

Policy Maps – Finland and Sweden

Virpi Timonen

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Pensions

Key Problems

The recent pension reforms have been motivated, first and foremost, by an increase in the proportion of pensioners in the population, and by increased life expectancy (more pensioners needing financial support for longer). Social expenditure as a proportion of GDP is projected to increase significantly over the next 20 years in Finland, before levelling out: the main drivers of this increase are increases in earnings-related pensions and in care services for older people (Lassila and Valkonen 2002; Interview: Research Centre for the Finnish Economy). Crucially, awareness of the increasing cost of pensions was combined with a period of low economic growth and budgetary problems during the 1990s. If the earnings-related pension systems had remained unreformed, contributions by employers and employees would have had to be increased significantly. In view of the already high tax burden this was an unattractive alternative. Even after the major pension reforms that took place in the mid-1990s (and also in 2001-2003 in the case of Finland), there is continued concern to increase the average age of retirement as the main remaining avenue of decreasing expenditure growth.

Another motive for reforming the Swedish earnings related pensions (ATP) system was the fact that it favoured people with growing incomes and those who worked for relatively short periods, particularly towards the end of their working lives. Conversely, the system was unfair to those whose earnings remained flat-rate and who worked for a longer period overall (Regeringskansliet 2000). As a result of this shortcoming in the ATP system, two people with the same total lifetime earnings (and the same contributions to the system) could receive very different pensions (Ministry of Social Affairs/National Social Insurance Board 2003).

Thanks to the comprehensive and highly consensual pension reforms completed in Sweden in the mid-1990s, pensions have not featured prominently in political debate during the last 7-8 years (Interview: The Liberal Party; Institute for Future Studies). There have been some relatively small issues, however, that have called for action such as the situation of those who are not entitled to the full national pension because they have not lived in Sweden for the 40 years that are required for this entitlement (for the most part immigrants).

In Finland, the recent pension reform (on which a major agreement was reached in September 2002) has been motivated by the desire to simplify the pensions system, to make it fairer, and to keep costs at a sustainable level, partly through increasing the average age of retirement (Statement by Minister of Social Affairs, Maija Perho

February 2003). According to estimates by Eläketurvakeskus (The Central Pensions Institute of Finland), the number of pensioners will grow by 40 per cent over the next 30 years, that is, from 1.2 million in 2001 to 1.7 million in 2033 (Interview: The Finnish Government agency for pensions). It has been the recent governments' (Lipponen 1999-2003 and Vanhanen 2003) firm conviction that Finland needs a permanent structural surplus in public finances as part of the strategy that responds to the challenge of ageing. Such a surplus would enable lower expenditure on interest payments on public debt, which in turn would free up resources to be spent on the ageing (and the working-age) population. Achieving such a surplus called for, among other things, a reform of the pension system.

The new pension system is intended to be fairer by ensuring that frequent changing of jobs will no longer result in a smaller pension, and that some periods outside paid employment will result in accumulation of pension. These changes were considered important in view of the facts that 'atypical' jobs are becoming increasingly common, and that certain periods outside the labour force (studying, early parenthood) should also qualify for pension entitlement. On the 'minus' side, changes in early retirement pensions and the life expectancy factor (*elinaikakerroin*) are designed to control (reduce) expenditure and are predicted to lead to significant reductions in future pensions contributions (Lassila 2002). On the 'plus' side the wage factor (*palkkakerroin*) and pensions accumulated during periods outside paid employment increase expenditure. Tightening of the early retirement system, use of the life expectancy factor and the decision to somewhat increase pensions funds in the near future reduce pressures to increase pensions contributions which is also a very important policy aim, particularly for labour market interests.

It is important to note that the reforms agreed upon in September 2002 in Finland concern private sector pensions only: the fate of public sector pensions is still undecided.

Key Actors

In Sweden, a working group on pensions was set up in 1991, made up of representatives of all the parties in the *Riksdag*. The group's task was to produce proposals for a new national pension system. Five of the parties, namely the Social Democrats, the Moderates, the Liberal party, the Centre party and the Cristian Democrats negotiated an agreement in the working party and presented a report in 1994. The government then put forward a bill which the five parties supported (almost 85 % of *Riksdag* members voted in favour). An implementation group representing the five parties was appointed to produce detailed draft laws on the basis of the principles embodied in the bill. Interestingly, the social partners were not represented in this group. Between 1994 and 1997 a series of reports containing proposals for rules were submitted which were subsequently circulated for comment to a wide range of organisations, interest groups and agencies. In the light of these reports the government presented two bills in spring 1998 containing rules for the new pension system. Five of the seven parties in the *Riksdag* and over 80 % of MPs supported the reform. In June 1998, the *Riksdag* approved a new pension scheme based on an agreement between five political parties, namely the Social Democrats, the Moderates, the Liberals, the Centre party and the Christian Democrats.

The most important actors in Sweden were therefore the five parties that were behind the pension reform. PRO was the only pensioner organisation that was given an integral role in the process, and they were in a position to influence the reform. Trade unions had a smaller role than they usually would have in reforms of this magnitude (Interview: The Swedish Social Democratic Party).

PRO co-operates with other pensioner organisations and also with organisations for people with disabilities. PRO has ca. 400,000 members and is a significant player of its own right. PRO has its origins in the trade union movement: unions decided in the 1940s to establish an independent pensioner organisation that is not affiliated to any political party to serve as a channel for retired employees to influence policy. In practice PRO is closer to the social democrats than to other parties. The organisation has met with all prime ministers since Per Albin Hanson (with the exception of Carl Bildt) and has always worked with governments. During the 1990s such co-operation was formalised: the first PRO conference took place in 1996, and Prime Minister Persson agreed to meet with all pensioner organisations on an annual basis. PRO is involved in the work of the parliamentary committee on pensions. The committee meets four times a year and PRO is formally consulted on all matters concerning pensioners. PRO campaigns for economic security for older people (pensions, housing). It also considers it important that the state guarantees health and social care services for all older people regardless of income. PRO is opposed to privatisation of services. Finnish pensioner organisations are only now beginning to grow and gain a foothold in the media and public debates. The largest pensioner organisation in Finland is Eläkeliitto (EL). EL has been calling for including pensioner interests among the social partners, but unlike PRO has not managed to reach this position (Eläkeliitto 15.4.2003).

The 2001/2002 pension reform in Finland was negotiated by a relatively small group of people including pensions experts, representatives from key ministries and the social partners. While there were some deep disagreements among employee interests (those representing educated white-collar workers and those representing blue-collar workers), employer interests were reasonably satisfied with the compromises that were reached (Interview: Research Centre for the Finnish Economy). Employer interests were slightly dissatisfied with the fact that some elements of the new system will lead to increased expenditure (changes in indexation and faster accumulation of pensions for older workers). On the other hand, the reforms do slow down the growth in pensions contributions, which employer interests perceive as a positive change.

Positions/Importance of other Actors

According to Akava (university-educated white-collar employees' union central organisation), the new pension reforms in Finland represent a transfer of income from their members to the members of SAK, the blue-collar workers' central organisation. Blue-collar workers are likely to gain more from the reform because they tend to enter employment at a younger age than employees with third-level qualifications. Under the new system, employees can start to accrue a pension at the age of 18 – previously, the age limit was 23. In order to guarantee Akava's agreement to the reforms, higher pensions accrual rates were promised for older workers: Akava members tend to be

able to stay in employment longer than blue-collar employees. However, Akava rejected the package on the grounds that it was too expensive and represented an income transfer from Akava members to SAK members. Akava acknowledged that both Akava and SAK members would benefit in some ways from the reforms, but was nonetheless of the opinion that SAK members would benefit significantly more than Akava members. Recent changes in the pension system have been favourable for most SAK members, particularly for those with long working careers with relatively flat earnings structure and those who change jobs often (Interview: Finnish SAK).

The Finnish reform package was designed so that it offered some improvements and benefits to all groups. According to a preliminary calculation by Eläketurvakeskus (Central Pensions Institute), 90 per cent of employees are likely to get a better pension under the new system. Such improvement was clearly necessary when seeking agreement to the package. The reform was passed despite Akava's objections. Equivalent reform package for the public sector pensions will probably not be possible without Akava's consent.

Vänsterpartiet (the Left party, former communists) was the only major party in Sweden that was opposed to the 1990s pensions reform, mainly because it believes that the reform will yield smaller pensions in future. The party is having difficulties in advancing its ideas for corrections to the pension reform as the consensus over the reform is very solid among other parties (Interview: The Swedish Left Party). The Left party is particularly critical of the 'lifetime earnings'-principle as the determinant of pensions, and also believes that the system does not take women's position fully into account. The overall consensus among other parties over the merits of the reform is very strong (Interview: The Swedish Liberal Party). Right-wing parties are interested in increasing the share of the funded and individualised part of the overall pension (*premiepension*), but opposition by the left-wing parties means that this is not possible at the moment.

The Confederation for Swedish Enterprise (*Svenskt Näringsliv*) believes that a change in attitudes towards older people in working life needs to change as 60-65-year-olds still have much to offer. Instead of retirement, other solutions such as part-time retirement must be investigated (Interview: Confederation of Swedish Enterprise). Employer representatives are also keen on lengthening working lives at the beginning i.e. through shortening the time spent in education, as a means of further consolidating the financing of pensions.

Riksförsäkringsverket (RFV) is responsible for generating the data on pensions and also produces reports on possible problems. Before the great pensions reform, RFV made all the required calculations for the government. The Premium Pension Authority administers the individual funded pensions in Sweden, and lacks any prominent policy-analytical role.

Key Reforms

The new pension system was approved in Sweden in June 1998, and the new provision came into force on 1 January 1999. The new system replaced the old one completely for those born after 1953, while some parts of the old system continue to

apply to those born 1938-53. The first pension payments under the reformed system were made in 2001.

Most crucially, pensions in Sweden are now linked to economic growth. They are designed to be financially viable in the face of demographic and economic change. The size of pensions is determined by the general earnings trends, so that favourable developments in earnings result in higher pensions, and vice versa. Fixed contributions to pensions amount to 18.5 per cent of pensionable income, of which 16 per cent is used to pay for current pensions (PAYG). 2.5 per cent of the contribution is deposited in individual accounts which will yield the pre-funded or premium pension that is equivalent of personal pensions saving. Income up to 7.5 *basbelopp* (price base amounts) carries pension rights: beyond this threshold, occupational and private pensions provide coverage.

The indexation mechanism of the new Swedish pension system is also designed to control costs and adjust them to the overall performance of the economy. Pension payments are indexed under a new regime of flexible indexation based on a notional future growth rate of 1.6 per cent. If actual growth is higher than this, pensions are adjusted upwards, and if it is lower, full compensation is not made for price increases (i.e. pensions will fall in real terms). Time devoted to child care, military service and studying now confers pension rights in Sweden.

The guarantee pension that is paid to people without an earned pension (or a very low earned pension) amounts to 2.13 *basbelopp* for single persons, and to 1.90 *basbelopp* per person for married couples. The guarantee pension is conditional on 40 years' residence in Sweden: consequently, many immigrants who have lived in Sweden for a shorter period and are not entitled to employment pension have had to take recourse to social assistance in their old age. This situation was remedied in January 2003 when the *äldreförsörjningsstöd* (ÄFS) was introduced: this is a payment that ensures this group does not have to take recourse to means-tested benefits of last resort. ÄFS is paid to all persons over 65 resident in Sweden who have no pension or such a small pension that they cannot manage their upkeep in any other way (Prop. 2000/2001: 80). Most people belonging to this group are older immigrants who have lived a short time in Sweden (40 years' residence in Sweden is required for a full pension).

Retirement age in Sweden is somewhat flexible. Employees can continue to work until the age of 67, although the official retirement age is 65. The later a Swedish employee retires, the higher will his or her pension be. The remaining life expectancy of the people in any one age cohort will influence the size of the pensions of people belonging to that cohort.

The key features of the Finnish pension reform agreed upon in November 2001 and September 2002 are as follows:

- The main aim is to increase the age of retirement, thereby leading to cost reductions despite improvements in most individuals' pensions.
- Pension is accumulated throughout one's working career (previously only the last 10 years), as well as when caring for under-3-year-old children and when studying.

- Retirement age is flexible (62-68), and late retirement is encouraged through higher accumulation percentages.
- Unemployment pension and early retirement pension will be gradually phased out, and the age limit for part-time pension will be increased from 56 to 58.
- There will be a move from the current system of two different pension indices to a uniform index (the less favourable of the two existing ones) that is mostly (80 %) influenced by prices but also by wages (20 %).
- Over 53-year-olds will have to pay a higher employment pension contribution.
- The reforms will apply from 2005 onwards, and some reforms concerning early retirement even earlier.

Generally speaking, it is agreed that the new system has a number of merits: it is more straightforward, perceived by most actors to be fairer than the old system, and it may provide strong positive incentives for people to work longer as there is a clearer relationship between work and pensions. It is doubtful, however, whether one of the key aims of the reform, namely later retirements, will be achieved: while later retirement now leads to a higher pension, it is by no means certain that in future people will value the slightly higher pensions earned through working longer more than they will value the free time that results from leaving work earlier (Lassila 2002).

Note that while the new Finnish system has much in common with the Swedish one, it does not contain a private funded element. This is because no key actors demanded such a system, and because it was perceived as being somewhat cumbersome due to the amount of administration involved (Interview: Research Centre for the Finnish Economy). The fact that there is no ceiling on pensions in Finland may also have lessened the perceived need for an additional funded element over which there is some individual control (in Sweden, it is possible to choose one's own fund manager).

