59 %). Jorma Ollila, the CEO of Nokia has expressed his concern over the fact that Finnish productivity is below the EU average, and argued that this necessitates structural changes that create greater work incentives (HS 27.1.02). This means that higher marginal taxes on income must be decreased. As many other EU countries are bringing down taxes on companies and profits, Finland should follow their example. Business interests concede that pressure from the EU to cut taxes on alcohol and selected consumer goods such as cars lessens the scope for tax cuts in other areas. However, it is also argued by employers that the tax cuts on incomes from work would increase tax revenue from other sources as consumption increased, and lessen need for expenditure on unemployment as employment levels rose. The central government actors have reacted to such demands for lower taxes cautiously as the main policy aim of the Ministry of Finance is to maintain budgetary balance and as their estimate of the so-called dynamic impact of tax cuts is more modest than that put forward by employer interests.

Employer interests in Finland have also been calling for greater income differentials, claiming that negotiated wage increases in Finland have been 'excessively solidaristic'. According to TT, greatest wage increases have been given in the least productive sectors of the economy which has led to increased unemployment. Very similar views regarding taxes, public finances and work incentives have been expressed by SAF, the main representative body of business interests in Sweden.

Unfortunately there is no space here for discussing other important socio-economic interests in Finland and Sweden. During the height of the unemployment crisis, a large number of unemployed people's associations were formed, but their political influence at the national level remained small. As the populations of both countries are ageing, pensioners' associations are increasing their political weight and are indeed being regularly consulted over policy making in areas that concern them. During the 1990s recession and in its aftermath, the Lutheran Church has raised its social policy profile and frequently criticised the lack of adequate income and other support for the worst-off members of society.

Some features of the social protection system

Given the prevalence of broad characterisations of the Nordic welfare states, it is not necessary to include one here. However, this section does outline some features of the social protection systems that are relevant for the subsequent sections on specific policy areas.

Because the universalistic character of the Nordic welfare states is often emphasised, it is easily forgotten that they have earnings-related benefit systems that play a very important role in securing the popular support base for the welfare state and in equalising incomes in retirement and outside the labour force. The fixed ceiling in these earning-related systems has recently become an issue in Sweden. The upper ceiling in the Swedish social insurance system has been set at 7.5 times the basic amount (basbelopp). This is indexed in accordance with the consumer price index. In 1990, 3 per cent of the Swedish women of working age, and 17 per cent of their male counterparts had incomes over the social insurance ceiling. By 2000, these proportions has risen to 8 per cent and 26 per cent respectively (Batljan and Andersson 2000).

As part of collective wage agreements (kollektivavtal), many people whose incomes exceed the ceiling have access to additional occupational insurances that provide cover for the part of income that exceeds the ceiling. Most collective agreements in Sweden provide supplementary insurance that exceeds the basic public insurance by about 10 percentage points. However, some employees in the private sector do not have access to such occupational coverage, and those employed on short-term basis are often excluded from collective agreements. For this reason, and due to the erosion of public social insurance systems by default, private insurances have become more popular in Sweden. Whereas the four largest insurance companies in Sweden had 170,000 insurance polices in 1992, this number had grown to 395,000 by 2000 (SOU 2001: 79, p. 126).

The difference between universalist/basic and earnings-related benefits is likely to become clearer in Finland where a working group on social expenditure (2002) has recommended that the financing of these two forms of social provision be clearly separated. 'Basic security' i.e. services and basic daily benefit payments would be financed through taxes only, and earnings-related benefits through contributions based on earnings (currently, Finnish employers pay a contribution towards the basic national pension that is not an earnings-related or employment-based benefit: under the proposal, this employer contribution would disappear). This is a logical continuance of policies and cutbacks that have in the 1990s reinforced the importance of paid employment as the basis of entitlements in these welfare states (Kosonen 1998).

Financing of the welfare state

Despite the popular myth that social democratic welfare states and heavy deficit financing go hand in hand, the Finnish and Swedish economies have traditionally adhered to comparatively conservative fiscal policies. Nevertheless, there are some differences in the economic histories of the two countries, the most important one

being the greater willingness in Sweden to make use of counter-cyclical policies to revive the economy (Interestingly, periods of fiscal imbalance in Sweden have often occurred during centre-right governments that have striven to demonstrate to the electorate that social democrats are not the only party that knows how to increase public spending). Finland has traditionally been more fiscally conservative, and more willing to rein in spending at the cost of rising unemployment. Thus public debt was allowed to reach considerably higher levels in Sweden than in Finland as part of coping with the 1990s' fiscal crisis (Eurostat 2000: 48).

The initial policy response to skyrocketing expenditure and decreased revenues in the early 1990s was increased borrowing, followed by a gradual introduction of tax increases and expenditure cuts. While expenditure cuts were the main instrument used in Finland to balance the budget (tax increases having played only a minor role), the restoration of budgetary balance in Sweden was achieved by more or less equal measure through tax hikes and expenditure cuts (Kautto 2000: 39-44). Nonetheless, the expenditure cuts were sizeable in Sweden, too: the 'consolidation programme' of 1994-98 'strengthened public finances' by SEK 126 billion, or 7.5 per cent of GNP. One of the most interesting tax increases was the 'värnskatt' ('defence tax') that involved an increase in the state tax on high incomes from 20 to 25 per cent. This illustrates the determination of the Swedish social democrats to involve the higher income earners in financing the fiscal crisis. It is important to note that despite the prominence of expenditure cuts, social expenditure increased in both countries during the recession, both in absolute terms and as a proportion of GDP: this was as a result of growing demand for benefits as well as for many services, and the very slow or negative rate of economic growth.

In both countries, the perceived urgency to qualify for EU, and then EMU membership added to the determination to balance the budget even at the cost of extensive expenditure cutbacks. In order to fulfil the EMU criteria, the Swedish government adopted the *Konvergensprogrammet* in 1995. This made commitments to the budget deficit not exceeding 3 per cent of GNP in 1997, and to debt not exceeding 60 per cent of GNP. In response to criticism that excessive attention was being paid to the debt, deficit and inflation focused EMU criteria at the cost of rising unemployment, the Swedish government set a target of pressing open unemployment to 4 per cent by 2000 (Regeringens Prop. 1995/96: 207). Somewhat more ambitiously, the budget proposal for 1999 made a commitment to raising the employment level among 20-64-year-old Swedes to at least 80 per cent by 2004 (Regeringens Prop. 1998/99: 1). Finnish governments have been less forthcoming with such firm commitments to reducing unemployment or increasing employment levels.

The memory (or the trauma) of the 1990s crises has arguably led to more cautious fiscal policies than would otherwise obtain in both countries: all increases in expenditure are now more carefully justified and costed than before the recession. The importance of avoiding debt in financing has been a central part of leading policy makers' rhetoric: in Sweden Prime Minister Persson has argued that indebtedness is equivalent to loss of freedom and in Finland many governmental actors have stressed that social policies have to correspond to the economic resources available (Timonen 2003). As a seemingly permanent legacy of the 1990s recession, 'utgiftstaken' (expenditure ceilings) are used in bargaining over budget expenditure in Sweden. This ceiling of expenditure is decided for three years in advance and it covers all budget

expenditure except interest on public debt (Regeringens Prop. 1994/95: 150). As a further sign of fiscal rectitude, the Spring budget proposal of 1997 (Regeringens Prop. 1996/97: 150) contained the aim of a long-term budget surplus of 2 per cent of GDP on average over economic cycles. The goal for 2001 was revised upwards to 2.5 per cent. A similar expenditure control mechanism was introduced in Finland in 1991, enabling the setting of expenditure ceilings for three years in advance (OECD1995).

The Finnish cabinet agreed in 2001 that it would strive to ensure a structural surplus in public finances in 2003. However, commitments to increase expenditure in certain areas (state grants to municipalities, increases in some unemployment payments, compensation for some changes in pension in the 1990s) are in conflict with the decision on surplus. It appears that the relatively healthy state finances that have been attained after a period of budgetary crisis made it politically necessary to give some concessions in the form of improvements in selected areas.

Taxation

The structure and extent of taxation obviously have major ramifications for financing social expenditure. A major tax reform took place in Sweden in 1990/91. The main aims of the reform were to reduce taxes on incomes and saving, to increase taxes on consumption and borrowing and to introduce similar taxation for income and capital. The reform resulted in widening of the tax base, especially in relation to capital taxation. It constituted a trend change in that it brought down the marginal taxes for most wage earners and especially those on higher incomes. However, the intention was that the reform would be neutral in redistributive terms as the 'negative' impact on cuts in marginal rates of tax (negative in a redistributive sense) would be compensated for through increases in child benefits and housing benefit.

During the 1990s the marginal taxes on most income earners increased as a result of newly increased or introduced employee contributions and as a result of increases in the general state income tax (statliga inkomstskatten) (Sjöberg and Bäckman 2001: 306). The tax reform in 2000 decreased the marginal tax for most income earners. The social democratic government justified this as a compensation for the increases in employee contributions (particularly the general pension contribution) during the 1990s budgetary crisis. However, further significant tax cuts are unlikely as 'one is not politically rewarded for tax cuts in Sweden' (Interview with PM Göran Persson in DN 27.3.2002). Nonetheless, SAP made a commitment in 2002 to the tax burden (taxes as a proportion of GNP) not exceeding 50 per cent. This was a new departure for social democratic tax policy as the party had never before set a target ceiling for the tax burden. In 2001, the tax burden in Sweden was 53.7 per cent.

Although tax increases in Finland did not play as large a role in the financial restabilisation programme as they did in Sweden, they were nonetheless a significant part of it. Tax revenue was increased through changes in tax deductions, through raising income tax rates and through changes in capital taxes and VAT.

Following the recession and the restoration of government finances, tax cuts were brought back onto the political agenda. The Finnish government decided on tax cuts worth FIM 6 billion for 2001, and promised tax cuts of FIM 4 billion for 2002. The

tax cuts in 2002 included an increase in the tax-free share of earned income that favoured those on low incomes. Opinion is currently sharply divided over the issue of tax cuts. Broadly speaking, politicians and interest groups can be divided into those who favour, and those who oppose, extensive tax cuts. Similarly, opinion is divided over whether further tax cuts can be combined with continued existence of the Nordic welfare state. Most central government actors are of the opinion that while further tax cuts may be desirable, they are feasible only when the public finances are balanced at a minimum, and ideally there is a structural surplus that protects the state finances against pressures such as population ageing. Structural surpluses allow the state to reduce its debts and therefore the future interest payments on debt, which in turn frees up resources to be spent on for instance the ageing population.

The role of local government (municipalities)

Unlike in most other countries, municipalities in Finland and Sweden play a central role in financing and administering both the service and some transfer aspects of the welfare state (Kröger 1997). Most social, health and education services are delivered by municipalities and other units of local government. In the late 1960s district governments (landsting) and municipalities financed ca. 70 per cent of public health care in Sweden (the central government financed the remainder). Since then, the share of local governments (especially municipalities) has increased both in health care and other areas of service provision. In Sweden, there were no major cuts in state grants to municipalities but their tax revenue basis was seriously weakened as a result of the recession (and partly by the obligatory municipal tax freeze of 1991-93). As tax revenue is the main source of municipalities' incomes, this obviously affected their ability to fund services. In 1997-99 municipalities that increased their taxes lost a part of their state grant amounting to half of the tax increase. The introduction of the so-called balancing requirement in Sweden in 2000 meant that municipalities and county councils were not allowed to let expenditure exceed income.

In Finland, too, the central state subsidises municipalities according to a complex formula that takes into account their demographic structure (number of older people, children, people in education etc.) and the economic situation in the light of tax revenues collected by the municipality. An important reform in the provision of central state funds to municipalities in 1993 led to loosening central control, and increasing the power of local authorities in the allocation of funds to social and other services (Oulasvirta 1997). The switch from earmarked to non-specific grants was intended to lead to greater efficiency and more economical use of state funding. In parallel with this development, state grants to municipalities were cut during the recession and municipalities responded to the resulting financial difficulties by cutting back services, increasing local taxes and charging user fees for their services (Simpura et al. 2001: 134). In Sweden, somewhat ironically, the central government began again using targeted grants in the late 1990s in order to encourage quality and growth in selected areas of service provision.

Sources of financing welfare

The table below demonstrates that employers' share in financing the Swedish welfare state grew dramatically between 1960 and 1990. As Sweden's social insurance system expanded during the post-war decades, more responsibility for financing it was placed on employers while employee contributions were simultaneously diminished radically. For instance, the ATP system was fully financed through employer contributions and in unemployment benefits the share of employee contributions diminished, while the sickness insurance system has since the mid-1970s been mostly financed through employer contributions. A similar development took place in Finland during this period.

Financing of social insurance (pensions, sickness benefits, unemployment benefits) in Sweden, 1960-1990 (%)

	Employees			Employers			General taxation		
	1960	1975	1990	1960	1975	1990	1960	1975	1990
Sweden	45	9	4	10	45	81	44	45	15
Finland	33	25	10	19	53	63	48	23	27

Source: SOU 2001: 57, p. 20.

In a reversal of this trend, the share of employee contributions of social insurance funding increased in the 1990s until 1999, when it declined slightly. In 1994-99, employee contributions in Sweden increased from 0 to 17.8 per cent. Until 1998 this was mostly caused by employee sickness insurance contributions but in 1998 this contribution was removed and replaced with pension contribution. Employee contributions increased in importance in the 1990s, and the link between contributions and benefits was made stronger (see Sjöberg 1999). Between 1991/92 and 1994/95, employers' share of financing social insurance in Sweden declined from 70 to 60 per cent. Between the mid-1990s and the end of the decade, however, employers' share crept up again to approximately 65 per cent (SOU 2001: 57, p. 28).

Employer and employee contributions in Sweden 1990-2000 (% of gross wages)

Year	1990	1992	1994	1996	1998	2000
Employers						
ATP	13.00	13.00	13.00	13.00	6.40	10.21
<i>TOTAL</i>	<i>35.00</i>	<i>32.43</i>	<i>31.36</i>	<i>33.01</i>	<i>33.03</i>	<i>32.92</i>
Employees						
Sickness ins.	-	-	0.95	3.95	-	-
Pension	-	-	-	1.00	6.95	7.00
Unempl. ins.	-	-	1.00	-	-	-
<i>TOTAL</i>	-	-	<i>1.95</i>	<i>4.95</i>	<i>6.95</i>	<i>7.00</i>

Source: SOU 2001: 57, p. 28.

As in Sweden, employee contributions came to play a more important role in financing social expenditure in Finland during the 1990s recession and this trend has continued to date (e.g. in 2002 the employee sickness insurance contribution was increased). In contrast, employers' share of financing social expenditure declined from almost 40 per cent to approximately 30 per cent during the recession (Ministry of Social Affairs and Health 2001). The state's share (i.e. tax revenue) of financing social protection also increased. Employers' share decreased for a number of reasons, among others because the wage sum (in relation to which employer contributions are paid) declined and because there were cuts or eligibility restrictions in a number of earnings-related benefits that are part-financed by employers. In contrast, an increase in the state's share was partly due to the massive increase in demand for means-tested benefits that are almost exclusively financed by the state rather than employee/employer contributions.

Current outlook

According to a working group on social expenditure (2002), social expenditure in Finland may rise from 25 to 30 per cent of GDP by 2030. Furthermore, employee (and to a lesser extent, employer) social security contributions are set to double. Since the opinion climate in Finland is not favourable to dealing with such cost pressures through cuts in the level of benefits (in fact there has been a recent recommendation by a committee on increasing the minimum level of benefits in accordance with wage inflation), a number of alternative solutions that seek to ensure the sustainability of financing social welfare have been suggested. One central recommendation concerns the lengthening of people's working lives by both shortening the period spent in education and by delaying retirement.

In 1998, Sweden had a positive budget balance for the first time since 1990. As a result of improved public finances, some social spending cuts were reversed in the late 1990s: for instance, child benefits were brought back to the pre-cut level and the supplement for large families was re-introduced. Replacement rates in parental, sickness and unemployment insurances were increased, although not to the level that prevailed before the recession. Pensioners' housing benefits were improved, and more resources were given to the municipal service sector (extra SEK 4 billion in 1997 and extra SEK 8 billion per year in 1998-2000). The current government's stated aim is to increase staff in public care services, schools and health care by hiring extra 25,000 workers.

Membership in the Economic and Monetary Union (EMU) has indirect, but profound, implications for financing welfare. Once a country has entered the EMU, it can no longer use interest and exchange rates to stabilise its economy. In the absence of monetary tools (that is now the prerogative of the European Central Banks), EMU countries have to use fiscal policies to counter economic shocks at the national level. In most cases, such use of fiscal instruments would have implications for the welfare state. It is recommended that EMU countries increase their budgetary surplus to an average of 2.5 to 3 per cent of GDP in preparation for times of slow or negative growth.

While Sweden's entry into the EMU is likely in the near future, there is fierce debate about the safeguards that need to be in place in circumstances where monetary tools are unavailable for macroeconomic management at the national level. The Swedish Trade Union Confederation (LO) has been calling for a 'buffer fund' that would protect the economy (and the welfare state) during economic downturns. This fund would be around 3-4 per cent of Swedish GDP and would be used to lower labour costs during recessions through the reduction in payroll taxes (Financial Times 13 March 2002). According to LO, such a fund would demonstrate that welfare and employment are being taken seriously by politicians who want to take Sweden into the EMU. Finland, an EMU member, has such a buffer fund, but it is not state-funded and is only one-tenth of the size of the proposed Swedish fund.

Women's labour market participation

['Policies that aid women's labour market participation such as child care, parental leave, taxation (fiscal treatment of couples), equal opportunity programmes, employment rights. 'Negative' policies (home care benefits)' .]

Introduction

A number of facts and factors are relevant for the extent to which women can participate in the labour market, and receive rewards similar to men's from such participation.

1. Unemployment rates differentiated by sex offer a picture of the relative difficulties that men and women are experiencing in accessing paid work. Increased unemployment can affect women worse than men as the expectation may be that they have to leave jobs for men or because they work in areas that are more vulnerable to job cuts. A related, but not equivalent, indicator is the employment level among men and women. This is probably a better indicator of the extent to which women are participating in the labour market, and varies considerably between EU countries.
2. The gender division of fixed-term and part-time employment reflects the nature and quality of women's attachment to the labour market as part-time and fixed-term jobs tend to offer lower pay, less security and weaker social rights than permanent and full-time ones.
3. Affordable and widely available child care services are necessary to enable women to (partially) opt out of child care duties (care services for older people are relevant in this respect also but will be discussed in a separate chapter).
4. The level and duration of maternity and parental benefits reflect the extent to which women are 'decommodified' during the early stages of motherhood, as well as the extent to which fathers are expected to share in child care and forgo earnings.
5. We need to assess the situation of lone mothers: they are in general a particularly disadvantaged group of women whose access to the labour market reveals much about the extent to which labour market participation is a real choice for mothers.
6. Relative wages and working conditions in the public sector matter as the bulk of employees in the public sector (in the Nordic countries) are female.
7. The level and universality of child benefits may make a difference as universal benefits do not create work disincentives. Conversely, the prevalence of means-tested benefits may cause work incentive problems particularly for lone parents.

Women and work in the Nordic model

The Finnish and Swedish welfare states have striven to facilitate the combination of family responsibilities and employment outside the home for women, and more recently for men also. These attempts have arguably been reasonably successful as high labour market participation rates among women would not have come about in the absence of a combination of 'push' and 'pull' mechanisms. Among the 'push'

mechanisms are high levels of taxation that necessitate the dual-breadwinner model and attractive earnings-related benefits for those who work outside the home. Space limitations do not allow a detailed discussion of ‘push’ factors here. The various ‘pull’ factors will be discussed in more detail below, but probably the most important one of these is the network of high quality social (and health) care services that reduce the burden of child and other care duties on women.

In comparison with many countries associated with the liberal and conservative models, the Nordic welfare states require relatively little ‘recalibration’ or ‘updating’ in terms of facilitating women’s labour market participation (Pierson 2001: 444). This one of the areas where many non-Nordic welfare states face a major task of welfare state recalibration. Systems that have always relied on the availability of free care services, provided by women working in the home, are having to adjust themselves to higher labour market participation rates among women and the consequent loss of the primary supply of care services (Timonen and McMenamin 2002). This challenge (which is also related to changes in family structures such as increased number of lone parent families) does not take the Nordic model by surprise: its basic structure is designed to facilitate high labour market participation rates among both men and women.

Employment situation of men and women

Women’s labour market participation rates have traditionally been comparatively high among Finnish and Swedish women, although the 1990s’ recession pushed their employment rates closer to the EU average (see the table below). During the 1980s, the differences in men’s and women’s unemployment rates were rather small in Finland and Sweden. In Sweden, the decrease in employment rates during the 1990s was similar among men and women: in other words, high unemployment did not bring about a mass exodus of women from the labour market. Between 1990-91 and 1998-99, Swedish men’s employment rate decreased from 83 to 75 per cent, and women’s from 79 to 70 (SOU 2001: 79, p. 37). The gap between women’s and men’s employment levels therefore increased only very slightly, and by 2000 it had in fact narrowed slightly. Between 1997 and 2000 when the economic recovery came into full swing, unemployment among Swedish men almost halved. Among Swedish women, unemployment declined from around 10 to approximately 5 per cent between the mid- and late 1990s. Women’s unemployment rate was in 1999 lower than men’s. This disparity in employment and unemployment among Swedish men and women illustrates the importance of not relying excessively on either indicator: focusing on unemployment rates only would give us a more optimistic picture of women’s labour market participation than is obtained through studying the employment levels.

In Finland, women were somewhat less affected by unemployment than men during the early stages of the 1990s recession. After the recession bottomed out, however, men’s employment rate recovered quicker than women’s, leaving the gap between un/employment rates larger than before the recession (see table and Nurmi 1998: 65). Unlike in Sweden, the unemployment rate for Finnish women has tended to be higher than for Finnish men: between 1997 and 2000, unemployment among men declined from 12.5 to 9.2 per cent, whereas the corresponding decline among women was from 13.1 to 10.6 per cent. In other words, there is more consistency between the

employment and unemployment rates of Finnish men and women than among Swedish men and women. Employment rates both among men and women were (and still are) higher in Sweden than in Finland, and the gap between males and females was (and is) also smaller in Sweden. In both countries, the 1990s recession seems to have had a slightly stronger negative effect on women's than on men's employment levels (although this difference was eliminated in Sweden by 2000).

Table: Employment/population ratios (ER) and unemployment rates (UR) by sex for persons aged 15-64, 1990 and 2000.

	ER men 1990	ER men 2000	UR men 1990	UR men 2000	<i>ER women 1990</i>	<i>ER women 2000</i>	<i>UR women 1990</i>	<i>UR women 2000</i>
Finland	76.7	69.4	3.6	9.2	<i>71.5</i>	<i>64.5</i>	<i>2.7</i>	<i>10.6</i>
Sweden	85.2	76.1	1.8	6.3	<i>81.0</i>	<i>72.3</i>	<i>1.8</i>	<i>5.4</i>
EU	74.6	73.2	6.7	7.3	<i>48.2</i>	<i>53.9</i>	<i>10.9</i>	<i>9.9</i>

Source: OECD 2001: 210-211.

Fixed-term and part-time employment

Number of people employed on short-term contracts (in contrast to permanent positions) has increased in Sweden and Finland (SOU 2001: 79, p. 10). The proportion of Finnish employees on short-term contracts remained at around 10 per cent until the end of the 1980s, but grew strongly during the 1990s (Kauhanen 2000, Nurmi 1999). According to Lodovici (2000), the proportion of the Finnish labour force on fixed-term contracts increased from 10.5 per cent in the mid-1980s to 17.3 per cent in 1996. Fixed-term employees in Finland tend to be women, aged over 30, well-educated and working in white-collar jobs. Fixed-term contracts are most common in the fields of education, healthcare and social welfare work, and are clearly more common among women than among men. According to a study by the Finnish trade union central organisation SAK (2001) around 25 per cent of SAK members were on short-term contracts, in contrast to only one-seventh in 1995. Fixed-term employment contracts are now easier to conclude, following the recent abolition of the ban on successive fixed-term contracts.

The table below illustrates trends in part-time employment between 1990 and 2000. Part-time employment (defined as usually working less than 30 hours per week) has traditionally been lower in Finland than in the other Nordic countries but increased among both men and women in the course of the 1990s. Part-time employment also increased among Swedish men, but declined slightly among Swedish women. Nonetheless, part-time employment still constituted a higher proportion of total employment in Sweden than in Finland both at the outset and the end of 1990s. Moreover, Swedish women's share of part-time employment remains considerably higher than Finnish women's. It is interesting to note that while part-time employment among Finnish and Swedish men is above the EU average, the proportion of Finnish and Swedish women working part-time is clearly below the EU average.

Table: Incidence and composition of part-time employment, 1990-2000

	Part-time employment as a proportion of employment				P-t empl. as a proportion of total employment		Women's share in part-time employment	
	<i>Men</i>		<i>Women</i>		<i>1990</i>	<i>2000</i>	<i>1990</i>	<i>2000</i>
	<i>1990</i>	<i>2000</i>	<i>1990</i>	<i>2000</i>				
Finland	4.7	7.1	10.6	13.9	7.5	10.4	67.2	63.8
Sweden	5.3	7.3	24.5	21.4	14.5	14.0	81.1	72.9
EU	4.2	6.0	27.0	30.0	13.3	16.3	80.9	79.0

Source: OECD 2001: 224.