In Finland, the negotiators that shaped the September 2002 agreement included in the package some new benefits that will increase pension expenditure. It was decided to increase the pension accrual rate of over 53-year-olds by 27 per cent. However, the increased pension contribution that this age group will pay covers no more than one-third of the costs of the increased accrual rate. In other words, this group contributes to the increase in its accrual rate, but does not finance it fully. This compromise was intended to persuade Akava, the central union organisation representing employees with university-level education, to agree to the overall reform package. From 2009 onwards, pensions expenditure will be influenced (reduced) by the life expectancy of age cohorts (eläkkeitä leikkaava elinaikakirves). Pension funds will be increased by a larger than planned amount over the next 10 years.

The use of the life expectancy of pensioner cohorts to effectively reduce pensions introduced a new and qualitatively very different element to the Finnish pensions system. Earnings-related pensions are very effectively protected by legislation as they are considered to be private property. It was debateable whether the new life expectancy-related cuts violated this right to pensions as private property, but in the end the constitutional committee of the Eduskunta decided that the 'greater good' of protecting the pensions system as a whole justified the interference (Interview: The Finnish Government agency for pensions).

From 2005 onwards, pensions can be accumulated from the age of 18 onwards. Between the ages of 18 and 52, the accrual rate is 1,5 per cent of earnings, between the ages of 53 and 62 the rate is 1,9 per cent, and for 63-68-year-olds it is 4,5 per cent of earnings. Students (for studies lasting up to five years) and parents looking after children under three years of age accumulate a pension corresponding to monthly earnings of 500 euro. The accumulation of pension during higher education was designed to win the approval of STTK and Akava who represent employees with third-level qualifications. The 'super-accumulation percentage' has been criticised for favouring those who can stay in employment longer (white-collar rather than blue-collar workers). However, the aim was to achieve a balance between those who can start work early (usually blue-collar) and those who can stay in employment longer (usually white-collar): the former can now accumulate pension from the age of 18 (instead of 23 as previously) and the latter are now able to compensate for longer studies by higher pensions accumulating late in their working lives.

The life expectancy of pensioner cohorts will start to influence pensions in Finland from 2009 onwards. In 2050, the life expectancy factor will probably reduce pensions by approximately 12 per cent in comparison with the situation without the reform. In order to compensate for the cut as a result of increased life expectancy, prospective pensioners will in 2020 have to work for 3-4 months longer, and in 2050 17-20 months longer than in the absence of reform (Eläketurvakeskus 2002: 8-9).

The pensions of those who retire before 2012 can still be calculated according to the old rules, provided that they commenced employment before 2005. The pensions index will be determined by prices (80 per cent) and wages (20 per cent): this is the less favourable of the two indices used in the old system that applied different indices to under- and over-65-year-olds (the index for under-65-year-olds was 50 per cent determined by wages and 50 per cent by prices). Eläkeliitto, the pensioners' federation, has frequently expressed its dissatisfaction with this indexation reform that reduces the impact of wages, and has demanded a minimum 50 % weighting for wage developments (Eläkeliitto 25.2.2003).

Some trade unions, politicians and the pensioners' federation have expressed dissatisfaction with the fact that national pensions (paid to those with no or low earnings-related pension) are payable in full only at the age of 65, whereas a full earnings-related pension can be paid from the age of 63 onwards (Interview: Finnish SAK; Eläkeliitto 20.11.2003). National pension is an important addition to the retirement incomes of those who, due to part-time employment, a short employment career or low wages have not earned a sufficiently high earnings-related pension. Trade unions and politicians representing these groups have pointed out the unfairness and inconsistency of paying the full national pension only from age 65 onwards: those who have to retire before this age for health and other reasons are argued to be discriminated against (Interview: The Finnish Service-sector employees' union). Groups affected by this regulation are mostly low-waged women who have been working part-time and therefore need the national pension to supplement their earnings-related pension. Objections to this rule submitted by service sector unions (representing both private and public sector workers) have not brought about a change in this rule (Interview: The Finnish Service-sector employees' union).

A striking feature of the 2001/2002 pension reform is the fact that it will probably lead to larger, rather than smaller pensions, for individuals. It has been estimated by the Central Pension Security Institute that private sector pensions in Finland are likely to be 15 per cent larger as a result of the reform (Eläketurvakeskus 2002: 7). In all occupational groups, the share of those who gain as a result of the reform is greater than the share of those who lose. While individual pensions are not likely to fall as a result of the reform, it is hoped that aggregate level expenditure will be lower than in the absence of the reform, largely as a result of later retirement. Various elements in the new pension system are designed to increase the average age of retirement: e.g. the age limit for unemployment pensions has been increased from 55 to 57 and the higher pensions accrual rate late in working life is also supposed to act as an incentive to stay in employment. However, it remains to be seen whether inducements like this are powerful enough in the face of the temptation to retire early. On the whole it appears that the reform will lead to increased pensions, and for this reason the main method of decreasing overall expenditure is through delayed retirement: this is a rather risky strategy, though (Interview: The Finnish Government agency for pensions).

Part-time pensions have also been reformed. The part-time pension system serves a number of purposes. It is intended to lessen the need for invalidity pensions as those who experience difficulties in working full-time can still participate in the labour market on a part-time basis instead of withdrawing from work altogether. It was also expected that the part-time pension system would help to ease unemployment when new employees are required to replace the part-time pensioners. As a result of the 2001/2002 reforms, the lower age limit for part-time pensions was increased from 56 to 58, and the amount of pension accumulated during part-time pension was reduced. Under the unreformed system, being on part-time pension had hardly any negative impact on the retirement pension, and the intention of the reform is to ensure that working full-time always results in a larger pension than being on part-time pension (Takala and Uusitalo 2002: 10). In short, the unexpectedly high cost of the surprisingly popular part-time pensions led to cuts in this scheme (Interview: The Finnish Government agency for pensions).

A national programme on ageing (*Kansallinen ikäohjelma*) was implemented in Finland between 1998 and 2002. As a result of the various policy measures taken, the average age of retirement and the employment ratio among older people increased and undertaking training in later life ('life-long learning') became more common during this period. Evaluation of the programme has argued that flexibility needs to be further increased, especially in the area of part-time pensions and flexible working arrangements that would enable older people to control their participation in the labour market better (Ministry of Social Affairs and Health, Finland 2003c).

Proposed Solutions

In addition to the conflicts outlined above, a very controversial aspect of the recent Finnish pension reforms has been the indexing of pensions. Instead of the 20-80 indexing (20 per cent wages, 80 per cent prices), the Centre party, the Christian democrats and some representatives of the Left-wing Alliance proposed a 50-50 index, arguing that it would be more favourable for pensioners. However, these

parties were criticised by SAK among other actors for proposing changes that would lead to increased employers' and employees' pension contributions. This demonstrates the importance of cost control as a motive for consensual pensions reforms in Finland and Sweden.

Other controversial aspects of the Finnish pension reform have been:

- The size of the national pension that is paid to those who go on employment pension at the age of 63.
- The amount of pension accumulated during child care and studies.
- Whether pension should be accumulated during military or alternative service (compulsory for all Finnish men) – currently no pension entitlement.
- Whether unemployment pension should be preserved for everyone or only those born before 1950.
- Whether increases in average life expectancy should lead to decreases in pensions.

In the case of the reforms in Finland, the increased accrual rate for older workers was designed to secure the co-operation of Akava, the union central organisation representing employees with third-level qualifications. However, Akava rejected the agreement on the basis of its high cost among other factors. Akava, alongside the Coalition Party has been primarily concerned with the impact of the 2002 agreement on public sector pensions which will be the subject of separate negotiations in the future.

The amount of pension accumulated during studies and child care work at home was questioned as inadequate by the Minister for Social Services, Eva Biaudet (Swedish People's Party) who suggested that a pension corresponding to at least 1000 euro be accumulated. This was not implemented.

The Left-wing Alliance has argued that entitlement to the full national pension should be available at the same age as the entitlement to employment pension under the new system (at the age of 63). However, the age limit for the national pension will remain 65 years. For those who start to withdraw it earlier, the pension is reduced.

Overall Policy Goals and Values Behind Policy Choices

Pensions reforms were to a great extent dictated by a simple economic imperative, namely that of controlling pensions expenditure. This perceived need was reinforced during the economic difficulties of the 1990s, which made the future burden of pensions expenditure appear even more onerous.

Pension reforms have been strikingly consensual in both countries. This is partly due to the fact that, so far, it has not been possible to show that any particular group will suffer as a result of the reforms. In fact, it appears that most will gain, albeit at the cost of having to work somewhat longer than in the absence of reforms. However, the most important reason for the consensual nature of reforms is probably the strong motivation to ensure that the highly popular pension systems remain viable in the future and continue to ensure adequate retirement incomes for the entire population.

Path-Dependency

The main path dependency factor at work in the case of pensions is the clear dominance of the public pension system that covers the entire population on an equal basis. This has to a large extent prevented the rise of a significant private pensions industry. Moreover, the recent reforms in both Finland and Sweden have been aimed at sustaining these public pension systems and at maintaining trust in them. Despite this, the popularity of private pensions has increased although they still have a somewhat specialised and marginal role. Just under 8 per cent of working-age men and women in Finland have a private pension plan. The share of those with private pensions is somewhat larger in Sweden, and there is also a considerable difference between men and women (Hietaniemi 2001: 224). One possible explanation for this difference between Finland and Sweden is the longer tradition of individual investments in Sweden (Berg 2000). It does not appear to be due to differences in the level of public pensions or tax treatment of individual pensions investment.

The main reason for the marginal role of private pensions is the relatively great degree of trust and satisfaction in the public pensions system. The fact that there is no upper ceiling on public earnings-related pensions in Finland is a central deterrent to private pensions (Kangas 1991). Among those who do opt for a private pension, the most important motive is the flexibility of private pensions: unlike in the public system, it is possible to determine the size of one's payments and the time of withdrawal, and in the case of funds it is possible to choose where to invest the pensions savings (Hietaniemi 2001: 225).

Long-term care

Key Problems

Ageing will cause a strong growth in demand for welfare services until 2030, when there will be approximately 2 million over 55-year-olds in Finland (twice as many as in 2002). The number of over-85-year-olds in Sweden will reach 250,000 during the next 10 years. In 2030, approximately 25 % of Swedes will be old-age pensioners. The great majority of older people in Finland and Sweden live with their spouses or by themselves; only some 2 % of older people in Sweden live with their children (Socialdepartementet 2001). This stands in strong contrast to the Mediterranean countries in particular, and increases the need for provision of residential care and special housing. Older women in particular are affected: in Sweden, 80 % of over 80-year-old women live alone by contrast to 40 % of men in this age group (Socialstyrelsen 2003a).

Despite the increase in elderly population, it is extremely difficult to estimate future changes in public social and health care services for older people as developments in this area are a result of both political choices and unpredictable technical changes. The future sustainability of care services for older people is dependent not only on the number of people needing and demanding care, but also on economic growth and possible improvements in the productivity of social services staff. The current level of services may not be sufficient in the future: developments in medicine for instance may lift the expectations of services to a new level. This, in turn, may mean that dissatisfaction with public services will grow even if they are improved (less than would be possible, given the technology available). Moreover, while service users may be prepared to pay more for such services, they may not be prepared to pay for them through the tax system (Lassila and Valkonen 2002). These issues are particularly pertinent in welfare states with extensive universalistic services.

The share of older people receiving many publicly financed services has been declining in both Finland and Sweden. While day care services for children have become more universal in character (see sector on women's labour market participation below), care services for older people have become more selective or residual as an increasing share of the resources has been devoted to serving the needs of the 'most deserving' or 'most needy' clients of public services. This has meant that some of the responsibility for providing services to older people has shifted from the state to the private sector and families. Concerns about the availability and quality of care services for older people, in combination with the high level of taxation, may yet mount and serve to create the risk of a legitimacy crisis in the public care services sector (Interview: The Swedish Liberal Party). There are some indicators that trust in the elder care services in Sweden is already at a low level in comparison with trust in other public services (Statskontoret 2002). Nonetheless, a recent survey has shown that 85 % of those who used health and care services for older people were fairly satisfied or very satisfied with the services they received, and only 5-10 % were somewhat or very dissatisfied (Socialdepartementet 2002b). It is not possible to judge on the basis of the available data whether the quality of elder care services has improved or declined over the last 10 years, but in general the level of satisfaction in services is high.

The availability of services for older people has also declined in Finland. As central control over municipal services spending was loosened in the 1990s, greater variation in services standards emerged. The rights of older people to social services are also surprisingly vaguely defined: while there is a firm ('subjective') right to day care services for children, no such right to public care services has been constitutionally established for older people (Interview: STAKES).