Fixed-term contracts and part-time work are not negative by definition: in fact, as long as employees can have their contracts repeatedly renewed, or are in a position to find an equivalent or a better job when the contract expires, without loss of basic employment and social protection rights, there is no substantial difference between fixed-term and permanent employment. Similarly, as long as part-time work is a genuine choice that facilitates the lifestyle of part-time workers, it is a positive rather than a negative phenomenon. However, in both Finland and Sweden women are more often employed on a part-time and contract basis than men, and many women working on contract or part-time basis would prefer permanent, full-time employment (Nurmi 1998: 107). The share of the involuntarily part-time and short-term employed increased as unemployment increased in the 1990s. Another negative dimension of the increase in atypical jobs is that people in this kind of employment have an increased risk of becoming unemployed (Parjanne 1999). By way of a positive development, the state pension systems in Finland and Sweden are now capable of taking into account even very small contributions made during short-term contracts

Provision of child care services

It is remarkable that although most transfer programmes and areas of service provision experienced at least temporary contraction and cuts during the 1990s, the entitlement to public child care services was expanded in a very determined manner in both countries. In 1995, Swedish municipalities were obliged by law to provide day care to all 1-12-year-olds whose parents work or study. In an extension of this right, a Riksdag resolution passed in November 2000 outlined that pre-school activity of at least 3 hours per day was to be organised for the children of unemployed parents and the children of parents on parental leave. While the latter resolution may seem strange from the continental European or Anglo-Saxon perspective, it is rooted in the idea that public child care has many different functions. The primary aim is, of course, to free parents (women) to work outside the home. An equally important function of public child care is also to integrate children socially by bringing together children from many different social and ethnic backgrounds: the children of unemployed parents as well as of 'professional' parents are believed to benefit from the teaching available in kindergartens, and from the social integration that they aim towards (Regeringens Prop. 1999/2000: 129).

As a consequence of the expanded entitlement to child care, and as a result of the 1990s baby boom, the number of Swedish children in some form of public childcare

increased from 532,000 in 1990 to 720,000 in 1999 (SOU 2001: 79, p. 96). While public child care provision was extended (universalised), there were some negative developments in the care arrangements. Group sizes increased, and fewer employees are now looking after more children than a decade ago (Bergqvist and Nyberg 2001). There have also been some signs of privatisation of provision, and to a lesser degree of financing, of child care services in Sweden. The share of children in publicly financed but privately operated kindergartens increased from 5 per cent in 1990 to 15 per cent in 1999. In this context it is important to note that most private kindergartens in Sweden operate on a not-for-profit basis, with parental co-operatives being a common form. Day care fees also increased in the 1990s, and parents' share of financing the costs of child care increased from 10 to 18 per cent in the course of the 1990s (SOU 2001: 79, p. 97). However, a recent reform of day care fees (*maxtaxereform*, 2001) meant that day care fees decreased for most parents.

In Finland, too, increased resources have been invested in the provision of municipal day care for all children. There are signs that this trend in public provision of child care will continue and is very popular. For instance, the Left-wing party has published a proposal about extending care and educational services of schools to cover the whole working day of parents (*kokopäiväkoulu* –March/April 02).

All of these developments in public child care have not had a negative impact on women's labour market participation. The 'pull' factor of low-cost child care continues to provide strong incentives and opportunities for labour market participation among Finnish and Swedish women.

Home care of children – ill-fitted to the Nordic model?

In the area of care services, an interesting policy divergence took place between the Finnish and Swedish systems. In both countries, a payment was introduced for the care of children in the home. In Sweden, this payment was introduced by the centre-right government, first and foremost at the insistence of the Christian democratic party. Upon their return to power in 1994, the social democrats nipped this programme in the bud because they considered it an old-fashioned policy designed to encourage a culture of housewifery. However, a similar programme has become well-established and popular in Finland and although cuts were made in it by the rainbow government in the late 1990s, there are no signs of any party wanting to remove or further retrench the home care payment. However, the very low level of the home care benefit (partly a result of the fact that it is not index-linked) means that for many it is not a realistic alternative to public day care and full-time labour market participation by both parents.

While many families with children certainly suffered economic losses due to cutbacks in the 1990s (Hiilamo 2002), strong pro-natalist policies that are in many areas being extended (child care, paternity leave) are a clear indication of the acknowledged need to maintain the birth rate at a level that will guarantee a sound financial basis for the entitlements and services of the ageing population¹.

¹ Despite the extensive pro-natalist policies, there is still a considerable gap between women's stated preferences regarding the number of children, and the actual birth rate, although this gap is not as big

Maternity and parental insurance

The replacement rate in parental insurance was decreased from 90 to 80 per cent in Sweden as part of recession-induced cutbacks in the 1990s. This decrease also applied to temporary parental leave when looking after a sick child. Unlike for instance sickness benefit, parental insurance is not supplemented by occupational insurances. This means that the highest income replacement level for someone who is at home looking after their child/ren is 7.5 times the *basbelopp*. The share of the population with incomes in excess of this limit increased considerably in the 1990s. As a result, the income replacement character of parental insurance was undermined. In 2002, however, the minimum level of parental benefit was doubled (to 13,2 euros per day – equivalent benefit in Finland is 10.1 euros per day; in terms of a monthly amount, the gross minimum level in 2002 is 240 Euros in Finland and 360 Euros in Sweden) and the duration of parental leave was extended by one month to 13 months (leave entitlement is 11 months in Finland). Further increases in parental benefits are due in 2003 and 2004.

In Finland, too, the level of maternity and parental insurance was cut in the 1990s. Maintaining a high income replacement rate in parental insurance is of great importance from the point of view of women's labour market participation: the higher the benefit, the more likely men (whose incomes are on average higher than women's and for whom absence from work therefore causes a greater loss of income) are to take parental leave. Recently there have been attempts to increase the parental leave entitlement in a way that would give fathers extra incentives to use their share of the parental leave (extra two weeks of paternity leave if the father takes at least two weeks of the parental leave that parents share between them). These proposals have been backed by STTK (the central organisation for low- and medium-ranking white-collar workers, whose membership is largely female) and the employer organisation *Palvelutyönantajat* (whose members employ mostly women in the service industries).

Lone mothers

Lone mothers are in all welfare state regimes relatively disadvantaged by three basic factors. First, the fact that they are female is a disadvantage as women in all welfare states have lower average incomes than men. Second, they have family responsibilities which means that a large share of their income has to go towards supporting children. Third, lone mothers are the sole breadwinners and/or carers of their family which puts them at a disadvantage in relation to two-parent families where (in most cases) either both parents work (thus resulting in a higher income) or one of the parents undertakes the care work (thus freeing the other one to participate fully in the labour market).

At the end of the 1990s, there were some 200,000 lone mothers in Sweden. Lone mothers' situation in Sweden was worse in the late 1990s than it had been at the beginning of the decade (SOU 2001: 79, p. 10). The worsening in the economic

as in some countries (such as those in Southern Europe) with weak pro-natalist policies (Esping-Andersen 1999).

position of lone mothers was also more dramatic than for other groups (Gähler 2001: 87). While the economic situation of other groups improved during the latter half of the 1990s, lone mothers' position did not recover equally well. At the end of the 1990s their adjusted disposable median income was 5 per cent lower than at the start of the decade (ibid.).

Whereas Swedish lone mothers' level of educational attainment improved between the start and the end of the 1990s (the share of those with low levels of educational attainment declined from 21 to 16 per cent), the employment situation of lone mothers worsened: in the early 1990s 82 per cent of 16-64-year-old lone mothers were working, whereas this share had fallen to 74 per cent by the end of the decade (SOU 2001: 79, p. 66). The percentage share of lone mothers with short-term employment contracts (among employed 16-64-year-olds) more than doubled from 11 to 24 per cent between the early and the late 1990s (ibid.).

The main reason for the decline in lone mothers' incomes in relation to other population groups' incomes is the fact that their labour market position weakened in the 1990s². Whereas 4 out of 5 married or co-habiting women in Sweden worked in the late 1990s, 'only' 3 out of 4 lone mothers did (the extent to which lone mothers in Sweden are engaged in paid employment outside the home is of course very high in comparison with most other countries in the world). In other words, the relative decline in lone mothers' incomes was due to their weakened employment situation, rather than due to benefit cutbacks which also played a role but a considerably smaller one. Decline in employment levels among lone mothers in turn was due first and foremost to lack of jobs and unavailability of full-time jobs in particular: surveys have found that most jobless lone mothers in Sweden want to work, and that almost one third of those who are working part-time would prefer to work longer hours. When asked about the reasons for not working, or working reduced hours, lone mothers usually cite health problems, studying or lack of suitable work in the area where they live. It is interesting to note that the reasons given by lone parents do *not* include lack of child care or lack of financial incentives to work (these are the main barriers to lone parents' labour market participation in most welfare states outside the Nordic countries).

Wage development and working conditions in the public sector

In Sweden, public sector wages have not kept up with increases in private sector wages. The relative decline in salaries has been particularly pronounced in nursing, the care professions and education. As the majority of public sector employees are women, the relatively weak development in public sector wages has affected women more than men. Increased stress levels among public welfare service sector employees also has a gender bias because the vast majority of employees in this sector are female, particularly at the lower, customer-focused ranks in areas such as schools, health care and other care services (SOU 2001: 79, p. 10).

Bäckman (2001: 222) argues that there was more negative change in the working conditions and work atmosphere for those employed in the public sector care and

² The reason does not seem to lie in the transfer system as its redistributive effect did not change during the 1990s (Gähler 2001: 88).

educational professions than in any other occupational area in the 1990s in Sweden (see also Le Grand et al. 2001). In 1999, the total cost of sickness benefit and rehabilitation compensation in Sweden was 27,9 billion SKr. This represented an increase of 12 billion, or 75 per cent, from 1997. A large share of these increased sick leaves in recent years occurred in the municipal (public service) sector. Strikingly, the increase in long-term sick leaves between 1992 and 1999 was wholly due to increase in women's sick leaves (SOU 2000: 121).

Child benefits

Despite some suggestions that child benefits should be made means-tested, this payment remained universal in both countries. However, its universal character did not protect child benefit against cutbacks.

Child benefits were cut and then remained stagnant for several years in Finland and debate over increasing them continues seemingly without a result. A Finnish working group on child benefits has called for extension of child benefits to 17-year-olds. The Ministry of Finance reacted to this proposal unenthusiastically: it would not accept the proposal if it leads to increase in expenditure. The negative attitude of the Ministry of Finance makes significant improvements unlikely in the near future. Child benefits were last increased in Finland in 1991, and cut in 1995 by 8 per cent. Since 1995, the child benefits has not been indexed, as a result of which its value has decreased.

In Sweden, child benefit was modestly higher (50 Kr) in real terms in 1999 than it had been in 1990. In 1991, child benefit was increased from 560 Kr to 750 Kr as part of the tax reform. Child benefit was decreased to 640 Kr in 1996 and 1997, and restored back to 750 Kr in 1998. Following this, child benefits in Sweden were increased on two other occasions. This shows that child benefit was not, contrary to what one might have expected, immune to cutbacks.

Child benefit is of significance for women's labour market participation because, as a universal benefit, it does not create work disincentives as means-tested benefits do. The smaller the role of universal benefits becomes, and the more prominent means-tested benefits become, the more work disincentives are created for low-income earners, which in turn has ramifications for women's labour market participation in particular.

Finland and Sweden: Still women-friendly?

It is clear that Finnish and Swedish women's (and lone mothers' in particular) welfare was weakened in a number of respects during the 1990s recession. However, it is important to see this in the context of an overall decline in employment levels and increase in labour market precariousness. In both countries, women were not the only group to suffer, and in most respects were not considerably worse affected than men, although Finnish women's employment levels have been slower to recover than men's. Generally speaking women were not hit harder than men by the economic crisis: gender differences in employment and welfare remained, but did not worsen

during this period, with the exception of two areas, namely the deterioration in the psychosocial work conditions and the rise in temporary employment contracts.

Finland and Sweden are arguably still leaders when it comes to both women's opportunities to participate in the labour market and the rewards that they reap from working outside the home. This is not to say that perfect gender equality has been achieved. However, the Nordic welfare states continue to create more and more effective incentives and opportunities for women to work than other welfare state models. Public provision of child care has been expanded in recent years, and despite some movement towards privatisation in child care provision, access to public child care remains virtually universal and affordable. The relatively high level of universal and earnings-related benefits combats women's work disincentives that are often strong in liberal welfare states due to the prominent role of means-tested benefits (that are lost when the woman takes up work). Unlike in many countries associated with the conservative welfare state model, the Finnish and Swedish tax systems do not contain any incentives for women to stay at home and be supported by the sole family (male) breadwinner. In fact, if anything, the opposite is the case: the tax system is such that it would be difficult for all but the highest earners to sustain a family comfortably with the help of just one income from work. In recent years, Finland and Sweden have continued to invest in policies that encourage women's labour market participation for the simple reason that without women's contribution, the Nordic model is not sustainable. Of course, the ideological desirability of this dual-breadwinner model that leaves little incentives to become a full-time housewife/mother is open to debate.

Unemployment

['Subsidies to employment. Policies to reduce employment costs. Making work pay. Benefit system. Insurance benefits and safety-net assistance. Focus on activation and wage subsidisation' .]

The challenge of restoring high employment levels

It is debatable whether a Nordic welfare state can function in the long term in the absence of high employment levels. The Nordic model of social protection is to a large extent predicated on only a small minority being dependent on benefits: during high unemployment/low employment, the financial basis of the model is severely challenged. Restoring the pre-1990 levels of employment is the greatest challenge facing the Finnish and Swedish welfare states in the 21st century, and in the medium to long term the fate of these welfare states to a large extent hinges on how successfully this aim is reached and sustained.