There are many problems relating to the recruitment and retention of personnel in the older people's care services, caused by low pay and poor working conditions (Interview: The Swedish Social Democratic Party). Labour shortages may occur in the care services sector once the large age cohorts have retired and need care themselves. It has been estimated that the Swedish municipalities will need to recruit some 180,000 new care workers between 2001 and 2010, and it remains to be seen whether this need can be met (Svenska Kommunförbundet 1999; Interview: The Swedish Confederation of professional Employees). There is currently a shortage of approximately 4,500 employees in the home help and institutional care sector for older people in Finland (Olsbo-Rusanen and Väänänen-Sainio 2003). The Labour Force 2020 working group's final report (January 2003) predicts that 79,900 new jobs will need to be created in the care services sector in Finland between 2000 and 2015. Labour shortages are also a problem in Sweden as low wages, long working hours and stressfulness of care work drive employees away from the care services sector. Women working in municipal care services are strongly over-represented among those on long-term sick leaves (Socialstyrelsen 2002c). Additional problem is caused by growing polarisation between regions as young people move to cities and towns where there are jobs, leaving behind areas with high proportions of older people in need of care (Interview: The Swedish Social Democratic Party). Almost 100 municipalities in Sweden have declining populations due to low birth rates and people moving to other municipalities with better employment opportunities. The municipalities losing people are then in a weaker position to offer services as often it is those most in need of services (older people, people with disabilities) who are left behind (Interview: The Swedish Confederation of professional Employees).

Many actors in Finland and Sweden are concerned that old people be seen as a resource, rather than just as a group that is constantly absorbing resources and posing a threat to the sustainability of the welfare state (Interview: The Swedish Social Democratic Party). There have been a number of innovative experiments where older people and children in day care have been cared for together in the same building, thus fostering connections between generations (Ministry of Social Affairs and Health, Finland 1999b). Older people's possibilities of making choices are currently rather limited, they have little scope for influencing services and are frequently treated as a group with uniform needs rather than as individuals (Interview: The Swedish Liberal Party; Socialdepartementet 2002b). It is arguable that some of these problems inevitably accompany a universalist system that makes uniform services available to all citizens within a common, closely monitored system: nonetheless, efforts have been made in recent years to both broaden the range of alternative services and to consult service users more frequently about their needs and wishes.

Finnish health centre employees have estimated that health services for older people are satisfactory in almost all municipalities in Southern Finland and in half of all municipalities in the area of the Western, Eastern, Lapland and Oulu regional governments (rest of the country). Only in 2-3 % of municipalities the availability of services was deemed to be 'poor'. Shortage of GPs was evident: some municipalities were not able to provide sufficient GP services despite resorting to purchasing them from the private sector in addition to public sector GPs. The regional governments have suggested investigating alternative models of service provision in co-operation with the private and voluntary sectors (including the use of vouchers) (Ministry of Internal Affairs 2003).

Key Actors

Most Finnish and Swedish parties and politicians are of the opinion that preserving high-quality social services is more important than tax cuts, i.e. that tax cuts should not be introduced if they threaten the financial sustainability of services, including services for older people. Upon introducing his new government in 2002, Sweden's Prime Minister Göran Persson summarised his understanding of Swedish voters' message to its representatives in the latest election:

'Sweden must be further developed as a welfare nation. This is why children's benefits and services, healthcare and care of the elderly must come before tax cuts.'

In Finnish and Swedish political parlance, a clear differentiation is often made between social services and social transfers. The former is often seen as more important than the latter, especially by social democratic politicians who stress the importance of social services (such as education, health, care of older people and the disabled) as an important factor in equalising people's life chances. It is considered by the social democrats that cuts in transfers have less severe consequences than cuts in services, and that decline in the quality and availability of services is more damaging in the long term than cuts in transfers.

The social democratic Minister for Foreign Affairs in Lipponen II government, Erkki Tuomioja, stated in a speech in January 2003:

It is undeniable that even basic services suffered in some parts [as a result of the tightening of public expenditure]. However, in health care, the National Health Project is now addressing the worst shortcomings. Similar work is under way in the area of social services. Although the emphasis must absolutely be on developing welfare services before income transfers, we must also work on improving basic income security. Under these circumstances the choice between tax cuts and the needs of the welfare society is clear and simple. Tax cuts that threaten the financial sustainability of the welfare state are not on our agenda, and what is more, Finnish people do not want such tax cuts. (...) Our slightly above EU-average tax levels will be accepted...as long as we ensure that the Finnish welfare state offers a more reliable and better return on taxes than the privatisation of social security and services ever could.

All Finnish and Swedish parties stand for high-quality care services and most agree that tax-financed universal services should be adhered to, but differ in terms of how such services should be organised. Left-wing parties lean more towards collective solutions. Centre and right-wing parties are more concerned about freedom of choice than the left-wing parties: they believe that 'mass-solutions' may not be the best way of proceeding (Interview: The Swedish Liberal Party). While some right-wing party representatives are interested in increasing the share of individual and insurance funding of services, left parties and employee representatives reject such solutions and tend to emphasise common, tax-funded services (Interview: The Swedish Social Democratic Party; Interview: Finnish SAK).

The Swedish Liberal party believes that care services should be designed with individual users in mind, and that service users should have more freedom of choice (Interview: The Swedish Liberal Party). Left-wing parties fear that privatisation would lead to big problems in securing quality of services. Centre and right-wing parties believe that in ensuring the quality of services, the most important issue is not who provides services but whether the resources to provide services are sufficient (Interview: The Swedish Liberal Party). The Swedish social democrats believe that the universal welfare model should be adhered to, and are opposed to privatisation and to subsidies to private companies that provide care services (Lars Engqvist, Minister of Social Affairs, Riksdagens Årsbok 2001-2002, p. 12).

Central organisations in the area of care services for older people in Sweden include *Socialstyrelsen* (the National Board on Health and Welfare), *Kommunförbundet* (municipal employers' association), *Kommunalarbetareförbundet* (municipal workers' union, *Kommunal* for short), pensioner organisations and other unions. *Socialstyrelsen* and the 21 county administrative boards are responsible for supervision, follow-up and evaluation of municipal and county council caring services. In the area of care services for older people, *Kommunal* co-operates with different pensioner groups. *Kommunal* has regular meetings with the Minister for Social Affairs, other representatives of the Ministry and with politicians sitting on the select committee on social affairs. At the local level, services are to some extent influenced by balance of political power, local entrepreneurs in this area etc. However, local politicians are not in a position to directly influence e.g. the legislation on social services (*Socialtjänstlagen*) as this is decided at the national level.

Pensioners' organisations are particularly active and influential in Sweden, and their influence is likely to increase as they gain more members as a result of population ageing (Interview: The Swedish Social Democratic Party). At the moment there are five nationwide pensioners' organisations in Sweden and nearly 50 % of older people in Sweden belong to at least one of these organisations. There are pensioners' councils at the national level and in the majority of municipalities and county councils. These councils act as advisory bodies and the pensioners' organisations are represented on them. While the Finnish pensioners' league (*Eläkeliiitto*) is gradually gaining more voice in the media, its membership is small and it does not have the institutionalised position of the Swedish organisations (see also above under Pension reforms).

Positions/Importance of other Actors

Some business and employer groups such as Elinkeinoelämän Valtuuskunta (EVA) in Finland argue that opening welfare services for competition will be necessary in the future. Centre and right-wing parties in both countries tend to believe that increased involvement of the private sector in *producing* services is more or less inevitable in the future (Interview: The Swedish Centre Party). *Kuntaliitto* (League of Municipalities) in Finland has suggested introducing and increasing the means-testing of services (see below). According to the Confederation for Swedish Enterprise (*Svenskt Näringsliv*), care of older people in future should be partly financed by the state, partly through compulsory private insurance (obligatorisk äldreomsorgsförsäkring). The latter will ensure that care can be provided without huge increases in general taxation during the next 20-25 years (Interview: Confederation of Swedish Enterprise).

The attitude of unions towards privatisation is at best lukewarm, but nonetheless generally speaking more positive than the attitude of the left-wing parties, probably because privatisation may lead to higher wages and improvements in working conditions. *Svenskt Näringsliv* (Confederation for Swedish Enterprise) co-operates with *Vårdförbundet* (care services association) and *Kommunal* (municipal workers union) re. production of welfare services (Interview: Confederation of Swedish Enterprise).

An important question for *Kommunal* is the increasing need for personnel in care services for older people. No one solution is sufficient to solve this problem: a mixture of approaches is needed. If staff numbers are not increased, the burden on existing personnel will increase and the quality of the working environment will become poorer which will only serve to compound the difficulty of recruiting new employees as the age cohorts among young people of working age are smaller. Additional workers are not available from other EU countries as they have the same problems with their own ageing populations. Work in the care services sector suffers from poor status as it is seen to be characterised by low wages (predominantly female workers), irregular working hours (shift work, night work etc.) and poor working environment. Increasing resources is unlikely to solve the problem, rather attention must be paid to training and improving the atmosphere in work places (Interview: Swedish Municipal Workers' Union).

The Swedish Centre party believes that the maximum fees reform, both in older people's care fees and children's day care fees (see below), favoured those on high incomes, and therefore was inequitable (resources should have been directed to those on lowest incomes) (Interview: The Swedish Centre Party).

Key Reforms

In Sweden, one of the (intended) results of the Care of the Elderly Reform (*Ädelreform*) has been that care is now increasingly provided in the home or special residential facilities (supported housing) rather than in institutions. The *Ädelreform* which came into force in 1992 made the municipalities responsible for long-term

services and care for older people. The central aims of the reform were to clarify responsibilities for care services (largely transferred from county councils to municipalities) and to create better economic and organisational prerequisites for fulfilling the aims of elder care.

One of the central components of the Care of the Elderly Reform was the transfer of financial responsibility for patients in county council hospitals whose medical treatment had been completed, from the county councils to the municipalities: 31,000 bed places in long-term care were transferred from county councils to municipalities. This led to a significant reduction in the number of older 'bed-blockers' in county council institutions, simultaneously with an expansion in the municipal housing capacity for older people in need of care and social services. The number of bed places in acute care hospitals and geriatric clinics was reduced by 30 and 53 % respectively between 1993 and 2001. Older patients were discharged from these facilities faster, which in turn put more pressure on municipal care facilities. As a result, many older people who were previously in hospitals and geriatric clinics (i.e. highly medicalised care) are now living in special housing. In particular, the number of people with dementia living in municipal care facilities has grown very fast. There is nothing inherently negative about this transfer of responsibility for care of older people: it has meant, however, that care in special housing has become increasingly 'medicalised' as residents now need more medical care.

One of the main advantages of the reform was that responsibility was clearly assigned to municipalities: if a municipality cannot organise alternative post-hospital care for older people, it has to pay for continued hospital care i.e. a strong financial incentive was introduced to transfer older people from hospitals to supported housing and their own homes. However, the timing of the reform was unfortunate: the recession led to a cut in central state grants to municipalities. The grants started to increase again in 1996, but there is need for more resources in e.g. housing for older people (Interview: The Swedish Social Democratic Party).

In 1999, new national targets were set for policy for older people in Sweden (Prop. 1997/98: 113). These included access to good care, including the opportunity to live at home for as long as wished; the opportunity to live an active life and the opportunities to influence society and one's daily life. The recently reformed social services law (*Socialtjänstlagen* 2001: 453) has emphasised the social service providers' duty to enable older people to live at home for as long as desired by the person him/herself with the help of home care services and access to day centres and similar community services. For those who are unable or unwilling to live at home, the law gives an entitlement to live in supported housing, an old age home or a similar institution. In practice, the subjective feeling of needing home help or care in supported housing may not secure a place or service as they have become more targeted to those with the greatest needs (note that these services are not allocated on the basis of financial need i.e. low income, but only on the basis of need for services).

When central state grants to municipalities started increasing after the recession in Sweden, resources were directed to the traditional areas of services, such as care services and education. This is an indication of the strong will to protect the welfare (service) state. Effort had been made to preserve and hold onto the traditional founding principles of the welfare state. Questions of social policy played an

important role both in the 1998 and 2002 general elections and it appears that, to simplify somewhat, that the Swedish people chose the welfare state rather than tax cuts. Sweden's national action plan for policies for older people (Prop. 1997/98: 113) dedicated an extra SEK 300 million per year for three years to services for older people. Additional SEK 400 million was used to build special housing and to improve existing housing for older people. Between 1995 and 2001, the number of employees in municipal care services for older people increased by 29,500.

Municipalities in both Finland and Sweden made the care services for older people increasingly open to competition during the 1990s, the aim being to cut the cost of care and also to provide alternatives to municipal care. The role of private providers increased especially in home care services and special housing. In 2001/2002, the private sector provided approximately 10 % of care services for older people in Sweden. In some municipalities the share of services provided by private enterprises is as high as one-third. However, it is important to note that municipalities still finance these services i.e. that they are tax-financed rather than financed through private expenditure in the form of fees paid (Socialstyrelsen 1999, Socialstyrelsen 2002a, Socialstyrelsen 2002b).

The costs of care services to service users have caused concern, and in both countries more detailed regulations have been introduced, with the aim of ensuring that the payments do not exceed a level that is deemed reasonable. Before the maximum fees reform in Sweden, one in six over 75-year-old refrained from getting help or requested less help than they needed for reasons of cost (Socialstyrelsen 2002d). Disparities in user fees had grown since municipalities had been given more freedom to determine charges in 1993. Since 2002, protection mechanisms have been in place in Sweden against high user fees for older people. Before the reform municipalities were charging different amounts, some much more than others. Maximum fees for home care, day centres, health care and different forms of residential care are now clearly defined, as is the amount of 'spending money' that must be left over for personal purchases after the fees have been paid (Socialstyrelsen 2003a). Representatives of the parties that were strongly in favour of the reform (Left-wing parties in particular) argue that now even those on lowest pensions can afford to have the services that they need (Interview: Swedish Municipal Workers' Union). The Centre party in contrast was critical of the fact that many well-off individuals benefited from this reform through reduced user fees (Interview: The Swedish Centre Party).

The proportion of older people (over 65-year-olds) in Sweden receiving home help services or living in special housing declined during the earlier part of the 1990s, but remained stable between 1998 and 2001. The decline in the proportion receiving home help services has been quite marked over a 20-year period, from 16 % of the over 65s in 1980 to 8 % in 1999 (Socialdepartementet 2001, Socialstyrelsen 2003a). The proportion of older people in special housing has also declined over the last 10 years, but the decline has slowed since 1998: three-quarters of people in special housing are over 80 years of age, and nearly three-quarters are female. Residents in special housing are now older and need more intensive care than in the past. This has implications both for older people themselves and for those looking after them: some applicants are not offered a place in special housing although they feel that they need

a place, and the work tends to be harder for employees who are now looking after older and frailer residents (Socialstyrelsen 2003a).

As it has become more difficult to obtain home help, older people now turn more frequently to completely private services or rely more on help from relatives and friends. There are some important differences in the sources of help received by older people with higher education levels and those with lower levels of education: the former turned increasingly to private services, whereas the latter received help from relatives (SOU 2001: 79, 76). In other words, a clear class profile in terms of the sources of help emerged. As a result of this 'informalisation', it has been acknowledged in both countries that the role of the family carer may grow in the future (Socialstyrelsen 2003b; Ministry of Social Affairs and Health, Finland 2003c), although a dramatic shift towards informal care is unlikely in view of the high labour market participation among both men and women, and the prevailing public opinion that care services are first and foremost the state's responsibility.

Other small reforms in Sweden include improved cover for dental care, an ombudsman for older people, the right to raise complaints about standard of care and to have such complaints systematically processed and dealt with, and additional support for family carers in the form of free respite care.

While not directly a social policy reform, the loosening of central control over social and health services spending in Finland in the mid-1990s was probably the single reform that has had the greatest overall impact on social services for older people (Interview: STAKES). See below (proposed solutions) for more details.

Proposed Solutions

The head of *Kuntaliitto* (League of Municipalities) in Finland, Mr Parjanne, has suggested introducing and increasing the means-testing of services. It has been pointed out by social democratic politicians such as Tarja Filatov (Speech 9.1.2003) that this carries a risk of leading to reduced acceptance of public services among the general population. Filatov has also suggested that as the elderly population in Finland increases, combining services produced by private companies with services produced by municipalities creates an opportunity to complement the available services. However, she also stressed that the choice of service providers must not be based on price alone, but the quality of services must be paramount. She pointed out that the capacity of municipalities to co-operate with private companies was often still underdeveloped and needed to be enhanced, as for instance the process of awarding contracts was not a straightforward one. It was stressed that this development was not a matter of privatising services, but rather a matter of meeting extra demand for services.

Long-term care insurance has not proved to be a popular idea in Finland or Sweden. The Finnish Ministry of Social Affairs and Health investigated the possibility of a care insurance, but the trade union movement and the political left in Finland opposed such an insurance as it is feared to lead to increased inequality in access to care (Interview: Finnish SAK). These actors believe that care services should be financed through taxes. A number of right-wing politicians, employer organisations (*Palvelutyöntajat*) and the insurance business (*Vakuutusyhtiöiden keskusliitto*), on

the other hand, were in favour of the care insurance model. The trade union central organisation for mid-ranking white-collar workers (STTK), and the nurses' unions argued that introducing the care insurance model in Finland would not lead to significant cost savings. These actors also feared that the willingness to finance services through taxes would decrease if private sector services were increasingly used.

While there are not many aggressive advocates of market mechanisms in service delivery in Finland and Sweden, some high-profile individuals have suggested that bringing more market mechanisms into the production of services would be one way of improving the flexibility of public services. It has been suggested by the Director of the Bank of Finland among others that from the point of view of preserving the welfare state, user fees for public services may be a better alternative than the well-off paying for private services while those on lower incomes have no choice but to take recourse to gradually weakening public services (a kind of vicious circle that has arguably appeared in the UK for instance).

Some employer organisations such as the Finnish Service Sector Employers (*Palvelutyöntajat*) have suggested that municipalities should purchase services from competing providers if such providers can deliver high quality services that are cheaper than those produced by the municipality.

An expert working group presented an analysis and a list of recommendations concerning the state of Finnish social services in March 2003 (*Sosiaalialan kehittämishojelman selvitysmiesraportti 25.3.2003*). The report argued that greater national co-ordination is necessary in order to address three problems in the area of social service provision. First, the basic financing of these services must be ensured by increasing central state responsibility (such responsibility was gradually transferred from the state to municipalities during the 1990s). Second, the right to services must be reinforced and strengthened: the right of older people to care services should be guaranteed in law, similarly to the child care guarantee that was introduced in the mid-1990s (see above under women's labour market participation). Third, the minimum standards of social services must be determined at the central level. These measures would amount to a basic guarantee for instance to older people of the availability and minimum standards of care, as is fitting in the light of the guarantee incorporated into the Finnish constitution (right to basic income security and to adequate social and health services).

In order to meet these developmental tasks, the report argues, the state must increase central state grants to municipalities by 38 million euros per year for the next seven years. Labour legislation must be changed so that employees are granted a right to temporary leave from work while arranging care for their elderly parents, and so that those looking after elderly parents can opt to work shorter hours. A moderate guarantee is also proposed: this would mean that a person's need of care would be assessed within 3 days of requesting care and that a care and service plan be made in conjunction with this assessment. Through increasing the state grants to municipalities it is also hoped to increase the number of staff working in care services for older people by 4,500 (the estimated shortfall).

The Swedish Minister for Social Affairs has suggested (standing committee on social affairs or the government have not yet discussed this though) that all over 75-year-olds should be entitled to two hours of free home services per week. This would consist of e.g. cutting the grass, washing the windows and other services that would be preventative in the sense that they would enable older people to live in their home for as long as possible. However, there has been criticism of the high cost of such service for all. However, it is also expensive to create more places in institutions and to hire more personnel in institutions. *Kommunal* has put forward a similar suggestion, but for over 80-year-olds. It is likely that the Minister's suggestion on services for over 75-year-olds will be implemented in one form or another as it will not be possible to find the extra 140,000 workers that are needed in the existing system as population ages. The problem is not so much money, but the simple fact that there are not enough people to do the work within the traditional institutional/residential care framework (Interview: Swedish Municipal Workers' Union).

TCO is particularly concerned about the public care services sector as an employer, as many of its members work in this area. According to TCO, Swedish people now consider the public sector a highly undesirable employer: wages are relatively low and there is a high incidence of exhaustion/burnout among public sector workers (high incidence of sick leaves). In other words, people like the public sector as a service provider (not keen on privatisation) but the public sector as an employer now has a bad name. The public service sector needs more resources if it is to attract new employees. Some of these changes call for political decisions e.g. budget increases. Other problems call for changes in work organisation, increased competition, and possibly alternative employers (Interview: The Swedish Confederation of professional Employees).

Much of the employment in care services for older people in Sweden is part-time. The central government, together with the Swedish Association of Local Authorities (*Kommunförbundet*) and the Association for Regional Authorities (*Landstingsförbundet*) are striving to increase the availability of full-time jobs in this sector for those affected by part-time unemployment (i.e. working part-time while wanting to work full-time). *Riksdag* has decided to invest SEK 100 million between 2002 and 2004 to stimulate experiments with new work organisation and methods in order to create more full-time jobs in the care services sector. 2004 will also see the launch of the programme for increasing the qualifications and competencies of people working in care services for older people (Regeringskansliet 2002).

Kommunal wants to bring five central issues onto the political agenda. Firstly, leadership: one manager should have no more than 20 employees under him/her to ensure that the team works well. Secondly, influencing the work place: everyone must be involved in decision-making. Thirdly, working hours: these need to be flexible in order to enable combination of work and family life. Fourthly, *kompetensutveckling* (enhancing and developing employees' capacities and skills): employers need to ensure that employees can undertake training while working. Fifthly, values and attitudes need to change so that older people are valued more.

The Senior 2005 initiative in Sweden has sparked much discussion on what is required of the economy and services in order to ensure future financing and functioning of care services for older people (Interview: The Swedish Social Democratic Party). Ensuring mobility is an important issue as it is an integral factor in enabling older people to live at home. Within ten years all trains and buses in Sweden must be accessible for those with physical disabilities and limited mobility. PRO has also been highlighting the increasing problems created by the fact that many blocks of flats built between the 1940s and 1960s have no elevators. Many of the inhabitants are now older people who have great problems with mobility. This obstacle to mobility must be dealt with in order to prevent situations where older people have to leave their homes because they cannot access them (Interview: The Swedish Social Democratic Party). New forms of housing suitable for older people are needed, and changes are being implemented in order to enhance older people's mobility in their environment. An increasing number of people from outside Sweden (ageing immigrants) also need care services. This makes demands on care staff in terms of their language and other social skills. There is concern that older people should not be seen as a homogeneous group, but rather as active citizens who are a great resource to the society.

Overall Policy Goals and Values Behind Policy Choices

The overall values underlying Swedish policies towards older people are summarised by a Ministry of Social Affairs document:

It is society's duty to ensure that elderly in need of care or social services receive help of high quality. The contributions made by members of the family should be voluntary and regarded as an adjunct to public initiatives. (Socialdepartementet 2001)

Such an approach is clearly in stark contrast to policies in most other welfare states, the Mediterranean and liberal ones in particular.

Social democratic (and other Left-wing) politicians tend to place great emphasis on the need to maintain the universalistic nature of welfare services. It is stressed that public services must not become the services of poor citizens only, and that middle-income citizens must also have access to them, and be satisfied with the quality of services (e.g. Speech by Minister for Employment Tarja Filatov, January 2003).

Path-Dependency

Despite the fact that the availability of services for older people has declined, and despite the fact that there is greater regional variation in the quality of services, public services still reign supreme in this area of provision. In other words, the provision of private services has not increased notably, as the quality of public services is still sufficiently high to prevent the emergence of services for those who could afford private services.

Women and the Labour Market

Key Problems

Higher employment rate is one of the most important aims, and arguably the most important aim, of the Finnish and Swedish governments at the moment. Employment rates among Finnish and Swedish women are among the highest in the world. However, there is also awareness of the need to continue encouraging women to enter employment and to enhance the various services and benefits that enable the combination of family and work: 'A higher level of employment is needed to provide economically sustainable social security. It is also important that more older people carry on working and that more women enter the labour market... It must also be possible to reconcile work with family life' (Regeringskansliet 2001).

Key to maintaining and further encouraging high employment rates among women is a set of social policies that are designed to ease combining family commitments and paid employment *for both men and women* (e.g. Government of Sweden 2002: 19). Equality legislation in Sweden explicitly states that employers must enable both male and female employees to combine work and parenthood. Policies that facilitate the care responsibilities of working parents have in many respects been further improved over the last 10 years, even during economically difficult periods. One of the main aims of the maximum fees reform in Sweden was to increase the labour supply of parents through creating incentives to take up employment and to work longer hours, especially among lone parents (Government of Sweden 2002: 28). As the impact of increased work incentives is expected to be particularly strong among low-income parents, the reform also serves the aim of reducing dependence on social welfare among this group.

However, many central actors argue that it is also important to monitor and enhance the quality, and not only the quantity, of women's employment (Interview: The Swedish Left Party). 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. Of the 951,600 people who worked part-time in Sweden, 25 % wanted increased working hours; 72 % of those who wanted to work longer were women (Government of Sweden 2002: 18). 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.

According to a survey carried out by one of the trade union central organisations in Finland (Akava summer 2001), as many as half of all under 30-year old female Akava members working full time were employed on a contract basis: of the membership as a whole, some 15 per cent were contract workers. Approximately 25 per cent of the 400,000 employees in the municipal sector are employed on short-term contracts. Temporary contracts are even more common in the health care sector, where around a third of the (mainly female) employees are contract workers. Temporary contracts are

seen to be a problem for young women of child-bearing age. Forty per cent of all women on temporary contracts are under 35 years of age. Permanent employment is often argued to be the key to increasing the birth rate, as permanent employees are entitled to better maternity protection and care leaves than those on contracts.

The Service Sector Employees' union (PAM) in Finland is campaigning against fixed-term contracts and was one of the main forces behind the recent decision by the labour market partners to abolish working days of under four hours: this decision was based on the belief that everyone who wants should be able to work full-time rather than part-time. There is evidence that the majority of those working part-time would rather work full-time but are prevented from doing so through lack of full-time jobs (PAM 2003; Interview: The Finnish Service-sector employees' union).

Despite high employment rates among Finnish and Swedish women, there is strong gender segregation in the labour markets in both countries. The reduction in the gender segregation of the Swedish labour market in the 1990s was the result of changes in the structure of employment and not the result of policy initiatives (Government of Sweden 2002: 29). Despite the decreasing gender segregation, wage differentials remain: in Sweden, women's wages were on average 82 % of men's in 2000 (Government of Sweden 2002: 70). In Finland, women's wages are approximately 20 per cent lower than men's: for 10 per cent of this there are no reasonable explanations. Part of the wage differential is explained by the fact that low-wage jobs in the public sector are female-dominated, whereas the relatively highly paid jobs in export industry are predominantly held by men. Evening out this differential would involve either role reversals among men and women (women taking up export sector jobs and men opting for public sector employment) or considerable investment of public resources in public sector wage increases, which is also unlikely in the current climate of fiscal tightness. Small 'equalising allowances' are included in the incomes policy agreements, but in the last wages settlement this allowance was disappointingly small. Service sector employers' position is that any increases have to be in accordance with employers' ability to pay, and they are generally opposed to the equalising allowances (Interview: The Finnish Service-sector employees' union).