Employment rate increased significantly in the late 1990s in Sweden, but it was still lower than at the start of the decade (81 per cent in 1990-91, 73 per cent in 1998-99). Among different age groups, the decline in employment rates (percentage drop) was smallest among over 50-year-olds (SOU 2001: 79, p. 36). In other words, older people were not pushed out of the labour market as a consequence of the 1990s crisis to a greater extent than other age groups. Although older Swedish men (over 54 years of age) have traditionally had high employment rates in international comparison, their employment levels dropped dramatically from 76 per cent in 1970 to 64 per cent in 1990 and still further to 55 per cent in 1999 (SOU 2001: 79, p. 206). Young people's integration into working life has in many cases been delayed due to high youth unemployment (SOU 2001: 79, p. 10). Whereas 75 per cent of 20-24-year-olds were employed in the early 1990s, only 53 per cent had a job in the late 1990s. Of those who worked, over half were on short-term contracts in the late 1990s, whereas this proportion had been only slightly over a quarter at the beginning of the decade (SOU 2001: 79, p. 62). In Sweden, the 'age of establishment' of young people i.e. the age at which 75 % of the age cohort have found employment increased in the 1990s by five years for men and by nine years for women. The proportion of 18-24-year-olds receiving social assistance increased from 8 to 13 per cent between the start and the end of the 1990s (SOU 2001: 79, p. 62). Simultaneously, however, education levels among young people have increased. All of these statistics paint a picture of greater insecurity and difficulties in anchoring into the labour market.

In Finland, the youngest age group was hard hit by unemployment during the early and middle stages of the recession, but their situation improved towards the end of the decade as the general labour market situation improved. During the late 1990s, over 55-year-olds came to suffer from a worsening unemployment, partly as a consequence of declining demand for their out-of-date skills (Kautto 2001: 84-85). The availability of various early-exit channels such as early retirement (through so-called unemployment pension) has meant that the employment rates among the oldest age group in Finland are comparatively very low (Hytti 1998, Aho and Österman 1999). While the rate of early exit from the labour market declined somewhat during the latter part of the 1990s (partly due to tightened qualifying conditions for the

unemployment pension), the older age groups in Finland still experience great difficulties in re-entering employment and tend to experience longer periods of unemployment than younger ones (Ministry of Labour 2000).

Although Finland has largely recovered from the 1990s recession in terms of output, economic growth, borrowing and debt, it has not managed to break the back of unemployment. While the nearly 20 per cent unemployment of the deepest recession years has been overcome, Finland still suffers from high unemployment and more worryingly, it is turning into a long-term phenomenon for many individuals. The proportion of the chronically unemployed (those with no or very little work experience in the ordinary labour market over the last four years) increased throughout the 1990s (Lehtonen et al. 2001: 110-111). While the aggregate number of the unemployed has diminished, the difficulties experienced by the remaining unemployed in labour market integration are greater.

Income transfers during unemployment: earnings-related

There are two main components to the unemployment protection systems in Finland and Sweden: the flat-rate (although not universal) unemployment assistance schemes and the earning-related unemployment benefits. Both components are conditional on a work history. The unemployment assistance system in Finland was split in two in the mid-1990s as one part became conditional on a work history and the other part was made a means-tested safety-net scheme for those without any work experience, or without a recent employment record. We will first address the earning-related component that is very similar in both countries, and later discuss the flat-rate and means-tested assistance systems where the differences between Finland and Sweden are greater.

High levels of compensation for loss of earned income are an important component of the Nordic welfare state model. Because the universalist nature of these welfare states is often over-emphasised (given that there are in fact very few truly universal benefits), the earnings-related component is not given the attention that it deserves. Earnings-related benefits do, after all, play a major role in securing the support of the middle classes for the welfare state, in creating work incentives and even, counter-intuitively, in equalising incomes during retirement, sickness, and so on (Korpi and Palme 1998).

Unemployment benefits in both Finland and Sweden are in essence optional insurances that offer income-related compensation for lost earnings. A high level of compensation for lost earnings (or a high 'replacement rate') has been considered a key component of the unemployment protection systems for a variety of reasons, not in the least because it combats downward pressure on wages during periods and in areas of high unemployment.

Income replacement levels were reduced during the 1990s recession in both Finland and Sweden. After the recession had bottomed out, replacement levels were increased, but not to the level that had prevailed in the early 1990s and late 1980s. In Sweden, the earnings replacement level was reduced from 90 to 80 per cent in 1993 and further to 75 per cent in 1996. Since autumn 1997, the replacement level has been 80 per

cent. In Finland, earnings-related benefits do not have a 'ceiling' and therefore compensate for loss of income up to very high levels. In Sweden, however, such ceilings are in place and they impose a maximum level on all earnings-related benefits. As real wages have increased while the ceiling for earnings-related benefits has remained unchanged, fewer people are now compensated for loss of income to the same extent as in the early 1990s. As a result, occupational and private insurances have gained in importance. Higher unemployment and tightened qualifying conditions in the 1990s also meant that the coverage of earnings-related benefits was more limited as fewer people qualified for them.

Unemployment benefits in Sweden are conditional on fulfilling the 'working condition' and the 'membership condition'. The membership condition means that the applicant for unemployment benefit must have been member of a fund for at least 12 months; there were no changes in this condition in Sweden in the 1990s. The basic amount is paid to those who have not yet satisfied the membership condition or who have chosen not to join a fund. Recipients of *both* the basic amount *and* the insurance component must also satisfy the working condition. There were many changes in the working condition in the 1990s. In 1997, the working condition became 6 months (at least 70 hours per month) during the 12 months that preceded unemployment or 450 hours during a continuous 6 month period. Unemployment benefit is paid for a maximum of 300 days for under 55-year-olds and for a maximum of 450 days for over-55-year-olds: in 1998, this age limit was raised to 57. Every benefit period begins with five 'waiting' or 'qualifying' days during which no benefit is paid: these qualifying days were re-introduced during the 1990s recession after having been removed in the 1980s. After the 300/450 day benefit period, the recipient normally has to re-qualify by fulfilling the working condition again (under some exceptional circumstances it is possible to prolong the benefit period by 300 days without fulfilling the working condition, but this can be done only once).

The unemployment insurance system is administered by trade unions but financed mainly by the state in both countries, with membership fees playing a minor role. Trade unions in Sweden contribute to financing through membership fees that amounted to approximately 7 per cent of total expenditure on unemployment insurance in 1998 (AMS, no date). Most of the 40 or so funds in Sweden are affiliated to particular branches of employment or business activity. Despite some attempts in both countries to undermine the position of trade unions in administering the unemployment benefit funds, the Ghent system is still in existence and there are no signs of major change in it.

Recent reforms and reform proposals: the importance of earnings replacement

The fact that the 'ceiling' in most social insurance payments in Sweden was not adjusted to wage growth during the 1990s meant that the actual replacement levels in these systems became lower than the 'theoretical' level for a large, and growing, share of wage earners. The Swedish social insurance system has traditionally provided strong work incentives because social insurance benefits are closely linked to employment history. This gives rise to an apparent paradox: as transfer payments become less generous, the incentive to qualify for them through work is lessened (Sjöberg and Bäckman 2001: 305). In other words, contrary to a common assumption,

cuts in transfer payments can eventually lead to lessening, not increasing, the incentive to work.

The low level of the ceiling in unemployment insurance in Sweden has caused widespread dissatisfaction, especially among trade unions. According to Sture Nordh, the chair of TCO, 'the unwillingness of the government genuinely to increase the upper level of unemployment benefit is a threat to the whole system'. According to Wanja Lundby-Wedin, deputy chair of the LO, 'in the long run, unemployment benefits must follow the development of wages' (euro.eurofound.ie, Aug. 00). In fact, prior to recent reforms, the Swedish unemployment benefit ceiling had not been increased in 10 years. In 2000, more than half of all workers in Sweden had incomes in excess of the ceiling (SEK 15,950 per month). As many as 90 per cent of SACO members (white-collar employees with academic qualifications) had incomes in excess of this limit. As a result of this increase in the proportion of people with above-ceiling incomes, the average real replacement level in the unemployment benefit system (as % of previous salary) sank from over 80 to around 70 per cent (Sjöberg and Bäckman 2001).

In response to this situation and criticism, the Swedish Ministry for Industry, Employment and Communication proposed (19.11.99) increasing the maximum daily unemployment benefit while placing more pressure on unemployed people to be active in job-seeking. Some 70 possible changes to the system were published in the 'Contract for work' document (Ds 1999: 58). The proposals included paying an increased (maximum) daily unemployment allowance of SEK 640 (previously SEK 580) during the first 100 days of unemployment; cuts in the benefits of those who refuse work offers³; retaining the 300 day benefit period with the possibility of prolonging it to 600 days; and offering job-seekers, within 600 days, a job in the state-funded 'readjustment labour market' (either a proper job or a full-time activity that would last until s/he was offered a 'real' job or started a training course). In July 2001, the maximum level of unemployment benefit (i.e. the 'ceiling') was raised from SEK 580 to SEK 680. This means that the full 80 per cent replacement level accrues to all those whose earnings are equivalent to or less than SEK 18,700 per month. An increased benefit is paid out only during the first 100 days of unemployment and amounts to SEK 740 (Regeringens Prop. 1999/2000: 139). While these changes represent a response to the criticism directed at the erosion of the earnings-replacement character of the unemployment benefit system, they have not been sufficiently extensive to eliminate the problem of increased need for supplementary insurance cover⁴.

Due to the fact that there is no 'ceiling' in the Finnish unemployment insurance system, the above problems have been avoided in Finland. However, there has been dissatisfaction and calls for change regarding the levels of unemployment payments.

³ Refusal to accept a job offer leads to a 25 per cent reduction in the daily allowance for 40 days, the second refusal leads to a 50 per cent reduction for 40 days, and the third refusal leads to stoppage of benefits.

⁴ Dissatisfied with the level of earnings replacement, SACO (Swedish trade union central organisation for employees with academic qualifications) has launched a supplementary private unemployment insurance for its members. The new SACO insurance covers incomes between SEK 15,950 and SEK 40,000 per month, with incomes below the lower figure still covered by the ordinary unemployment insurance system. The maximum benefit period is 240 days.

As part of an incomes policy agreement that was signed in Finland in December 2000, the government committed itself to increasing the earnings-related element of unemployment benefit from 1 March 2002. The government wanted to limit this increase to the first 100 days, as in the Swedish policy change described above, but this was met with resistance by the trade unions. The Finnish trade unions have also been calling for a change in the working condition attached to earnings-related unemployment benefits (back from 10 to 6 months).

Unemployment protection: assistance systems

Changes in unemployment benefits in the 1990s consisted mainly of adjusting the levels and duration of benefits. At system level, the only system-changing reform of the last 10-15 years has been the labour market support system in Finland that introduced a qualitatively new element to the system. In Finland, the basic unemployment payments and labour market support remained unchanged for a number of years and therefore decreased in value relative to earnings (although inflation was fairly low). People in receipt of labour market support lost the child supplement that used to be part of the payment. Since 1996/97, young persons' (under 25) entitlement to labour market support has been very strictly conditional on applying for, and participating in, training and education programmes (Aho and Vehviläinen 1997).

In addition to unemployment benefit, since the mid-1970s there has been the KAS (*kontanta arbetsmarknadsstöd*) payment for those Swedish unemployed who fulfil the working condition but not the (unemployment benefit fund) membership condition. There have been only fairly minor changes in this system. In 1998, the name of KAS was changed to *grundförsäkring* (basic insurance). In this system, the earnings replacement level is lower than in a-kassa (earnings-related voluntary, trade-union administered insurance). KAS was decreased from SEK 245 to SEK 230 per day in 1996. *Alfakassan* is tasked with paying the basic insurance to those who do not belong to any other unemployment insurance fund. In January 1998, the unemployment insurance funds took over the administration of the basic insurance.

Some (suggested) changes in benefits in Finland and Sweden reflect the idea (also discussed in the section on low-paid people) that the transfer system needs to create more incentives to work: suggestions have included gradation of unemployment benefits according to the length of the person's work history, and a small reduction in benefits when unemployment exceeds a certain number of days (to be introduced through an increase in benefits paid initially, rather than through a decrease in payments that are paid later – a good example of blame-avoidance). With the exception of raising the benefit level for the first 100 days in Sweden, these suggestions have proved highly controversial and have not materialised due to resistance by trade unions and the public opinion.

Many other policy changes have also clearly embodied the idea that the unemployed need extra incentives to intensify their job seeking. In 1996, the Finnish government decided to increase the co-ordination between benefit systems, social assistance, taxation and user fees (particularly in children's day care) in order to increase the incentives to take up even temporary and/or low-paid employment (Lehtonen et al.

2001: 112). Since 1998, the functioning of public employment offices has been reformed with a view to enhancing the effectiveness of job seeking so that the unemployed have to attend regular interviews, complete job-seeking strategies and attend courses on effective job-hunting. The Ministry of Labour intends to continue and enhance this emphasis on activation (Ministry of Labour 2001) despite the some critical evaluations (Aho et al. 2000, Arnkil et al. 2000, Tuomala 2000).