The greater propensity of women to take care leave (such as maternity and parental leave) imposes greater costs on employers in female-dominated sectors and is also of great significance for gender equality (Interview: Institute for Future Studies; Interview: Finnish SAK). The Finnish Ministry of Social Affairs and Health is campaigning to promote take-up of care leaves among fathers both in order to strengthen women's labour market position and to even out the costs between female- and male-dominated sectors.

Combining work and family life appears to be increasingly difficult, particularly for women who work in the service sector that operates increasingly on a 24/7 basis (PAM 2003). A survey by STTK (summer 2001) established that 42 per cent of its members experienced difficulties in combining their duties at work and at home: this percentage had increased from 36 per cent in a survey carried out in 1994.

Key Actors

Consensus prevails among all major Finnish and Swedish parties over the importance of supporting families with children, guaranteeing the quality and availability of social services, and narrowing the wage gap between men and women.

Among the Finnish parties, perhaps the most vocal proponent of women's/families' benefits and services has recently been the Green party. The leader of the Green party, Osmo Soininvaara has been arguing for increases in child benefit for under 7-year-olds, as well as increases in the home care support and in the lowest maternity benefits (to the same level with basic unemployment benefits), and housing policy that is favourable for families with children. The Finnish Greens have also demanded a shorter working day for the parents of small children. In common with SAK, the blue-collar workers' central union organisation, they have called for a care payment (*hoitoraha*) that would be payable to parents of under-10-year-old children who work part-time.

Some representatives of Finnish municipalities (e.g. Risto Parjanne, the chief executive of *Kuntaliitto*, Finnish league of municipalities) have argued that the automatic right of all children to public child care should be reviewed. The former Minister for Basic Services, Eva Biaudet (Swedish People's Party) responded to this suggestion by arguing that public child care is a prerequisite for economic growth and welfare and for the international competitiveness of Finland. She also argued that Finnish fertility rates are relatively high thanks to services for families. The fact that Finnish women are not forced to choose between parenthood and employment is a major achievement and availability of child care also makes it possible to strive for higher employment rates among the parents of small children.

Of the 1.2 million members of TCO, the central union organization representing middle-ranking white-collar employees in Sweden, the majority work in the public sector. In other words, they are both users and producers of public services and for this reason TCO is particularly concerned about the forces and values that shape the welfare state. According to research carried out by TCO, men with small children have the longest working days and women with small children have the shortest working days. Fathers of small children also earn more than men on average and mothers of small children less than women on average. The parental insurance system needs to be changed: if father's income above the ceiling and mother's below it, it makes economic sense for the mother to take parental leave. In other words, at the moment there is no genuine freedom of choice. Gender equality and equal opportunities on the labour market have always been important but in the light of the current situation policy measures have to focus on the home instead of the workplace: duties of parenthood need to be shared more equally between mothers and fathers (Interview: The Swedish Confederation of professional Employees).

Service-sector employers' organisation in Finland (*Palvelutyöntajat*) has been highlighting the issue of parental leave i.e. calling for fairer division of costs between female-dominated and male-dominated sectors of the economy. SAK (blue-collar unions' central organisation) is also concerned about more even division of parental

leave between mothers and fathers. Part of the solution is increasing women's wages: when the difference in mother's and father's salary is smaller, it is easier for fathers to take a fair share of the leave. Together with STTK (the central organisation for technical and clerical white-collar employees) the service-sector employers managed to bring about the Swedish-type 'father's month' i.e. period of parental leave dedicated to the father. SAK has reservations about this model which may in the end become cheaper for the state. The fact that most female SAK members are in low-wage jobs probably means that they will still stay at home rather than the father due to the economic cost. In other words, to really address unequal division of parental leave, it is necessary first to focus on improving women's labour market position (Interview: Finnish SAK).

There has been some co-operation between PAM and service sector employees as they have a common interest in equalising the costs of parental leaves between male and female dominated sectors of the economy. Other employer representatives such as TT (mainly representing industrial employers) are strongly against such equalising. PAM has also campaigned against the so-called 24-hour society with church representatives: there is an increasingly strong trend towards services operating round the clock and working at 'antisocial' times impacts of PAM members negatively (particularly women with small children) (Interview: The Finnish Service-sector employees' union).

The Swedish Left party believes that the freedom to regulate the economy and labour market will be lost if Sweden joins EMU, and that this will have a particularly negative impact on women's labour market position as they work more part-time and have lower wages on average than men. As competitiveness in the EMU may require lower wages, women's wages in the public sector are likely to experience downward pressure. The incidence of sick leaves is highest in the public sector, which is a sign of stress and poor work environment and means that the position of the public sector as an employer needs to be strengthened (Interview: The Swedish Left Party).

Key Reforms

There are some mechanisms in place in Finland that are intended to even out, to a modest degree, the wage differentials between women and men, and to increase the lowest wages in relation to other wages. Since 1989, national incomes policy agreements have included an element called equality component (*tasa-arvoerä*), which has usually been 0.3 – 0.4 percentage points of the general wage increase agreed upon. The equality component is calculated on the basis of the proportion of women and low-waged workers in the sector. The unions representing low-waged women were disappointed with the very small additional increase that was given to female-dominated and low-wage sectors in the last national incomes policy agreement (Interview: The Finnish Service-sector employees' union). The smallness of the increase was largely due to resistance to any increases by service sector employers who argued that low productivity increases did not allow such increases.

The incomes policy agreement crafted and signed in Finland in December 2002 was partly intended to help women and families. The situation of families was addressed by the initiative to do away with working days of less than 4 hours. It has been argued that such short working days make it difficult to reconcile work and family life (Speech by Tarja Filatov, November 2002). The labour market partners agreed that under 4-hour days are not used unless the employee wants to, or the nature of the employment justifies it. The partners also agreed on guidelines for the use of temporary contracts and more effective monitoring of working hours. Broadening of the partial care leave (*osittainen hoitovapaa*) also improves possibilities for combining work and family life. Care leave was extended to one or both parents of school children in grades 1 and 2, meaning that the parents of these children can work shorter days. The entitlement concerns those who have been employed by the same employer during the past year for at least 6 months (previously the criteria was 12 months). Partial care payment was previously paid only to the parents of under-three-year olds but from August 2004 the payment is extended to parents of school children up to and including grade two. The take up of this care leave has so far been very limited.

One of the central tasks of the National Labour Market Board of Sweden (AMS) is to reduce the gender segregation of the Swedish labour market. To this end, it has been making the existing wage differentials more visible through mapping wage differences and working with other actors (the Institute for Working Life, the Office of the Equal Opportunities Ombudsman) to reduce part-time unemployment. A large number of initiatives are in place to encourage women to enter traditionally male-dominated sectors of the economy, to promote women to the highest levels of management, to encourage school children to opt for non-traditional subjects and careers for their gender, and to change attitudes in workplaces (Government of Sweden 2002).

In 1991, the maternity leave entitlement in Finland was extended from 39 to 46 weeks (275 days), of which the father was entitled to take between 6 and 12 days. In addition to this, fathers were entitled to take 6 days paternity leave that did not shorten the mother's leave entitlement. In 1993, the maternity leave was shortened from 275 to 263 days. The right to paternity leave is used by some 60 per cent of Finnish fathers.

The smallest maternity benefit was reduced in Finland from FIM 79.40 to FIM 60 per day in 1996 (FIM 60 = 10.09 euro). After many years of stagnation, a small increase in the minimum maternity, paternity and parental benefits was included in the budget for 2003 in Finland (HE 132, 249, 253/2002 vp, PTK 166/2002 vp), to take effect in 2005. The increases are very small – in the case of the smallest maternity benefit, the increase was 1.36 euro per day. This followed votes in the Eduskunta in 2002 where the opposition's (and Left-wing Alliance's) proposal to increase the minimum maternity benefit to the same level with basic unemployment benefit were rejected by the governing parties. Maternity benefit is paid for 105 working days, after which parental benefit can be paid for 158 days for either parent. Typically Finnish children are approximately nine months old when the entitlement to maternity and parental leave runs out. Paternity benefit was extended by two weeks (from 18 working days) by Lipponen II government, but only when the father takes at least two weeks of the parental leave to which a couple is entitled. For employees on average wage, the maternity, paternity and parental benefit are approximately 60-70 per cent of their

wage. After the parental benefit period has run out, the mother or the father can take care leave until the child turns three. During the care leave period, home care benefit (approximately 250 euro per month) is paid.

In spring 2001 the Swedish Riksdag extended the period of parental insurance by 30 days. Parental insurance in Sweden now extends to 480 days, 60 days of which are reserved for the mother (i.e. cannot be used by the father) and 60 days for the father (i.e. cannot be used by the mother) – the remaining 360 days can be divided between the parents as they wish. For the first 390 days the parental benefit is paid at 80 % of income (up to a ceiling of SEK 24,000). The minimum level of parental benefit is SEK 150 per day (due to be increased to SEK 180 in 2004). The remaining 90 days are paid at a flat rate of SEK 60 per day. Approximately 95 % of the 390 high rate benefits days and some 80 % of the flat-rate days are claimed. The proportion of parental cash benefit days used by men has steadily increased from 3 % since this option was introduced in 1994 to 13.8 % in 2001, and it is likely that the introduction of the 60 days reserved for the father has played an important role in bringing about this increase. The National Board of Social Security has run several campaigns in order to encourage fathers to use the benefit. Temporary parental leave is available for the purposes of caring for a sick child. This is paid for a maximum of 120 days per year at 80 % of income up to the ceiling. An average of 7 days of temporary parental leave per child and per year are used. In 2001, fathers drew approximately 41 % of all days used. Fathers are also entitled to 10 days of temporary parental leave on the birth of their child. Almost all Swedish fathers make use of this entitlement (Socialdepartementet 2002a).

The Swedish Social Democratic party promised during its election campaign in 2002 to increase the ceiling i.e. the income limit for the highest rate of compensation in parental benefits from 24,000 to 32,000 crowns per month from July 2003. This would effectively have meant more complete coverage for parents on higher incomes, and would therefore have been important for the middle class marginal voters who have to finance the welfare state and whose approval is therefore crucial for its legitimacy. There are currently some signs that the SAP may renege on this promise, which is also tied to the promised increase in the ceiling in the sickness benefit. There are also plans to increase the minimum parental benefit i.e. the payment made to those with no or only short work history (unemployed, students, part-time workers etc.). Instead of increasing the ceiling in parental benefits, it is now thought more likely that the government will pay higher parental benefit to couples who share the leave more equally i.e. families where the father takes an equal share of the leave.

In Finland, the new pension system (negotiated in 2002, to be implemented soon) contained favourable elements for both stay-at-home parents and parents working outside the home as it takes into account up to 3 years spent looking after a child, and also favours those who have many employment contracts and many employers (a series of fixed-term contracts being a more usual employment pattern among women than among men).

In Sweden, the universalism of child care has been enhanced as an increasing share of each age cohort has been in public child care. In Finland, too, the introduction of day care as a 'subjective right' in the mid-1990s broadened access to public creches. Some changes are needed in the already well-developed day care system in order to enable

certain groups of parents to combine work and family, such as those doing shift-work in the service sector that operates increasingly on a 24-hour basis. The union of service sector employees has called for improved day care services in the evenings, at night-time and during weekends (PAM 2003). In Sweden, 'allmänna förskola' (access by all to pre-school) was introduced in 2003. This means that from 1 January 2003 all 5- and 6-year-olds have a right to three hours free day care per day. From 1 September 2003 this will also apply to 4-year-olds. One of the aims of this initiative is to enable unemployed parents to seek work and to take up work quickly when it is offered (Government of Sweden 2002: 28). In Finland, too, some actors have been calling for increased day care services for small schoolchildren so that their school day is effectively lengthened to the duration of their parents' working day through organising hobbies and other activities at school ('*kokopäiväkoulu*'). The Left-wing alliance in Finland has promoted this arrangement particularly enthusiastically. From autumn 2004 onwards, Finnish municipalities will be under obligation to organise after-school care for young school children.

While in Finland both stay-at-home parents and working parents receive subsidies from the state (the former in the form of home care benefits and the latter in the form of subsidised day care fees), in Sweden the subsidies are focused completely on the public day care system (there is no home care benefit in Sweden). Day care fees were reduced considerably in Sweden in 2002 as part of the *maxtaxa* (maximum fees) reform. The idea behind the max-taxa reform was that everyone should be in a position to use public services, and economic resources should not deter anyone from using them (Interview: Institute for Future Studies). The reform resulted in decreased marginal effects (work disincentives) especially for those on low incomes, and as such it also plays a role in increasing labour supply. It is expected that the reform will result in a 7 % increase in labour market participation among women from low-income households (Government of Sweden 2002: 28). For the majority of households with children in public day care, the *maxtaxa* reform reduced the costs of childcare by approximately SEK 500 – 1000 per month. To be eligible to the special government grant covering the shortfall, the local municipalities must charge fees for day care at a maximum rate of 3, 2 and 1 % respectively of a household's pre-tax income for the first, second and third child of the family. Fees may not exceed SEK 1,140 per month for the first child, SEK 760 for the second child and SEK 380 for the third child.

Home care benefit was in existence in Sweden for only a short period in 1994 when it was introduced shortly before the general election by the outgoing centre-right government. It does not fit in with the very strong dual breadwinner ethos that prevails in Sweden (and is an integral part of the hegemonic social democratic party's ideology), and was abolished by the social democrats upon their return to power. While home care benefit is still in existence in Finland as a result of the stronger position of the centre and right-wing parties, it has not fared particularly well either (Hiilamo and Kangas 2003). This benefit was cut by 22.5 per cent (750 million FIM) in 1996. The home care benefit will be increased by approximately 42 euro per month in 2005: while it is undoubtedly a step towards recognising the work done by mothers and fathers who stay at home to look after their children, its level is still extremely low in relation to even the lowest wages, and also in relation to the 'subsidy' that working parents receive in the form of free or low-cost public child care.

The Swedish government is currently preparing a 121-point programme that is designed to ensure that the public sector becomes a better employer. This is particularly important for women as there is clear gender-segregation between the public and private sectors in Sweden (Interview: The Swedish Left Party).

Proposed Solutions

The Minister for Employment (Lipponen II), Tarja Filatov (4.2.2003), has suggested that possible reform of employer contributions in Finland (see also section on unemployment) must take the gender dimension of these contributions into account. The reason for this is that employment in female-dominated areas is more affected by employer contributions than employment in male-dominated areas. Female-dominated sectors of the jobs market have traditionally been labour-intensive (as opposed to capital-intensive). As employer contributions form a larger share of the costs in labour-intensive sectors and as the contributions percentage increases in line with the total wage sum paid by the employer, employers in the labour-intensive sectors have been forced to control wages carefully. Women's employment and wages would be favoured if employer contributions were determined on the basis of the capital-intensity of the sector. Working women also use family leave and look after sick children more often than men. These expenses therefore fall mainly on women's employers, which also influences women's employment and wages. For this reason it is necessary to even out the expenses that are due to family reasons between different sectors.

Minister Filatov has also suggested (Speech January 2003) that reconciling work and family life must be a key focus of the new government that was elected in March 2003. She suggested that the government utilise funding available through the European Social Funds and employment programmes. In addition to this, reconciling work and family life must be further supported by different child care and home services. After-school care of young children should also become, she argued, a legally enforceable right and compulsory for the municipalities to organise (this will be implemented in 2004).

The Finnish social democrats' election manifesto in 2003 argued that after-school care must be introduced, starting with grade 1 pupils. It would be municipalities' responsibility to organise this, but they could use voluntary and other non-state organisations as providers of such a service. The election manifesto promised Euro 250 million extra for schools and day care, including 10,000 new staff in these areas. The party also argued that in order to shorten the working days of parents, the right to the partial care leave and care payment must be extended to all parents who have children in grades 1 and 2. As a further sign of the family-focus of the election manifesto, it promised extra Euro 150 million for child benefits (in the form of extra Euro 20 per month for the first child). In the run-up to the elections, the conservative Coalition party proposed increasing the child benefits of under 7-year-olds and children of lone parents.

The extension of paternity leave was a subject of debate in Finland. Certain actors, such as the Minister for basic services (Eva Biaudet) were demanding a 'father's month' along the Swedish lines. This idea was opposed by SAK and TT, largely

because it would have imposed more costs on the male-dominated sectors of the economy. In contrast, Service-sector employers (*Palvelutyönantajat*) and STTK were advocating a longer paternity leave period. There were four different proposals: the working group of Ministry representatives and labour market partners proposed a one-week extension to the existing three-week paternity leave, to be taken during maternity or parental leave or immediately following parental leave. STTK and service-sector employees proposed two additional weeks of paternity leave, but only when the father uses two weeks of parental leave (parents can already divide the six-month parental leave between themselves as they choose). Minister Perho (Coalition party) proposed two additional weeks without the obligation on fathers to take at least two weeks of parental leave. Minister Biaudet proposed, in addition to the current three-week paternity leave, a father's month to be taken following parental leave. In the end, the father's month proposal won out as the two weeks' extension of paternity leave is conditional on the father taking a month of parental leave.

A recent Finnish working group chaired by Raimo Sailas (2002) emphasised part-time employment as an alternative to unemployment. Labour Force 2020 (*Työvoima 2020*) working group also recommended increasing part-time jobs as a solution to enabling older workers to stay in employment for as long as possible, and for young people who are trying to combine employment and families. Trade unions have responded by arguing that there should not be a systematic attempt to increase part-time employment as part-timers are most likely to be women working in the private service sector and in the public sector, and this would in turn lead to further increases in women's and men's wage differentials.

In Sweden there is currently much concern about the public sector as an employer. The current government is planning a 121-point programme that would ensure that the public sector is sufficiently well funded in order to meet its responsibilities as an employer, particularly important for women as the overwhelming majority of employees are female (Interview: The Swedish Left Party).

Poverty and Social Assistance

Key Problems

Despite the severe economic difficulties of the early and mid-1990s, closer integration into the world trade and membership in the EU (and EMU in the case of Finland), income inequality in Finland and Sweden has not increased dramatically, and both short-term and long-term poverty are low in international comparison. Many groups that are heavily affected by (long-term) poverty in liberal and even Central European welfare states are not similarly trapped in the Nordic countries, largely thanks to more determined employment policies and universally available public services such as child care. For instance, despite the fact that Sweden has the highest percentage of children who live with a single parent (around 21 % of all children), the percentage of children of single parents living under the poverty line is lowest in Sweden of all the OECD countries (around 6.7 %) (UNICEF 2000). Nonetheless, the slight increases of inequality, greater concentration of poverty among some groups and the increased incidence of long-term social assistance dependence are serious causes for concern in welfare states that prides themselves on being focused on finding employment for all (Penttilä et al 2003; Interview: The Swedish National Board of Health and Welfare).

Recent evaluations have established that the hardest hit groups during the 1990s recession in Sweden were young people, immigrants, lone parents, large families and households that were dependent on social security transfers (SOU 2001: 79). In other words, the disimprovements in welfare were concentrated on the young, recently arrived foreigners, those with poor anchoring in the labour market and some families with children (particularly families with only one parent). Somewhat paradoxically, poverty increased after the 1990s recession had bottomed out as the stagnant or only moderately increased benefit incomes did not keep pace with faster growing incomes from work (Interview: The Swedish Left Party).

In Sweden, two main poverty indicators are used, namely the proportion of the population living on less than 50/60 % of median income, and the proportion of people with incomes under the *socialbidragsnormen*, i.e. the minimum social assistance payment that is judged to be necessary for paying essential expenses. At the start of the 1990s, approximately 5 % of the population was living under the *socialbidragsnormen*, during the second half of the 1990s this proportion increased and then fell back to 7 % in 2000 (Government of Sweden 2003). The share of social assistance recipients among single parents increased from 10 to 30 % between 1991 and 1996, before declining to 16 % in 2000 (Government of Sweden 2003). The share of people living in households with less than 50 % of median incomes was around 5 % between 1994 and 1999. However, the share of those who were poor for the whole duration of the six-year period was less than 1 %. Such low figures are a testimony to the relatively efficient workings of the Nordic welfare state and its anti-poverty focus in particular.

The poverty rate in Finland increased from 2,5 to 3,5 per cent between 1990 and 1999, but this trend appears to have come to a halt recently. Poverty rates increased in

Finland in the aftermath of the 1990s recession, largely due to an increase in the highest incomes, boosted by income from shares and options. Simultaneously, the low incomes of the unemployed remained stagnant, which caused the slight increase in income inequality (VATT 2001, Sullström and Riihelä). Approximately one-third of the poor in Finland are long-term unemployed. In Finland, the groups worst affected by low incomes and poverty are the long-term unemployed, those living on basic security benefits (*perusturva* which includes social assistance, basic sickness payments, labour market support, housing benefit), and some families with children. However, as a positive sign the number of social assistance recipients has now begun to decline in Finland. The worrying sign is that deprivation has become more concentrated among the long-term unemployed and others dependent on basic security (Kangas and Ritakallio 2003).

Among young people, those who lack educational qualifications are at greatest risk of poverty. One-fifth of students are also affected by poverty in the long term, but most members of this group do not remain in poverty beyond their student days (Penttilä et al. 2003). Other high-risk groups are older women living alone and also young people living alone. Pensioners, with the exception of older female pensions receiving the national pension (and no earnings-related pension) have been relatively well shielded against poverty (Report to Talousneuvosto, 2002/2003). In both countries, many immigrants are heavily dependent on social assistance.

There is a very strong tradition in Finland and Sweden that stresses the central importance of employment as a guarantee against poverty: full-time employment should be a sufficient protection against poverty (Finland's National Anti-Poverty Strategy 2001; Interview: Finnish SAK; PAM 2003). The 2003 election manifesto of the Finnish social democratic party emphasises that 'the most important recipe against poverty is the opportunity to have a secure full-time job' (SDP 2003). Where employment is not available or feasible, the prevention of social exclusion centres of the universal public services and income transfers. In addition to these, tailored programmes are in existence for preventing and solving particularly difficult cases of exclusion. Despite all these measures, a survey by STAKES found out that in November 2001 one in every ten social assistance recipients was also earning income from work, which was interpreted as a worrying trend.

Incomes policy agreements in Finland contain some mechanisms that are designed to maintain the relative level and purchasing power of lowest wages. Wage increases for those on low wages are set in euros and cents, whereas increases in higher wages are set as percentages. This mechanism results in higher percentage increases in low wages than at the higher end of income distribution. Some employer interest groups have stated their opposition to this practice as it results in highest increases in sectors with the lowest productivity, which in turn is argued to suppress the supply of jobs in those sectors (Interview: The Research Centre for the Finnish Economy).

Key Actors

The former communist parties in both countries (the Left-wing alliance in Finland and the Left party in Sweden) have more ambitious aims regarding elimination of poverty, and are also prepared to take more radical steps in achieving this aim, than the other parties. For representatives of these parties, mere absence of poverty is not the sole

aim: rather, they strive for a more egalitarian society in all areas. E.g. the Left parties believe that more action should be taken to create equal living conditions for all children so that they are sheltered against e.g. parents' difficulties in gaining a foothold in the labour market (Interview: The Swedish Left Party). The Finnish Left-wing Alliance has called for improvements and changes in the basic security system so that people in receipt of primary benefits would have no need to apply for benefits of last resort (social assistance). The party has also proposed increases in labour market support and the basic daily unemployment benefit, as well as abolition of the means-test in labour market support.

When it comes to the basic structure of the welfare system, the social democrats, the Swedish Liberal party and the Left party are in favour of the so-called general welfare model unlike the Centre party and the Green party (and at times also the Christian democratic and the Moderate parties) – the latter parties tend to advocate a basic security model, meaning that the transfer system would be more focused on helping those with greatest need i.e. more poverty-oriented. Whether social assistance should be made harder to obtain is becoming a divisive issue. According to the Liberal party the duration of social assistance should be minimised with the help of enhanced efforts to secure employment through training and work placements (Interview: The Liberal Party).

Positions/Importance of other Actors

According to a recent study by LO (January 2003), LO, TCO and SACO members all want smaller wage differentials, and also support increasing women's wages in relation to men's. The study (interviews of 7,000 employees between the ages of 18 and 64) established that 4 out of 5 Swedes believe that wage inequality is too great. Nine out of ten believed that women's wages are too low in relation to men's. This opinion survey followed a study by LO (December 2002) according to which wage differentials between white collar and blue collar workers in Sweden are continuing to rise. Women's wages are still lagging behind, particularly among public sector employees. Between 1994 and 2001, wage increases were greatest for white collar workers in the manufacturing industry and in the private service industry (39 per cent). In comparison, increases for blue collar workers in the municipal sector were 24,5 per cent. Wage differentials between men and women are partly explained by the segregation on the labour market as wages tend to be higher in male-dominated jobs.

In Finland, too, there is concern about income inequality, and about allowing increases in income differentials as a method of addressing unemployment. An opinion survey carried out by ETLA and Palkansaajien Tutkimuslaitos (spring 2003) established the trade union members were strongly opposed to any changes in minimum wages. Trade unions (other than AKAVA representing relatively high-earning professionals) also tend to have a cautious attitude towards cutting income taxes unless such cuts are directed to low- and middle-income earners.

Key Reforms

Increased unemployment and cuts in some primary benefits led during the 1990s to an increase in the number of social assistance recipients in both Finland and Sweden. As

a result, social assistance became a more prominent part of a social security system that accorded benefits of last resort only a minor role (Timonen 2003, Chapter 7). Between 1990 and 1996, the number of social assistance recipients nearly doubled in Finland: 12 % of the population were receiving social assistance in 1996, and a quarter of the recipients were dependent on social assistance for a year or longer (Ministry of Social Assistance and Health, Finland 2000). The growing need for social assistance and difficulties experienced in operating different parts of the social security system in tandem (first and foremost the work disincentives that resulted) led to an attempt to simplify and rationalise social assistance. Since the mid-1990s, emphasis in developing social assistance has clearly been on enhancing work incentives, manifest in the 1998 basic security reform of which the new law on social assistance is an integral part (the law came into force 1.3.1998).