It is important to note that while unemployment payments in Finland and Sweden provide comparatively high levels of income security (to those with a work history), they also make heavy demands on the unemployed individual to find a new job quickly. For instance, the jobseeker must accept an offer of work outside his or her previous area of employment, a lower paid job or a job in a different location. In January 1996 it was decided in Sweden that workers who resign from their job may be subjected to temporary withdrawal of benefits. The period of benefit withdrawal for resigning 'without good cause' was extended from 20 to 45 days. Workers who rejected job offers several times could be subjected to a withdrawal of benefits for up to 80 days (20 days in 1995).

Employment subsidisation

The Rehn-Meidner model in Sweden was based on solidaristic wage policy driving companies that were incapable of paying collectively agreed wages out of the market. This was supposed to guarantee that only the most productive and innovative companies were viable which in turn was designed to contribute to the overall dynamism of the economy. This is not to say that employers in Finland and Sweden have not received any support from the state in the form of various supply-side policies such as low-interest loans and grants. However, employers have not traditionally been exempted from part or all of their taxes and contributions specifically in order to help them create more jobs.

While employment subsidisation in the form of lower taxes and contributions has not been a common practice, more recently some proposals and initiatives have introduced the idea that such reductions may help to preserve or create jobs. In a recent experiment in Finland, private sector employers in 20 remote municipalities mainly in the North of the country were exempted from paying employer social insurance contributions. However, the size of this exemption is so small that it is doubtful whether extra employment will be created with the help of this experiment. Moreover, the removal of this contribution in the 20 municipalities is financed through a 0.02 per cent increase in the social insurance contributions of employers in the other municipalities. With the exception of such small-scale, regional experiments and some active labour market policies subsidising employers has not been part of the Finnish and Swedish labour market model. This is probably because such subsidisation would have to take the form of undermining the financing of social insurance benefits and the tax base in general, which governments are cautious to do in an atmosphere of fiscal conservatism. In general terms, however, there appears to be a degree of consensus over designing and allocating employers' social security contributions in a manner than maximises competitiveness and employment without threatening the financing of contributory benefits (Suominen 1997). Employers' share of financing social expenditure also decreased during the 1990s for a variety of

reasons, thus contributing to some extent to diminishing the rate of growth of unemployment.

Active labour market policies (ALMPs)

Swedish ALPMs started to gain in importance when the Rehn-Meidner model was introduced, and became uniquely comprehensive and extensive (Regnér 2000). ALMPs have both economic and social aims as they are designed to improve the match between demand for and supply of skills on the labour market, as well as to enhance the social and labour market prospects of the unemployed. A good illustration of the extensiveness of ALMPs is that in 1994 they encompassed almost 5 per cent of the Swedish labour force (euro.eufound.ie). The level of investment in, and the diversity of ALMPs in Finland are considerably more modest than in Sweden, although the difference between the two countries grew smaller during the 1990s: it could be said that while Sweden remained the standard to aspire to, Finland became somewhat more 'Nordic' in its level of investment in ALMPs (Kautto 2000: 79-82).

Interesting changes took place in active labour market policies during the 1990s: In Sweden, some new policies, designed to cope with the large numbers of young and long-term unemployed, departed from the traditional model, and in Finland municipalities were divested of their responsibility to organise work for all long-term unemployed people (Timonen 2003). In Sweden, there was a decentralising trend in responsibility for organising ALMPs in the 1990s, with municipalities being given more responsibility for organising the programmes for the young unemployed in particular.

The number of participants in ALMPs in Sweden increased in the 1990s, and consequently the costs of activation increased from around 9 to approximately 20 billion. Although the aggregate number of participants in ALMPs increased significantly in the 1990s, the share of the unemployed engaged in ALMPs fell: for instance, whereas 50 per cent of the jobless were engaged in *arbetsmarknadsutbildning* in 1990, only 16 per cent were in 1999 (SOU 2001: 79, p. 103). The proportion of the Swedish workforce participating in ALMPs varied between 1.2 and 5.3 per cent during the 1990s, and in 1999 the figure was 3.1 per cent. In the beginning of the 1990s there were five programmes in operation in Sweden, namely *arbetsmarknadsutbildning* (vocational training), *handikappåtgärder* (training for the disabled), *beredskapsarbete* (temporary employment), *rekryteringsstöd* (recruitment support) and *undomsåtgärder* (youth measures). Only the first two were still in existence at the end of the 1990s, and a number of new programmes had come into existence (and some of them abolished), a sign of considerable change in the area of active labour market policies during this decade.

Until changes in some programmes in the 1990s, compensation for ALMP participants in Sweden was tied to normal wages for equivalent ordinary work. Counteracting downward pressure on wages during unemployment was originally one of the main aims of ALMPs, in addition to shortening the periods of unemployment and diverting labour force to areas that were experiencing labour shortages. Forslund and Kolm (2000) have argued that active labour market policies do not significantly

contribute to increasing pressure on wages. A number of earlier studies on the same problem had concluded that the effect of extensive labour market programmes is significant, in that they push wage pressure upwards.

Open unemployment in Sweden began to decrease in 1993, but this improvement stalled in 1996/97, and it became clear that new methods were needed if the 4 per cent target was to be reached. In these circumstances education policy came to play an important role. The *Kunskapslyftet* programme (launched in 1997) was intended to create 100,000 new places in adult education, particularly for adult unemployed who had completed upper secondary school diplomas (SOU 1999: 39). The number of students in adult upper-secondary education did in fact double between the beginning and the end of the 1990s. Extra 30,000 places in universities were also created.

At the level of policy statements, the aim of low unemployment has been given a high priority in Finland: for instance the 1971 employment law and the 1972 Constitution stressed the duty of the state to balance demand and supply for labour and to provide all citizens with an opportunity to work. The employment law of 1987 created a right to temporary, subsidised employment organised by the state for the long-term unemployed. However, this guarantee was abolished in 1993 when it became clear that fulfilling it would have required extensive extra financing.

While the Finnish ALMPs are not as extensive and varied as those in Sweden, their annual volume was nonetheless doubled during the 1990s in response to increased unemployment. More recently it has been decided that the volume of ALMPs should follow unemployment trends i.e. that there should be a direct relationship between the number of people out of work and the availability of subsidised employment or training (Ministry of Labour 1999).

The traditional character of ALMPs was changed in many respects in Finland. Due to the perception that some ALMPs were merely used to re-qualify for benefits, and were ineffective at re-integrating the participant into the ordinary labour market, since 1996 participation in active labour market policies has no longer been sufficient for re-qualifying for the earnings-related unemployment benefit. Instead of being offered subsidised employment with wages and a formal employment contract, young participants who have been on labour market support have been offered 'apprenticeships' with weaker rights and compensation (similarly to developments in Sweden, see above).

The effectiveness of ALMPs has also been called into question, both in Sweden and Finland. It has been argued that the success of ALMP participants on the ordinary (open) labour market has not differed significantly from the success of non-participants (Aho et al. 2001). However, such findings remain controversial. Furthermore, ALMPs continue to have a number of different aims in addition to integration into the open labour market, not in the least the prevention of poverty and improvements in participants' welfare.

The challenge of unemployment and unemployment compensation

In order for them to return to the golden days of the Nordic welfare state, the Finnish and Swedish welfare states would have to continue paying generous unemployment benefits while also achieving high employment levels at the same time. Sweden is currently closer than Finland to (re-)achieving this aim, but even in Sweden a number of compromises have been made.

In many conservative and liberal welfare states, attempts at welfare state recalibration have focused on areas such as women's labour market participation and activation of the unemployed. It is arguable that in these areas the Nordic welfare states have been pioneers. What has come to be seen as activation of the unemployed in liberal and conservative welfare states has for a long time been an integral part of the basic structure of the Nordic welfare states: benefits are paid in return for actively seeking work. What has differentiated the Nordic welfare states from others has been the combination of these strictly enforced demands with generous benefit levels and access to a wide variety of high quality activation programmes.

This is not to say, however, that the nature of activation and discussion around it have not changed. Much of the recent political rhetoric and even scholarship in Finland and Sweden has focused on arguing that disincentive effects caused by high benefit levels are one of the, if not the major, culprit for high unemployment. It would not be an exaggeration to argue that there has been a shift away from the guarantee of subsidised employment and high levels of unemployment benefits towards activating the unemployed with the help of enhanced work incentives ranging from tightened qualifying conditions to benefits to stronger obligations to participate in ALMPs.

Anti-poverty policy: minimum income guarantees and social assistance

[Benefits for low income people of working age, including lone parents. Direct policies to increase low wages including minimum wage policy, benefits for the low-paid, tax policies and the positive side of 'making work pay' schemes.]

Inequality in Finland and Sweden

Income inequality remained surprisingly stable and low in Finland and Sweden during the first half of the 1990s despite the severe recessions (Fritzell 2001a). Contrary to expectation, the relative poverty rates showed no worsening during this stage either. However, inequality increased in both Finland and Sweden during the second half of the 1990s, albeit from a comparatively low level. It appears that this increase was primarily due to increases in the higher incomes (Fritzell 2001b: 174). The percentage share of people on low incomes increased slightly in Sweden, but remained at a low level: whereas in 1990-91 nearly 7 per cent of the population had incomes that fell below 60 per cent of the median income, 7,5 per cent of the population belonged to this category in 1998-99 (SOU 2001: 79, p. 43). In other words, inequality increased in Sweden, but not markedly.

The increase in income inequality in Sweden was primarily due to developments in the upper half of the income distribution: the difference between low and average incomes hardly changed, but the gap between high and average incomes increased significantly. In other words, the rich became richer while the poor and the average income groups stayed more or less at the same level in relation to each other. The importance of capital incomes increased in the higher income groups, but not for the rest (Fritzell 2001b: 174). According to a study by LO, the Swedish blue-collar workers' central organisation, the gap between business leaders' and average industrial workers wages increased dramatically in the 1990s and the early years of the new Millennium (LO 2002). Whereas the CEOs of the 50 largest enterprises in Sweden had average incomes 26 times greater than the average industrial workers' wage in 1995, this multiplier had grown to 46 by the year 2000. The share of capital incomes in CEOs' incomes has been increasing and amounted to one-third of their total incomes in 2000.

While comparative studies have shown low levels of inequality in Finland during the first half of the 1990s, national reports have shown increases during the latter half of the 1990s (Uusitalo 1998 and 1999). One of the reasons for the disparity of findings between some national and international reports is that the LIS data used in comparative international studies do not include capital gains in the measurement of disposable income. Capital income was an important factor contributing to increased income inequality in both Finland and Sweden during the post-recession upswing (Riihelä et al. 2001).

Despite increasing income differentials in the late 1990s, there was no substantial increase in relative poverty between 1995 and 2000 (Uusitalo 2000: 45). Poverty also declined during this period when measured with the help of alternative indicators such as involuntary lack of basic necessities, subjective experience of poverty,

overindebtedness and reciprocity of social assistance (Ritakallio 2001). However, the nature of poverty has changed somewhat in Finland. The recession appears to have transformed poverty from a transient phenomenon to a more permanent one at the level of individuals and families. In other words, there is less poverty now than during the recession but the remaining poverty is more insidious in that it is more persistent and more difficult to eradicate.

Traditionally low (and still internationally low) degree of inequality in the Nordic countries (see Aaberge et al. 1999) is a result both of relatively compressed distribution of market (earned) incomes and the tax and transfer systems that are designed to redistribute extensively and to cover all income groups (although entitlement varies according to work history and income from work). However, those groups that had the weakest connection to the labour market (with the exception of pensioners) suffered most from the increase in income inequality. Young people, immigrants and lone parents came under increased risk of low-income poverty in the 1990s in Sweden. As a group, old age pensioners did best in Sweden (Fritzell 2001b: 174). In Finland, long-term unemployment reached extremely high levels in the Nordic context. Long-term unemployment peaked at half of total unemployment but decreased towards the end of the 1990s so that in 1999 around 30 per cent of all unemployed people were long-term unemployed (Ervasti 2002). This is obviously a group that is extremely vulnerable to poverty. Despite these differences between groups, the welfare state's tax and transfer systems are comparatively effective in evening out the distribution of the risk to remain in poverty (Fritzell and Henz 2002).

Taxation as a method of boosting low incomes

Unlike in many Anglo-Saxon countries, no new payments or tax credits explicitly targeted at low-income (working) families have been introduced in Finland or Sweden (that could be compared to earned income tax credit in the US or working families tax credit in the UK). This is due to the fact that the problem of the working poor has become particularly pressing in liberal welfare states that rely heavily on low-skilled, cheap labour in the (private) service sector. This kind of employment (variously called Mac-jobs, junk jobs etc.) does not as yet pose a major problem in Finland and Sweden because it is relatively limited in scope, and because wage levels in the low-skilled section of the service industry are comparatively high, and combined with public services and the availability of means-tested payments (for instance towards housing costs) and free or low-cost services such as public child care protect workers against poverty. However, taxes on low incomes have decreased somewhat in recent years, primarily as a result of an increase in the amount of tax-free earned income.

The issue of increasing service sector employment by reducing taxes both on employers and employees in this sector is politically highly sensitive in Finland and Sweden. One of the rare official documents that cautiously endorses encouragement of low-wage jobs growth is the recent report by the working group on social expenditure in Finland (2002). The group recommended that wages, taxation, non-wage labour costs and social security are combined in a manner that encourages both taking up and creating low-wage jobs. However, this strategy is in such strong contrast both to the current economic structure (less reliant on low-skill private sector services than other countries where it has been adopted) and to the basic principles of

the social protection system that its implementation in the short to medium term is very unlikely.

Creating work incentives

While no equivalents of the Working Families Tax Credit (UK) or the Earned Income Tax Credit (US) have come into existence, there have been intense debates over work incentives in both countries (although it appears that they have been more prominent and intensive in Finland than in Sweden). That this debate should have arisen in the early and mid-1990s is somewhat paradoxical, given the high levels of unemployment and the obvious poverty risk that long-term unemployment in particular posed. Moreover, for a long time before the 1990s crisis, the Finnish and Swedish un/employment policies have made benefits conditional on being available and willing to work: some elements of the activation measures that have become popular particularly among right-wing and third way policymakers in liberal welfare states have existed in the Nordic countries for a long time (see also the section on unemployment).

Social assistance

Following the onset of the recession, and up to 1997, the number of recipients of social assistance, the costs of the scheme, and the average duration of assistance payment all increased in Sweden. The turning point came in 1997 when the cost of the scheme and the number of recipients started to decline but the average period of social assistance payment continued to increase. Whereas the average period of receiving social assistance had been a little over 4 months in 1990, in 1999 it was almost 6 months (SOU 2001: 79, p. 135). This meant that while fewer people were receiving social assistance at the end of the decade, those who did were receiving it for longer periods of time. This is a highly undesirable outcome in a social democratic welfare state where the role of benefits of last resort is supposed to be limited and the recourse to these benefits only temporary first aid (Timonen 2003). Conditions attached to receiving social assistance were made stricter, especially for young people. Housing benefits and social assistance became more important sources of income among those on low incomes in Sweden. There was also some variation between municipalities in the level of social assistance payments.

The recession also brought about increased dependence on social assistance in Finland. 11.7% of the Finnish population received social assistance in 1996. Since then, the number of social assistance claimants has been declining. However, as indicated above, the remaining recipients tend to experience greater difficulties in securing an income from work and other sources than before the recession, i.e. social assistance recipiency has become more of a long-term phenomenon in the case of many long-term unemployed/precariously employed or indebted individuals.

Social assistance recipiency among the youngest age groups became considerably more widespread during the recession and in its aftermath. Unemployment among the youngest age group (under 25-year-olds) has always been higher than in the older age groups, partly for 'natural' reasons such as participation in education and training. In

Finland during the early 1990s, the rise in unemployment rate was fastest in the youngest age groups despite the fact that their participation in education was simultaneously increasing (Ervasti 2002). After the mid-1990s, however, youth unemployment in Finland decreased as the general labour market situation improved. In fact, it seems that the opposite development took place among the older age groups in Finland as the unemployment rate among over-55s became comparatively high especially in the late 1990s (Kautto 2001). The risk of poverty has also changed in favour of older people and at the expense of the young. This is partly due to extended periods of time spent in education, but many young people also experience difficulties in becoming labour market 'insiders' due to weaker employment opportunities. A similar phenomenon was to be observed in Sweden during the recession years, although this has been gradually remedied as unemployment has decreased in the late 1990s and in 2000-2002. By its transitory nature, poverty among young people is obviously less damaging than long-term or lifelong poverty and detachment from the labour market that are common among immigrants.

A New Risk Group: Immigrants

There are currently approximately 1 million foreign-born people in Sweden. This amounts to 11 per cent of the total population (Edin and Åslund 2001: 136). Between 1990 and 1997, the number of non-Europeans in the Swedish population increased by 40 per cent (SOU 2001: 79, p. 148). Large numbers of refugees arrived in Sweden (mostly from former Yugoslavia, Iran and Iraq) between 1992 and 1994, i.e. precisely at the time when the country's economy was in a fast downward spiral. The backgrounds and circumstances of non-nationals living in Sweden differ significantly: generally speaking, the shorter the period of stay in Sweden has been, and the poorer the country of the immigrant's origin, the worse off he or she is (see Edin and Åslund 2001). Approximately one-third of the foreign born residents of Sweden are from the other Nordic countries, one third from the rest of Europe and the remaining third from the rest of the world. This section focuses on those immigrants whose country of origin is outside the Western developed world, and who experience problems of joblessness, low income, and social exclusion.

The timing of the arrival of many new immigrants meant that the majority of them could not integrate in working life. Immigrants' labour market position was poor before the 1990s' economic crisis, and worsened during it, especially for immigrants from outside the OECD and for refugees who had arrived during the last 15 years. Whereas 70 per cent of the foreign-born in Sweden were working in the early 1990s, only 55 per cent had a job in the late 1990s (note that this figure includes all foreign-born individuals including those from e.g. EU countries --the figure for immigrants from outside the Western world would be far lower). Some 11 per cent of unemployed men and women in Sweden were foreign nationals in 2001. This is obviously a disproportionate share as it is higher than the share of non-nationals in the adult population. The share of non-nationals is also high among participants in the Swedish active labour market policies: 18 per cent of male and 17 per cent of female participants were non-nationals in 2001. Among those who managed to find work, the prevalence of short-term contracts increased from little over 10 per cent in the early 1990s to 25 per cent in the late 1990s (SOU 2001: 79, p. 78).

In the absence of labour market integration, immigrants became highly reliant on the only form of income support most of them were entitled to: social assistance. Whereas the proportion of immigrants receiving social assistance in Sweden was not very different at the beginning and at the end of the 1990s (approximately a quarter received assistance), this proportion fluctuated wildly, with 40 per cent receiving social assistance in 1996 (SOU 2001: 79, p. 78). Between 1990 and 1998, there was a five-fold increase in the number of foreign-born recipients of social assistance in the long term (10 months or over in a year), whereas the corresponding increase among Swedish citizens was 2.5 (SOU 2001: 79, p. 83). The rise in long-term social assistance recipiency was particularly evident among non-European immigrants and those who had been in Sweden for a relatively short period.

While the number of the foreign-born residents in Finland is considerably smaller in both absolute numbers and as a proportion of the population, it has been increasing rapidly. In the course of the 1990s, the number of foreign-born residents in Finland doubled from around 65 000 to approximately 130 000. Among this group, the number of immigrants from Asia, Africa and the former Soviet Union increased from 18 000 to 70 000. Due to their relatively weak economic and social resources, the foreign-born were particularly hard hit by unemployment during the period when their numbers were expanding rapidly (Forsander 2001, Valtonen 2001). As a result, the poverty risk among this group became very high and manifests itself among other things as geographical segregation in areas of socio-economic disadvantage (Andersson 2000).

In more general terms, the fact that children and adults of reproductive age are over-represented among immigrants also poses a challenge to the welfare system. On the other hand, if appropriate supports and training are provided to immigrants, they also provide an opportunity to improve the dependency ratio and to bridge labour shortages in ageing countries such as Finland and Sweden.

In both countries, the social problems among immigrants have been due first and foremost to low levels of labour market participation: as was highlighted in the introduction, this forms the basis for social insurance benefits that are much more generous than universal or means-tested benefits. In addition to this, ethnic segregation increased in Sweden in the 1990s, especially in large cities. Some specific measures have been introduced to combat the growing socio-economic gap between the Swedish nationals and the non-nationals or recent immigrants. So-called introduction assistance (introduktionsbidraget) is available for newly-arrived immigrants. This allows them to earn an income from work without reducing the benefit payment (Socialstyrelsen 1999a). It has also been suggested that municipalities should be obliged to pay introduction assistance instead of social assistance to newly-arrived immigrants (SOU 1999: 97).

Finland and Sweden: Increasingly inegalitarian?

There are some indications of growing differences in the unemployment and poverty risks of different socio-economic groups in Finland and Sweden. It has been established that in Finland, the duration of unemployment spells is related to age and the level of educational attainment (Mustonen 1998). Studies in Sweden have also demonstrated the link between (recent, non-OECD) immigrant status and labour market exclusion, and between lone parenthood and worsened employment status. Unemployment and precarious labour market position in turn constitute perhaps the single biggest poverty risk. Cutbacks in unemployment benefits and social assistance have worsened the situation of the unemployed. Among the remaining unemployed, the proportion of the unemployed receiving only the flat-rate unemployment assistance (or labour market support in Finland) has increased. It is clear therefore that increased efforts have to be made to reduce unemployment and to keep it low if the slight increase in poverty in the late 1990s is to be reversed. However, combating increasing income differentials, and the apparent appetite for such differentials among some politicians and trade unions is perhaps even more complex a task. While the willingness of Swedish people to pay taxes to finance welfare has remained high, and differs little between different income groups (Svallfors 2001: 380), there is less solidarity towards benefits of last resort than towards universal and earnings-related payments. The key to sustaining the support for the welfare state, and to maintaining low income inequality therefore lies first and foremost in creating high-quality jobs, maintaining a degree of compression of wage differentials, and minimising reliance on means-tested benefits of last resort.

Pensions

[Policies to provide income in old age, to include: State provision, including social assistance for older people, Private and occupational provision, Savings schemes for old age. To include survivors pensions, but not include other areas of policy such as housing, which may be used as a means of saving for old age, unless there are specific links to provision for old age in policy.]

Motives for pension reform

Recent pension reforms in Finland and Sweden have been motivated and justified on a number of grounds.

- Population ageing. This has been seen as a threat to the financial sustainability of the system.
- Budgetary crises in the early and mid-1990s, with consequences for the rest of the decade and beyond. Similarly to population ageing, these were seen to undermine the financing of pensions.
- Preventing labour shortages in some areas of the economy by creating incentives for ageing people to stay in employment.

Pension reform has been a matter of securing the funding of current and future pensions by using a number of different methods.

- Cuts in pensions.
- Encouraging people to stay longer in working life.
- Tightening qualifying conditions.

Main features of recent pension reforms

Both the Finnish and the Swedish pension systems had three main components, namely flat-rate national pension representing the universalist principle (*folkpension* in Sweden, *kansaneläke* in Finland), earnings-related pension representing the industrial achievement idea (ATP in Sweden, TEL and other schemes in Finland), and supplements for those with no or very low earnings-related pensions adding the residualist dimension.

In both Finland and Sweden major pension reforms were legislated in the 1990s. The universal national pensions were abolished, early retirement was made more difficult and employee contributions to earnings-related pensions were introduced. While all of these reforms were designed to delay actual retirement age and to relate pensions more closely to contributions, they have to date been more far-reaching in Sweden than in Finland, largely because the Swedish system was perceived to be more in need of adjustments.

The Swedish reforms involved a radical shift from a defined benefits system to a defined contributions regime: this means, in effect, that every crown paid as pension contributions influences the pension payable after retirement. Instead of

predetermining the level of pensions as a certain percentage of wages earned during the highest-earning years, pensions are based on contributions made throughout a person's working life (Ds 1992: 89). The level of pensions is therefore not fixed, and there is no guarantee that the pension will amount to a certain percentage of wages earned during active years. At the time of retirement, the pension accumulated by an individual is divided by a figure (*delningstal*) that is influenced by the average life expectancy of his or her cohort, the growth norm of 1,6 per cent and the person's age at the time of retirement: the later you retire, the lower the figure, and the lower the figure, the higher the pension (Ministry of Social Affairs 1998: 10). Two per cent of employees' gross wages will go into personalised funds, and the insured can opt for private sector funds that are managed by investors on their behalf. The funded part of the pension system therefore represents a shift from public sector to private sector control (Palme and Wennemo 1997).

In 1992, when the European Economic Area agreement came into force, it was decided that folkpension would be payable only to those who had lived in Sweden for a minimum of 40 years. After the change in the entitlement rule in 1992, there has also been a decline in the share of non-EU immigrants receiving the basic pension. The share of older people receiving the full folkpension has been declining as more and more people have gained an entitlement to ATP.

In addition to the big pension reform, a number of smaller changes took place in Sweden. Tighter qualifying conditions meant that it became more difficult to get early retirement pension. Within the early retirement pensions system, there were no major cuts for those with no or very low ATP, but the cuts directed at higher ATP entitlements were more extensive. In the early 1990s it was possible to retire 'on labour market grounds' i.e. because of unemployment: this possibility, as well as more lenient qualifying conditions for older people, were abolished in the 1990s. Despite these changes, the number of recipients of early retirement pensions in Sweden increased from 361,000 in 1990 to 422,000 in 1999. However, the number of new early retirees has decreased steeply, from over 50,000 in 1990 to less than 40,000 in 1999 (SOU 2001: 79, p. 129). The percentage of applications for early retirement and sickness benefits that are rejected increased slightly in the 1990s (from 2 per cent in 1990 to 5 per cent in 1999) (RVF 2001).

A number of decisions were made in the 1980s that led to changes in the role and expenditure on widows pensions in Sweden. A new type of survivors pension ('adjustment pension') was introduced that was designed for both widows and widowers (the earlier system was designed for widows only). In 1997, the replacement period in adjustment pension was reduced from 12 to 6 months, and changes in the replacement level led to cuts in the pensions of those with high ATP entitlements. The number of those receiving widows pension in the form of folkpension decreased whereas the number of those receiving widows pension in the form of ATP increased: this was the result of a higher proportion of widows who had their own employment history and had therefore gained entitlement to ATP. Means-testing of the widow's pension, introduced during the recession years, is due to be removed in 2003 (Dagens Nyheter 14 March 2002).