The 1998 law on social assistance established social assistance more firmly as a right. The central aim of the new law was to shift emphasis from this means-tested benefit of last resort to primary benefits, and to reduce the number of people receiving social assistance, total expenditure on social assistance and the average duration of social assistance dependency. Most of the changes in social assistance were essentially cutbacks: social assistance was reduced for families with two or more children, recipients became responsible for financing a larger part of their housing costs, and assistance could be reduced by 20-40 % for those refusing offers of work or training. An enhanced work incentive was provided by offering compensation for costs of travelling to work. Housing benefits, unemployment benefits and student grants were increased with the view to reducing need for social assistance. The changes (and the improved employment situation) had the desired effect i.e. reduction in the number of recipients and in the cost of the system. Reduction in the number of recipients has been most marked among young people and families with children; exit from the system has been at a very modest level among older recipients and those with weakest possibilities of entering the labour market, and these groups have been adversely affected by the basic security reform. While the reform did result in a shift away from social assistance and towards primary benefits, this did not help the weakest groups with no connection to the labour market (Ministry of Social Affairs and Health, Finland 2000). This had been the fear of the 13 MPs belonging to governing parties who voted against the proposal in 1998 (for the most part members of the Left-wing alliance). Some related changes in means-tested benefits such as the attempt to shift part of the burden on the social assistance system onto the housing benefit system can be seen as a concession to municipalities, which had borne the burden of increasing social assistance expenditure.

Swedish municipalities have traditionally been responsible for setting the level of social assistance payments within the framework of a national minimum. In 1993, a government commission recommended a clearer national minimum (SOU 1993: 30). There was some resistance from municipalities to this proposal as they defended their own freedom of decision. The view of the Ministry of Social Affairs, that a national minimum was needed, prevailed, and a national scale was implemented (Prop. 1996/1997: 124) despite loud criticism by municipalities of having to shoulder the increasing costs of social assistance, fuelled by cuts in primary benefits (Study for the Swedish Association of Local Authorities by Salonen 1997). The right of social assistance applicants to complain about decisions regarding their eligibility was also restricted (SOU 2000: 3). Stronger elements of the Work First principle were

introduced into the Swedish social assistance system in the 1990s. The National Board of Health and Welfare had ruled in 1992 that nobody should be punished for refusing to work for less than the wage agreed upon in national incomes policy negotiations and without entitlement to social benefits. A stricter interpretation of the duty to work emerged gradually in the 1990s. The 'growth proposal' of 1995 included greater demands on the recipients of social assistance. Municipalities were given more freedom to adapt the system to local circumstances and to tighten the work line through obligations on benefit recipients to actively look for work or a training placement. If the social assistance recipient failed to participate in these activating measures, the municipal welfare board was entitled to reduce the amount of social assistance or deny it altogether.

Preventative measures play a larger role than curative ones in the Finnish and Swedish anti-poverty policy. In other words, the emphasis is on preventing poverty from arising rather than on addressing poverty once it exists. The incomes of those on lowest wages have been improved through tax cuts since the mid-1990s. A particularly effective tool here has been the increase in the tax free allowances (*kunnallinen ansiotulovähennys*): the increased tax free allowances have boosted the lowest incomes considerably. In Sweden, too, tax reductions have been implemented in 200-2003 with the view to increasing the incomes of low and middle income earners (Government of Sweden 2002: 25). The current Swedish government's main aim with regard to poverty reduction is to reduce the number of people dependent on social assistance by half between 1999 and 2004 (Government of Sweden 2003). This means that the number of people receiving social assistance should fall from 115,200 in 1999 to 57,600 in 2004. In 2000, approximately 100,800 people were still receiving social assistance.

The general trend in preventing and treating poverty and social exclusion is to replace 'passive' measures with activation. It is now compulsory for those seeking social assistance in Finland to register with the unemployment services authorities. Refusing offers of work or training without a valid reason can lead to a cut in social assistance.

Some innovative mechanisms have been developed to help the long-term unemployed take up work and to prevent poverty among those who work less than full-time. In Finland, the so-called adjusted unemployment benefit (*soviteltu päiväraha*) is designed to help those who have been seeking work and found a job that involves working 28 hours per week or less. These workers receive adjusted unemployment benefit in addition to the income from work for a maximum duration of 36 months. A number of trade unions are currently working to ensure that the duration is made unlimited in order to ensure that these workers do not leave employment or become reliant on social assistance once the maximum duration is reached (Interview: The Finnish Service-sector employees' union; PAM 2002). This benefit is particularly important for women who work on a part-time basis in the private service sector.

The preventative approach and early intervention principle are evident in some programmes such as the 2001-2004 early intervention programme (*varhaisen puuttumisen hanke - Varpu*), co-ordinated by the Finnish Ministry for Health and Social Affairs, involving all the relevant authorities as well as child protection, substance dependence and mental health agencies and organisations in the country.

In order to prevent social exclusion among immigrants, individual 'settling-down plans' have been made and a law on a new means-tested benefit for immigrants of retirement age will come into effect in October 2003 in Finland. Here, again, Finland appears to be emulating Sweden where a similar replacement of social assistance for immigrants (*introduktionsersättning*) has been in existence since 1993 for those immigrants who have been granted residence permit and who are undergoing a 'programme of introduction' to Sweden. Other special initiatives in Sweden include supplementary vocational training, more stringent rules against discrimination, validation of qualifications gained abroad and language training (Government of Sweden 2002: 21). The Finnish payment will be paid to over 65-year-old immigrants and to immigrants who are unable to work and have lived in the country for at least 5 years, and would be otherwise dependent on social assistance for long periods of time. It is estimated that some 4,000 immigrants will be receiving this benefit (Ministry of Social Affairs and Health 2003b). The Finnish Green party has recently (in the run-up to the March 2003 general election) demanded that the new government produce an immigration and refugee policy programme that places emphasis on immigrants' employment and language instruction. Duration of stay in the country has a strong impact on the need for social assistance among those born abroad: immigrants who have lived in Sweden for 21 years or longer have by and large the same income level as people born in Sweden (Government of Sweden 2003).

Proposed Solutions

Debate on poverty and social exclusion in Finland is intertwined with debate on low-wage jobs as the latter is seen as a possible solution to the former. Many of the individuals affected by poverty and social exclusion are affected by long-term unemployment and have severe difficulties in entering the labour market. It has been proposed by a range of actors that increasing entry-level, low-wage and predominantly service sector jobs may be the only feasible way out of poverty for these individuals. These proposals have, however, given rise to fears that this solution to structural unemployment may give rise to the 'working poor' phenomenon, fundamentally unacceptable within the basic ideological framework of the Nordic welfare state model.

Two proposed methods of increasing employment in the low-wage sector are cutting employer contributions (the so-called Holm-Vihriälä model) and supporting low-wage workers through income tax cuts and other supports (advocated by Matti Vanhala among others) that are designed to increase their disposable incomes. Both are fairly unpopular, and probably politically impossible in the medium term at least. Basically, any proposal that advocates low wages rising slower than other wages is politically very problematic as trade unions and left-wing parties in particular oppose it (Interview: The Research Centre for the Finnish Economy). Unions are cautious in their approach to cuts in employer contributions as they believe that such cuts are not sufficiently targeted at helping the long-term unemployed (employer free to hire anyone) (PAM 2003). It is also feared that cuts in employer contributions would be misused by employers who would develop a preference for offering part-time jobs and keeping low wages low (Interview: The Finnish Service-sector employees' union). The impact of wage supplements for women and low-wage earners (*nais- ja matalapalkkaerä*) may lessen in the future, but this is not likely to have a big impact

on wage differentials. Companies and employer interests would be keen on allowing more freedom to set wages, or at least part thereof, locally.

A recent report on poverty in Finland has argued that while the best defence against poverty is employment, many (poor) unemployed people have extreme difficulties in entering the labour market. Accepting these difficulties, the only realistic way of addressing poverty among this group is through improvements in basic security payments (Penttilä et al. 2003). Representatives of left-wing parties, particularly the former communist parties, tend to endorse this view, whereas Centre and Right-wing parties tend to raise concerns about the negative impact of improved basic security on work incentives.

Overall Policy Goals and Values Behind Policy Choices

Employment (regular, full-time, preferably permanent) is seen in Finland and Sweden as the best guarantee against poverty (e.g. Government of Sweden 2002: 13), in fact most actors believe that work should automatically protect against poverty, without the need for supplementary benefits or tax credits.

Unemployment

Key Problems

There is general consensus in Finland that unemployment is the greatest social problem at the moment, and that the future sustainability of the welfare state hinges on a considerably higher employment level than what prevails at present (e.g. SAK 2003). Given that continued population ageing is more or less inevitable, increasing the employment rate is the main means of controlling the increase in the dependency ratio and hence of securing the financing of the welfare state in the future (Ministry of Social Affairs and Health 2003a). High unemployment increases the tax burden on those who work. Some actors (see below) argue that in order to create more jobs, some taxes would need to be cut. However, in the short term at least this solution is risky and problematic as the cost of high unemployment necessitates high taxes.

The relative decline in employment during the 1990s was roughly similar in Finland and Sweden. Largely as a result of unemployment the budget deficit in Sweden became even higher than in Finland. In Sweden, public sector employment declined more dramatically than in Finland. During the recession years Sweden increased the relative proportion of the unemployed in active labour market policies faster than Finland, but after 1994 this proportion declined in Sweden but continued to increase in Finland (Kautto 2000). As a result of this development Finland and Sweden were closer to each other in this respect in 1998 than they had been in 1990. In both countries, the increase in unemployment during the recession hit young people and men relatively harder, but after the recession the unemployment rates among these groups have also declined faster than for other groups.

The average unemployment rate in 2002 in Finland was 9.1 per cent. The employment rate in Finland in 2002 was approximately 68 per cent: this was a considerable improvement on the 1995 rate of 60 %. The current stated aim is to increase the employment rate to 75 %. Most reports and actors emphasise that this requires both lowering the unemployment rate and 'stretching' the duration of people's working lives both at the start (shorter period spent in education, particularly university education) and towards the end (later retirement).

The unemployment rate has decreased slower than the employment rate has risen. The structure of unemployment has become more problematic as the share of the long-term and repeatedly unemployed has increased. In 2002 almost 60 % of the unemployed in Finland were long-term or repeatedly unemployed. This 'hard core' of the unemployed comprised some 174,000 individuals in 2002. Unemployment is most persistent among the disabled, immigrants and the older unemployed. Youth unemployment is also still very high in Finland: approximately 15,000 young people in Finland have major difficulties in entering the labour force. Older workers are also particularly hard hit: in 2001 almost 1/3 of the unemployed were over 50 years of age. On the other hand, employment has also increased in the older age group: in 2002 the highest increase (12%) took place in the 55-59 age group.

In Sweden, the employment rate declined between 1990 and 1995, to increase thereafter. The increase has been slowest in the 16-24 age group both because more young people are choosing to stay in education for longer and because they find gaining a foothold in the labour market more difficult. The employment rate is highest in the 25-54 age group (84.2 % in 2002) and lowest in the 16-24 age group (46.5 % in 2002) (Government of Sweden 2003). Sweden has the highest percentage in Europe of people in employment in the 50-64 age group and a range of measures are in place to promote labour market participation among older people (Government of Sweden 2001). The overall employment rate in Sweden was 78.1 % in 2002, with women's employment rate (76.6 %) being slightly lower than men's (80.4 %) (Socialdepartementet 2003). The current government's aim is to increase the overall employment rate to 80 % by 2004 (Government of Sweden 2003). Open unemployment has recently increased slightly from the 2001/2002 rate of approximately 4 % to 4.5 % in February 2003 (unemployment rate among men, 5.2 %, was slightly higher than among women, 3.7 %). Unemployment is therefore currently significantly lower in Sweden than in Finland, and while a large proportion of the Finnish unemployed are long-term unemployed, 'only' some 14 % of the unemployed in Sweden have lacked work for longer than 12 months (Government of Sweden 2002: 38).

There are essentially two arguments about the causes of low employment levels in Finland. Some argue that the employment rate in Finland is too low due to the structure of taxation and benefits (Interview: Central organisation for Finnish taxpayers; Interview: The Finnish Government's Economic Research Centre). It is sometimes argued that while the so-called unemployment traps have been recently alleviated, incentives to find employment are still often negligible, at the same time as benefits and pensions offer an excessive temptation to exit the labour market (see for instance Speech by Matti Vanhala October 2002). This side of the debate also tends to stress the important role of wage formation that supports employment, not only in the form of developments in the average wages but also through the structure of wages. In other words, wage formation should be decentralised more in order to allow greater wage differentials which would lead to more job creation.

The other side of the debate emphasises that no amount of work incentives will suffice if there are genuinely no jobs available. The problem is not that of incentives at the level of individuals' behaviour, but rather relates to obstacles to the supply of jobs. This side of the debate emphasises that demands for tax cuts threaten the financial basis of the welfare state, and that it is necessary first to create new jobs that will generate more tax revenue before tax cuts become affordable. The Minister for Employment in Lipponen II government, Tarja Filatov, argued that the majority of the unemployed in Finland will not find employment with the help of cuts in taxes and indirect labour costs – rather, a variety of measure including intensive active labour market policies is required (Speech January 2003). She suggested that:

Raising the employment rate to 75 % by 2010 would mean creating 280,000 extra jobs. In the light of current growth predictions this does not appear realistic. If we want to increase employment fast, we must increase part-time jobs and other alternative working arrangements. Voluntary part-time work is desirable – for instance when combining work and family life, or when studying – but as a rule

people must have the opportunity to work full-time because it is difficult to make ends meet when working part-time.