Part-time pension is supposed to provide a soft transition from work to old-age pension. The lower age limit in Sweden was increased from 60 to 61 in 1994, and the

number of recipients of part-time pension declined dramatically from 38,000 in 1990 to 7,000 in 1999 (SOU 2001: 79, p. 130). As the great pension reform is put to practice in Sweden, this form of pension is set to gradually disappear. In Finland, too, regulations concerning part-time pension are set to be tightened as the lower age limit for qualifying is increased from 56 to 58 years (for those born in 1947 or later; people born before this are still eligible at 56 – a good example of blame avoidance through splitting the group who are eligible). The rate at which old-age pension is accumulated during part-time pension is also changed so that the pension is accrued only at 0.75 % per year, instead of 1.5 %. From 2004, Finns born after 1943 will no longer be eligible for individual early retirement pension.

The Swedish *Folkpension*, ATP and PTS are all calculated on the basis of *basbeloppet* and were therefore affected by changes in indexation. In 1995 it was decided that if the budget deficit exceeds a certain level, *basbeloppet* will not be based on the full consumer price index. This led to a cut in pensions in 1996. In 1993-98 *folkpension* and ATP were calculated on the basis of reduced *basbelopp* (98 % per cent of the usual *basbelopp*). PTS, however, did not suffer from this change in indexation and was in fact raised a number of times in the 1990s. This demonstrates some degree of commitment to guarding the position of the worst-off pensioners even during the period of general austerity.

Significance and implications of the reforms

Many certainties associated with the previous pension systems have therefore been removed, and pensions are now determined by the combination of (paid) work history and developments in the economy.

In both countries, the abolition of national basic pension as a citizenship right constituted a departure from universalism. The principle of universalism, a central characteristic of the Nordic welfare states, gave way to selectivism in form of means-tested basic pensions. Previously the national pensions were tied to the claimant's position as a citizen/resident but in the new pension schemes the individual's status as an income earner is more decisive. In this respect the Finnish and Swedish pensions systems have come closer to the Central European work-based pension schemes.

Tying pensions to a wage index in Sweden will result in pensions fluctuating to a greater extent in accordance with economic developments – the certainty and security associated with the old system is gone. Conversely, the risk of pensions becoming an insupportable burden is considerably lessened as the cost of pensions is automatically adapted to resources. This was indeed the most important and effective justification for reform presented by politicians.

However, it would be wrong to argue that the pension reforms as a whole have had a negative effect on the redistributive potential and popular support base of the pension systems. In Sweden (unlike in Finland), the old ATP system included an income ceiling set at 7,5 base amounts. This meant that persons whose income was in excess of 7,5 base amounts had to pay contributions for the whole of their wage sum, but accumulated ATP only up to the income ceiling. In the course of time, more and more Swedes came to have incomes in excess of the base amount and therefore did not gain

a 'full' pension commensurate with their earnings. In the long run, this would have turned ATP pensions into flat-rate pensions (i.e. removed their income security character) and led to an increase in the popularity of private pensions. In the new system, the income ceiling in pensions will be raised as the economy grows. This reform is designed to discourage higher income earners from switching to private pensions: the legitimacy of the common pension system is thereby enhanced.

Certain features of the old ATP system weakened its redistributive character and indeed favoured high-income earners and those with relatively short working careers. In order to gain entitlement to ATP, an employment history of at least 30 years was required. The pension was, however, calculated on the basis of earnings during the 15 best-earning years. As a result, the connection between what was paid in and subsequently received by an individual was in many cases fairly weak (Ståhlberg 1995). This resulted in redistribution from those with a flat wage structure and long working lives (predominantly blue-collar workers) to those whose incomes peaked for a relatively short time (predominantly white-collar workers).

An important, but often neglected part of pension reform is the creation of incentives for people to stay in working life. Early retirement has come to be perceived as a problem because of its cost, and also because it removes people from sectors of the economy that may be experiencing labour shortages. The main aim of the National Ageing Programme (kansallinen ikäohjelma) in Finland was to increase the average retirement age. This aim was reached as between 1998 and 2002 the average retirement age in Finland increased from 57 to 59. The working group on social expenditure (2002) and the working group led by Kari Puro (2001) both recommended that retirement age be gradually increased in accordance with increasing life expectancy. In addition to this, employers' and employees' pension contributions are being gradually increased in order to avoid a sudden steep increase.

Older people were arguably less affected by the cutbacks (and, obviously, unemployment) in the 1990s than most other population groups such as young people, lone parents, immigrants etc. Over 75-year-olds had lower incomes than the population as a whole, but the difference diminished in the course of the decade. Whereas the disposable incomes of the Swedish population did not increase between the start and the end of the 1990s, those of older men increased by 20 per cent and those of older women by 12 per cent. Recently retired Swedes tend to have relatively high ATP entitlements, which pushes up the average incomes among the elderly: higher labour market participation rates among men also explain the greater increase in older men's incomes. Although older people's incomes were lower than the population average, the proportion of low-income households among the elderly was not greater than among the population as a whole. Despite this, the 1990s witnessed a slight increase in the number of older people who are poor in the longer term i.e. at least for two consequent years (SOU 2001: 79, p. 75). In other words, as with the rest of the population, income inequality increased somewhat in this group.

Politics of pension reform

Pension reforms in both countries were classic examples of policy making aimed at blame avoidance. In both countries broad reform coalitions were assembled in order

to guarantee that the reforms will pass the necessary institutional hurdles and that they will enjoy sufficient legitimacy in the eyes of voters. Pension reform is a special case of restructuring as it usually concerns only future recipients (i.e. those who are not pensioners at the time of the reform decision): the great pension reform in Sweden did not have any direct impact on pensions paid in the 1990s, the decade during which all the reform decisions were made. A further distinctive characteristic of pension reforms has been their diffuse and long-term character: in most cases, reforms have been introduced over a long period of time, and in many cases they have affected certain groups of people, rather than all current or future pensioners.

Broad consensus prevailed in both Finland and Sweden that the pension system had to be reformed so that it could respond to the challenge of an ageing population. Worsening dependency ratios⁵ were frequently highlighted in both countries, and this emphasis is still very strong in Finland where the ratio is set to rise further (Ilmarinen 1999). While all parties and interest organisations that were involved in crafting the reforms agreed that expenditure had to be reduced, they were reluctant to worsen their members' and voters' pension rights. The level of some pensions will be lower than it would have been in the absence of reform, but most cuts are well hidden and will not have a strong adverse impact on the pensions of any (politically) significant group. Moreover, some cuts in pensions (such as the 'double removal of the basic amount of national pensions' in Finland) were subsequently (2002) at least partially compensated. In Finland, trade unions were closely involved in designing the pension reform and its consensual nature is in no small part due to the fact that unions wanted to avoid drastic increases in employee contributions to earnings-related pensions which would have been necessary in the absence of reform.

Recent discussion among policy makers in Finland has explored the possibility of switching to the pensions model adopted in Sweden i.e. calculating pensions on the basis of lifetime earnings and contributions. As the current practice of calculating pension entitlements on the basis of a shorter period favours middle and high-income earners, the trade union central organisations that represent these groups have expressed their opposition to these plans.

One of main purposes of pension reform in both countries was to restore and to maintain people's faith in the public pension systems. Despite, but also because of the reforms, the trust in the public systems has not remained as high as intended. The role of individual pension policies (that has traditionally been very minor in Finland and Sweden) is rapidly increasing. For instance, in 1985 fewer than 10,000 Finns had an individual pension policy. In 2000 this number exceeded 200,000 persons. The main target group for such policies are those in the 35-50 age bracket, but under 35-year-olds are also eager to take out pension policies. About one fourth of all policies are obtained by the younger age groups, indicating that the upward trend in private pensions may continue steadily (Suutela 2000: 77). In Sweden, some 17 per cent of 18-64-year-olds saved for their pensions in 1990; by 1999 this proportion had grown to 35 per cent (SOU 2001: 79). Pensions saving in Sweden is more common among women and older people of working age, as well as among high-income earners.

⁵ In 1999, the dependency ratio in Sweden was 0.56 and in Finland 0.49 (calculated as people aged under 15 and over 64 per people aged 15-64).

Long-term care

[Policies designed to provide care for older people, with a focus on social care.]

General characterisation of social care services for older people

Perhaps the most distinctive characteristic of the Nordic welfare states that sets them apart from the other welfare states is the uniquely comprehensive role of the state in financing and producing social and health services (Kohl 1981, Sipilä 1997, Castles 1998, Kautto et al. 2001). Since the rise of the 'service state' in the 1960s and 1970s, the welfare state has played a predominant, and nearly monopolistic role in providing and financing care services for older people in Finland and Sweden. These care services are still predominantly financed out of general tax revenue, although user fees came to play a more important role in the 1990s, especially in home-based care and home-help services in Finland. While the number of employees in health and social services in Finland was essentially the same at the end of the 1990s as it had been in the beginning of the decade (Lehto and Blomster 2000), there have been major personnel reductions in Sweden (Szebehely 2000). De-institutionalisation and re-targeting of services towards more needy groups of older people have become common features of policy in both countries. These developments have led to families and the private and voluntary sectors playing a larger role in the provision of services for older people. The role of the private sector in delivering (publicly financed, free at the point of delivery) public services has expanded, dramatically in some geographical areas and in certain branches of the public social and health service sector. During the 2002 election campaign, the Swedish social democrats have begun to express strong reservations regarding this trend, and 'freedom of choice' in the area of social, health and education services has become one of the most contentious political issues in Sweden.

No system of long-term care insurance has been introduced, although this possibility is increasingly being mentioned in policy debates in Finland. Developments in long-term care will be an interesting test of one of the key challenges facing the Finnish and Swedish welfare states: maintaining popularity of public services among the middle and high income earners in order to prevent flight to private services and insurances. This is a particularly important topic of social policy debate in Finland, given that the country's population is ageing faster than in any other EU country.

There were 600,000 75-84-year-olds in Sweden at the start of 2000 (in a population of approximately 9 million in total). Half of them live together with someone else (usually their spouse), 40 per cent are women living alone and 10 per cent are men living alone (SOU 2001: 79, p. 74). Most of the data available on older people applies to this group. There is very little systematic data available of the 200,000 or so over 85-year-olds ('the very old'), most of whom are women living alone. The very high proportion of one-person households in both Finland and Sweden places a lot of pressure on public services to deliver the care services that in many other EU countries are primarily supplied by relatives.

Changes over the last 15 years

The three most prominent trends in service provision in Sweden and Finland in the 1990s were decentralisation, increased use of user fees, and a more market-oriented approach to producing services (SOU 2001: 79, p. 11).

Public financing

Public financing of public care services that are delivered by municipalities and available to all older people on the basis of need alone is 'business as usual' in the Nordic welfare state model. During the first half of the 1990s, public financing of care services for older people in Sweden did not keep pace with the increase in the number of older people. During the second half of the 1990s, however, financing grew faster than the number of older people (SOU 2001: 79, p. 112). The largest chunk of public financing in the area of care services is absorbed by special housing (long-term stay in hospitals, old people's homes, group housing for people with dementia, service houses etc.). Increase in the cost of these services has been rapid. Since 1993, the costs of special housing have increased by 22 per cent, whereas the costs of home help and home nursing services increased by 7 per cent (SCB 2001).

Some concerns have been expressed in Finland that the relatively low share of state grants in financing municipal health and social services is threatening the quality and availability of these services. Whereas 57 per cent of municipal education expenditure is covered through central state grants, only 25,6 per cent of social and health expenditure in municipalities is financed through this source (Helsingin Sanomat 14 March 2002). It has been estimated that as a result of cuts in funding, the cost of older people's care services in 2000 was approximately FIM 1 billion (167 million euro) less than it had been in 1992 (Heikkilä and Parpo 2002). As the number of older people has grown during this period, the resources per person have decreased considerably.

Concentration of resources

While service provision for children has become more universalist (share of children entitled to and using child care and similar services increased) during the last decade or so, the opposite is the case with services for older people in both Finland and Sweden. Resources were concentrated in order to provide more help to the most needy, while other groups had to take greater recourse to services provided by their families or the market.

In Sweden, the share of the elderly receiving care services began to diminish already 20 years ago. Whereas nearly half of 75-84-year-olds in Sweden were using municipal services in the early 1990s, only a third of them were doing so at the end of the decade. The share of over 80-year-olds in special housing was roughly the same (22 per cent) in 1990 and 1999, but the share of those getting home help or home nursing services dropped from a quarter to a little over 20 per cent (SOU 2001: 79, p. 113). The share of those receiving either private or other-than municipal services increased from 4 to 13 per cent, with important differences between groups with

different levels of educational attainment. The share of those receiving only informal help increased slightly (SOU 2001: 79, p. 74).

In Finland, too, the coverage of care services was in 2000 less than half of what it had been in 1990 (Heikkilä and Parpo 2002). After the recession, support for family carers and general support services have been improved, but these have not been sufficient to compensate for the cutbacks during the recession. Home care services have been increasingly focused on the personal care of very old and sick people, and 'ordinary home help' (household tasks-related help) must be sought from elsewhere (relatives and private providers) by all but the most disadvantaged and sick (Uusitalo and Staff 1997: 16-17).

User fees and quality of services

In Sweden, user fees for care services for older people were increased and in some cases made more income-related. Increased patients' fees and greater responsibility for financing one's own medicines and dental care also affected older people (SOU 2001: 79, p. 11). In Finland, too, the share of user fees in financing public social services increased in the 1990s.

There have been no systematic opinion surveys of municipal services in the area of long-term care for older people, but some studies point out decreased levels of satisfaction with the level and quality of municipal services in general (Kumlin and Oskarsson 2000; Nilsson 2000). In Finland, the financial difficulties faced by many municipalities have resulted in differences in the quality of services and welfare outcomes in municipalities (Uusitalo, Parpo and Hakkarainen 2000: 9). There is some evidence that in the absence of adequate funding for older people's care services, Finnish municipalities have cut costs at the expense of quality and clients' safety (Vaarama et al. 1999).

Privatisation of service delivery

While privatisation of financing and completely private service delivery is still a marginal phenomenon in Finland and Sweden, it has become more common to have publicly financed, but privately produced services (also in the area of services for older people). Care services for older people that were financed through the public purse but delivered by providers other than municipalities grew four-fold in Sweden in the 1990s. By 2000, 11 per cent of special housing for the elderly and 9 per cent of all home-help hours were produced by private and other non-municipal producers. The increase in 1999-2000 was particularly strong, which may indicate that this trend is taking off at the moment and that we can expect to see a much broader involvement of non-municipal producers in the area of service delivery (Socialstyrelsen 2001a).

However, the increase in privately produced services was not uniform across the country. Privately delivered care of the elderly is more common in big cities and municipalities with a high share of people with high levels of educational achievement (Trydegård 2001). It is also important to note that most of these services produced by private companies are still publicly financed.

A small number of large companies delivers an increasingly large share of all privately produced care services for older people in Sweden. A good indicator of concentration in this area is the fact that the 4 largest companies carried out half of all private care work in the area of services for older people in Sweden in 1999 (Socialstyrelsen 1999b). A good illustration of the size of these companies is Svensk Äldreomsorg ('Swedish Elder Care') that had an annual turnover of SEK 1,3 billion, employed 4,600 people and operated in some 40 municipalities across Sweden in 2001.

In Finland, too, the role of the private sector in social and health service production increased. Between 1990 and 1999, both the number of business units producing private social services increased from around 750 to over 2600 and the number of staff in the private social service sector grew from a little under 8300 to nearly 20,000 (Kauppinen et al. 2001). Despite this expansion, the role of the private sector remains relatively small. At the end of the 1990s, the private (or non-public) sector (including non-profit producers such as civic organisations) produced less than 20 per cent of all social services, and only 4 per cent of all social services were produced by purely private enterprises (Lith 2000).

Shift from public to private and informal sources of help

According to a report by Socialstyrelsen (the central organisation of Swedish social services administration), every 7th person over 75 who needed personal or home help in the late 1990s refrained from getting it on the grounds of expense (Socialstyrelsen 2001b). There were some important differences in the sources of help received by older people with higher education levels and those with lower levels of educational attainment. The former group turned increasingly to the market for their needs: the proportion receiving private services increased from 4 to 26 per cent between the beginning and the end of the decade. Among the less educated elderly, recourse was more often taken to informal help obtained through members of the family: the increase here was from 50 to 61 per cent (SOU 2001: 79, p. 76). These findings indicate that there was a shift from public to private and informal sources of assistance in care of older people, and that this shift had a fairly clear socio-economic profile.

In Finland, growth in the number of older people, cutbacks in funding and concentration of services to the most needy groups have led to a gap emerging between the demand for and supply of care services for older people. A recent study estimates that at least 4 000 new employees are needed in the municipal home care sector, and 3 000 in the area of institutional care and service housing (Heikkilä and Parpo 2002). As long as this shortage of supply remains, the only alternatives for older people in need of help are the private sector and informal help from relatives and friends.

Health care

Older people are major consumers of health care services. It is very difficult to separate issues concerning long-term care of older people from health care issues: developments in one always affect the other. From the above description of changes in care services in Sweden it may seem that relatively little change took place in the 1990s. However, changes in health care also have to be taken into account in this context since worsening of health care services means that the social care side of service provision should be enhanced to compensate for shortcomings in the health sector. Older people with great care needs, previously cared for in the health care sector, have in many cases been shifted to the municipal care services.

While public expenditure on health care increased in the 1990s, so did patient fees for health care services and medicines. In the 1990s, some 60,000 employees (consisting mostly of assistant nurses and orderlies) 'disappeared' from the health care sector in Sweden (SOU 2001: 79, p. 106). The number of private medical insurances increased nearly 5-fold in the 1990s, from 23,000 in 1990 to 115,000 in 2000. The number of hospital beds was nearly halved during the 1990s, and care times were shortened. As a result, many of the demands that had previously been placed on the health care sector were shifted onto the municipal social care sector. In the absence of adequate resources to respond for this increase in demand, care services for older people have become more focused on those with greatest needs. It would therefore not be exaggerated to argue that a slight shift away from universalism has taken place. Similar pressures on the health care sector in Finland have also had a knock-on effect on the demand for municipal care services.

Long-term care insurance

Long-term care insurance has been advocated by insurance companies in Finland. However, this support has been premised on the insurance being privatised, and was consequently weakened when the Ministry of Social Affairs and Health started to consider making long-term care insurance a public insurance among others.

Finnish employer interest groups such as the service sector employers' organisation (PT) have called for incentives and encouragement to use private care services through the provision of vouchers and increased refunds from the Social Security Institution (KELA) for those who use private services. Employee interest representatives, and SAK in particular, have been opposed to private long-term care insurance. It remains to be seen what the result of this debate is. While the Right-wing parties in Sweden have expressed cautious support for private care insurance, the general opinion climate is at the moment reserved, despite the fact that private health insurance is growing in popularity. In any case, it is now too late to introduce a long-term care insurance for the large cohorts that will soon reach retirement age, and it is likely that they will be financing any extra or private services out of their pensions and savings, rather than through an insurance.

Commitment to universalism or departure from it?

During the 1990s, both Finland and Sweden shifted from ear-marked to general grants for municipalities. As a result municipalities, the main providers of social care services, were freer to allocate state funding as they preferred, and also had to bear more responsibility for the allocation of resources. In both countries, the investment in child care services (see section on women's labour market participation) in combination with an increase in the number of older people requiring care services put more pressure on municipalities either to expand service provision or to look for new ways of restricting access or involving service users in financing their services. Old people's care reform, disability reform, and the psychiatry reform in Sweden also meant that more responsibility for care services was given to municipalities. The *kommunala skattestopp* (prohibition to increase municipal taxes) of 1991-93 meant that municipalities were not able to raise taxes in order to cover increased expenditure and to compensate for lower tax revenue due to unemployment.

As a result of these multiple pressures, municipalities in Finland and Sweden made services more targeted, increased the involvement of the private sector in service production and started to charge new or increased service fees. Marketisation and informalisation of care services for older people are now undeniably features of the Finnish and Swedish 'service states'. Universalism in care services for older people has arguably been undermined (in contrast to an increase in universalism in the provision of child care services – see section on women's labour market participation).

Nonetheless, while recognising the changes that have taken place in services for older people, it is important not to exaggerate their extent. In 1991 the Centre-Right government in Sweden declared a 'valfrihetsrevolution inom välfärdssystemet' (freedom-of-choice revolution in the welfare system), with the aim of enabling more private sector involvement in service delivery. However, this never took off in the intended fashion and great variation persists between municipalities in the share of privately employed staff: this varied between 0 and 32 per cent in 1999 (in half of the municipalities the share of privately employed staff was less than 5 per cent) (SOU 2001: 79, p. 166). Many municipalities are currently experiencing problems in recruiting sufficient staff to work in care services for older people. This problem is partly due to the worsened working conditions referred to in the section on women's labour market participation.

Although the changes that have taken place in long-term care services for older people have not been drastic, they have caused a lot of debate in both countries. As in most other European countries, population ageing has enhanced the political and social importance of services for older people. While Sweden has had a 'very old' population for some time, population ageing has during the recent years gathered pace in Finland and hence become a focus of attention.

The social democratic government in Sweden has been prompted to take action around issues relating to care of older people because of the uneasy attitude of many Swedes towards privatisation of services and funding. A national action plan for care of the elderly was adopted by the Swedish Riksdag in 1998 (Regeringens Prop. 1997/98: 113). This plan declared that care of the elderly must be publicly financed

and available in accordance with need, not purchasing power. A recent government proposal is aimed at protecting older people against high fees in care services (Regeringens Prop. 2000/01: 149). Similar legislation is due to be implemented in Finland in order to reduce in some cases the high fees paid in long-term institutional care (payment to be set at a maximum level of 40 % of spouses' combined net incomes – previously 80 % of the income of the person in care).

In Finland, the de-institutionalising trend is likely to continue as the recent report by the committee on social expenditure recommended that support for home-based care of older people be increased (2002). The logic underlying this proposal is economic as institutional care is more expensive than benefits and subsidies for those who provide informal or private care services in the home.

In a follow-up of the national action plan on care services, the Socialstyrelsen (2001b) argues that more co-operation is needed between hospital care, primary care and municipal care services. It also highlights the recent difficulties in filling vacancies in the area of care services for older people that have arisen as a result of labour shortages in the late 1990s and early 2000s. Despite and because of these difficulties, the Swedish government made a commitment in 2001 to invest heavily in care of the elderly. In Finland, politicians have been more inclined to highlight the growing costs of health and other care services for the growing ranks of older people and hence the necessity to restrict expenditure on other areas. However, politicians and governments in both countries are acutely aware of the need to please the ever-increasing numbers of old and ageing people who expect the welfare state to provide services of the highest standards for all. Despite the largely successful attempts to maintain the level and extent of service provision, the increasingly wealthy (and healthier than their predecessors) older citizens are in many cases inclined to spend their large pensions and savings on private services that are perceived to be of higher quality than public ones. Herein lies one of the greatest challenges for the Finnish and Swedish welfare states: meeting the expectations of wealthy baby-boomers who have reached retirement age and many of whom can opt for private services if they wish.

Concluding remarks

It could be said that assessments of the state of the Finnish and Swedish welfare states have vacillated from pessimism to guarded optimism and back to a moderate degree of pessimism over the last 10 years. The expansionary late 1980s (both in terms of economic and welfare state growth) were followed by the severe recessions and financial crises of the early and mid-1990s, again followed by brisk and then slower economic growth and reversal of some of the social policy cutbacks made in the 1990s. While there appears to be a degree of consensus over the survival of the basic structures of the Finnish and Swedish welfare states (Kuhnle 2001, Hjerpe et al. 1999, Heikkilä and Uusitalo 1997), dissenting (more pessimistic) views have also been presented (e.g. Heikkilä et al. 1993, Heikkilä and Karjalainen 2000, Lehtonen and Aho 2000, Julkunen 2001), and a selection of old and new problems continue to challenge social policies in both countries. The two main current challenges to these welfare states appear to be persistent unemployment and growing inequality. The former problem affects Finland more seriously, although Sweden also has not managed to restore the extraordinarily high employment and very low unemployment levels that it enjoyed in the late 1980s. Inequality in its various forms is a challenge to these welfare states because they are both premised on relative earnings equality and strive towards a large degree of equality of outcomes. Many of the benefit systems and services in Finland and Sweden are designed to accommodate all citizens/residents of the country: if some benefits are increasingly seen as being the reserve of the underprivileged, whereas others prove to be inadequate or unsatisfactory for the better-off, the legitimacy and sustainability of the welfare state as a whole will suffer.

In addition to these two main (interlinked) challenges, there are a number of 'smaller' issues, many of which have been discussed in this report. The ageing populations and fiscal crises in Finland and Sweden reduced the universality, and some cases the quality, of services offered to older people. There are concerns that the earnings-related benefit systems in areas such as unemployment benefits and pensions are not adequate to guarantee the continued loyalty of high income earners. As a result, increasing numbers of people may start to opt for private insurances and services, particularly as the large post-war cohorts with large pension entitlements start to retire. Concerns remain over the future financial sustainability of pensions and care services for older people (particularly if these costs are combined with high or possibly rising unemployment), although the pension systems have been reformed largely with the view to securing their financing.

However, as this report highlights, it is also important to note that there are areas in which Finland and Sweden have to face considerably smaller challenges than most other welfare states, or where the classic Nordic welfare state character of their social policies has been strengthened. The universality of the service state has been enhanced through the improved child care services. Women's position on the labour markets and in the political decision-making systems continues to be stronger than almost anywhere else in the world. Poverty is extremely low by international standards. The policy-making systems in both countries are, at least in general, capable of including a broad range of social and economic interests in more or less consensual decision making. In short, while many challenges emerged as a legacy of

the tumultuous 1990s, it would be wrong to be pessimistic about the continued survival of the Nordic model in these countries.

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