The ageing long-term unemployed have posed a particular problem in Finland (Hytti 2001). Several programmes were initiated in order to help this group. Examples of concrete measures to help this group are the National Age Programme (*Kansallinen Ikäohjelma*), various initiatives to improve the ability of older people to remain in employment and a research project on the service needs of the ageing long-term unemployed (Rajavaara et al. 2000). A follow-up research project on the 10,000 ageing long-term unemployed established that after one year, only 1 per cent had found a permanent job in the regular labour market (Viitanen 2000). Since 2000, there have been more determined attempts to involve the ageing long-term unemployed in activation measures, instead of assuming that they will retire after having received the maximum duration of unemployment benefits (Skog 1999). These efforts have had only a marginal effect, although the share of the ageing long-term unemployed who found a job in the regular labour market increased slightly.

In Sweden, the earnings-related principle in unemployment insurance has been eroded as a result of growing numbers of people having moved into the higher income bracket that brings them above the ceiling for benefit entitlement. This is an example of 'non-decisions' influencing policy: as the ceiling is not increased, larger numbers of people are not entitled to the full compensation as a percentage of their salary. Another central problem in Sweden is posed by the fact that active labour market policies have not been designed to cope with unemployment levels exceeding three per cent.

Recent immigrants are in both Finland and Sweden in an extremely poor position on the labour market. However, the employment rate among immigrants in Sweden has increased every year since 1997. In 2001, the employment rate was 70 % among those immigrants born in the EU/EEA, 61 % for those born in the rest of Europe, and 54 % for those born outside Europe.

Key Actors

While there is virtually universal agreement that improving the functioning of the Finnish labour market is the most crucial task in trying to preserve the country's welfare state, it has not been easy to craft societal and political consensus over measures that lead to an increase in the employment rate.

Left-wing parties in both countries tend to have more faith in active labour market policies, and are prepared to spend more on activation than the right-wing and centre parties that are more inclined to let markets do more of the work (Interview: The Swedish Social Democratic Party). Right-wing and centre parties are also more inclined to stress that work must always be economically rewarding i.e. that other benefits must not be so high that they act as a disincentive to work (Interview: The Swedish Liberal Party).

LO, the Swedish blue-collar unions' central organisation, does not consider 'low' or 'reduced' unemployment a sufficiently ambitious aim: rather, full employment is the goal (Interview: The Swedish Trade Union Confederation). LO campaigns for

increasing the ceiling in unemployment insurance as more and more people are not receiving full earnings compensation due to low ceilings. Another central issue for LO is the extent to which sanctions are to be imposed on those unemployed people who refuse offers of work. LO is of the opinion that the unemployed must take up work that is offered to them and job centres must make sure that those registered as unemployed are genuinely seeking work. However, LO does not share many economists' view that the most effective work incentive is economic pressure i.e. low benefits. *Aktivitetsgarantie* is considered by LO to be an important recent policy. Different aims underlie current policies: on the one hand there is the efficiency aim i.e. loss of resources if some people capable of working do not have work. On the other hand, it is unjust that some groups have a higher risk of unemployment than others. The LO believes that currently there are no legitimacy problems in the unemployment benefit system as unemployment has declined a lot (Interview: The Swedish Trade Union Confederation).

SACO (the Swedish Confederation of Professional Associations) also believes that social insurance ceilings are far too low, even for LO members, most of whom are ordinary wage-earners. In some cases the compensation percentage is only 40 instead of the theoretical 80. Given that taxes being high in Sweden, it is crucial for the legitimacy of the system that everyone (including high-income earners) should get something in return for paying taxes. SACO believes that the social insurance system needs to be thoroughly reformed in order to move from what are now approaching flat-rate benefits to genuinely earnings-related benefits. However, SACO fears any improvements in this respect will not be sufficient for its (relatively high-earning) members. SACO's role has changed because it now has its own insurance system for its members only: this is possible due to the very low unemployment rates among SACO members (Interview: The Swedish Confederation of Professional Associations).

Many TCO (the Swedish Confederation of Professional Employees) members also earn above the insurance ceiling. Many pay insurance payments both to the public and private insurances but do not reap the reward for this double insurance when they need it. This erodes legitimacy (Interview: The Swedish Confederation of professional Employees). TCO members are very dissatisfied with the current insurance ceilings: they want to retain the general welfare system but are disappointed by weakened quality of services and benefits.

Key Reforms

The Work First and Skills Enhancement principles are the basis of Sweden's employment policy. A vigorous employment policy is also seen as the key tool in the fight against poverty. Effective measures are intended to give people the opportunity to find work *and* to support themselves: working for a wage under the poverty line is not seen as acceptable. Although there is a long tradition of activation in Nordic labour market policies, this trend has been further reinforced during the 1990s and also in recent years (Kosonen 1998). While activation is seen as particularly important for the young unemployed, the same emphasis on activation has been increasingly

extended to the ageing unemployed as well (Ministry of Social Affairs and Health, Finland 1999a). In Finland, municipalities were obliged for a brief period before the 1990s recession to organise work for the ageing long-term unemployed (Vähätalo 1991). It has been recently recommended that municipalities should again be obliged to work against structural unemployment through organising activation, but only if they are given sufficient resources by the central state (Kansallinen sosiaalialan kehittämissuunnitelma, selvitysmiesraportti 25.3.2003). While the main aim of activation for the older long-term unemployed used to be regaining their right to earnings-related unemployment benefits (Romppanen 2000), recent years have seen the extension of the activation principle to this group also in Finland (Ministry of Labour 2001).

Sweden has traditionally been more determined than Finland in involving the older unemployed in activation measures (Arbetsmarknadsstyrelsen 1992). In Sweden, the over 55-year-old unemployed are guaranteed a work placement or participation in some other active labour market measure once they have withdrawn unemployment benefits for the maximum duration (450 days). Such a period of activation renews their right to earnings-related unemployment benefit (NOSOSKO 1999).

It is sometimes argued that the duration of unemployment benefits has to be shortened in order to increase the incentive to seek work. In Finland, earnings-related unemployment benefits are paid to members of unemployment insurance funds who have been working for at least 10 months during the last 2 years and who have been members of the fund for at least the 10 months preceding unemployment. Basic unemployment benefit is paid to those unemployed who fulfil the working condition but do not belong to a fund. Labour market support is paid to those who are not fund members and do not fulfil the working condition, and to those who have received unemployment benefit for the maximum period of 500 days. Shortening of the duration of unemployment benefits is, however, very unlikely due to opposition by employee interests (Interview: Finnish SAK). Various models have been proposed, but only one proved acceptable. The Ministry of Finance proposed in 2001 that a higher percentage compensation for lost income be paid during the first 100 days of unemployment, after which the compensation percentage would drop in order to provide a stronger incentive to seeking and accepting a new job, and this change was implemented.

The structure of unemployment benefits caused a problem in Finland as an increasing share of those who became unemployed during the 1990s recession lacked an entitlement to earnings-related or basic unemployment benefits. In order to cater for this growing group, a new system of labour market support (LMS) was introduced in 1994 (HE 235/1993). As the cost of unemployment was skyrocketing at the time, LMS was designed to be as cheap as possible i.e. very low and means-tested for many groups (although means-testing was subsequently loosened for some recipient groups). Unlike unemployment benefits, LMS is for most recipients conditional on participation on training or participation in ALMPs. Cuts and tightening of means-testing in the LMS system were arguably partly the result of the lack of commitment on the part of trade unions to (non-unionised) LMS recipients (Timonen 2003).

The recent key measures against (long-term) unemployment in Finland have included job-seeking plans that are drawn up after 5 months' unemployment (introduced in 2001), support for employers who hire a long-term unemployed person (a three-year

experiment starting in 2003), rehabilitative work experience that is compulsory for under 25-year-olds, and one-stop-shops where employment authorities and social workers help the unemployed to draw up their job-seeking strategies (introduced in 2002 in the larger cities). SAK has demanded that the share of the unemployed engaged in various active labour market measure be increased from 20 to 40 per cent (SAK 2003: 5).

Recent unemployment security reforms in Finland make it easier and economically more profitable for the unemployed to take up short-term jobs as social assistance and income from work are reconciled so that small amounts of earned income do not lead to a cut in the social assistance payment (Statement by Minister of Social Affairs, Maija Perho January 2002). There have also been some small cuts in indirect labour costs in Finland, for instance small employers' unemployment insurance contribution will be reduced to 0.6 per cent, and the national pension contributions of smaller companies have been cut slightly (HE 256/2002 vp, PTK 155/2002 vp). In a limited three-year experiment private sector employers will not have to pay the social security payment (*sosiaaliturvamaksu*) in 20 municipalities. This experiment is, however, funded through a small increase in other employers' contributions and as such does not represent a cut in employer contributions at the national aggregate level (Interview: The Finnish Government's Economic Research Centre). The so-called combination support (*yhdistelmäetuki*) is paid to employers who employ a person who has been unemployed for at least 500 days. This amounts to approximately 500 euros per month and in practice covers all employer social security contributions (SAK 2003: 4). While this is not strictly speaking a cut in employer social security contributions, it is nonetheless in most cases sufficient to cover such contributions. While trade unions are not opposed to the system of combination support, they are somewhat worried that employers may use it to replace 'regular' workers with cheaper long-term unemployed employees (Interview: The Finnish Service-sector employees' union).

There have been some improvements in unemployment benefits in Finland. An extensive compromise on social welfare changes in unemployment/employment measures and pensions was reached in 2001/2002. The trade union movement, and SAK in particular, regard unemployment benefits as the key buffer against poverty: if poverty is to be prevented, unemployment benefits must be improved (Interview: Finnish SAK). Key improvements were legislated after the compromise deal agreed upon by the labour market partners and government. The right to earnings-related unemployment benefit is now renewed after eight months' employment, whereas the work requirement used to be ten months (December 2002). The compensation percentage in earnings-related unemployment benefits was also increased from 42 to 45 per cent, i.e. to the level that prevailed before the cut during the 1990s recession. From the start of 2003, those who have been in employment for at least 20 years will receive for 150 days extra 5 Euro of earnings-related unemployment benefit. This replaces the old dismissal payment. In effect, this means that a certain measure of gradation was achieved, albeit through an improvement, rather than a cut, in unemployment benefits. A more radical gradation system had been proposed by the Ministry of Finance, but proved politically impossible due to trade union reluctance to experiment with such a system.

Another controversial issue has been the automatic entitlement to unemployment pension of older workers once their earnings-related unemployment benefit runs out: in practice this has meant that those who become unemployed after the age of 57 (previously 55) have been entitled to unemployment benefits until they become eligible to pension. The Finnish Ministry of Finance has been consistently advocating a change in this system, only to meet with determined opposition by the trade union movement. The system has now been slightly changed so that instead of receiving unemployment pensions, the older long-term unemployed can now remain on earnings-related unemployment benefit for longer. The so-called adjusted unemployment support (*sovittelu päiväraha*), paid to the 'part-time unemployed', was also improved.

As there has been increasing recognition among all relevant actors of the high poverty risk that accompanies long-term unemployment (and therefore long-term reciprocity of labour market support), the means-testing of labour market support will be eased in 2004 (so that spouse's income has a lesser impact on the level of support paid to the unemployed person).

Following the rapid reduction in unemployment in Sweden after the recession started to bottom out in the mid-1990s, active labour market measures have been focused on those with greatest difficulties in entering the labour market. The target is for 70 % of participants in active labour market measures to be in regular employment three months after the completion of their training. The actual proportion of participants who find employment within this time frame increased from 43 % in 1999 to 59 % in 2001 (Government of Sweden 2002: 32). The largest active labour market programme is 'labour market training', and the second largest programme, 'on the job training' offers hands-on training at work places. The 'youth guarantee' programme is aimed at 20-24-year-olds who are offered work, training or education before they have been unemployed for 100 days. Some grants are available to employers who hire long-term unemployed persons: these cover 50-75 % of wage costs.

So-called activation guarantee (*aktivitetsgarantie*) has become the main policy against long-term unemployment since its launch in 2000. This benefit is designed to help those who have been unemployed for a long time to find a new job or to take up studies/training. In addition to unemployed people, the guarantee is extended to those who are 'part-time unemployed' (i.e. working shorter hours than they would like to). The activity guarantee comprises a set of tailored measures to enable to jobseeker to enter the open labour market. The Swedish system of activation requires that jobseekers must broaden their search after 100 days of unemployment, both with regard to the occupation and geographical area. Those who decline offers of suitable work or labour market measures risk a cut in their unemployment benefit. In April 2002 nearly 38,000 people or 40 % of all long-term unemployed were participating in the activity guarantee. The activation guarantee has been criticised for being under-funded and therefore not working properly (Interview The Swedish Christian Democrats).

As a result of widespread concern over the low social insurance ceilings, the ceiling in unemployment benefits was increased in 2001 for the first 100 benefit days. However, participation in active labour market measures no longer leads to re-qualification for

unemployment benefit. The maximum duration of unemployment benefits (earnings-related social insurance benefit) is 300 days (Government of Sweden 2002).

As was pointed out above in the section on women's labour market participation, so-called part-time unemployment is a problem that affects women in particular. In May 2001 the National Labour Market Board (AMS) of Sweden introduced a procedure whereby the part-time unemployed in the health and social services sectors can, upon the production of a certificate confirming the unavailability of full-time work, be offered alternative work where the working time corresponds more closely to the desired number of hours. The AMS is also negotiating with the social partners in the private services sector about the possibilities of reducing part-time unemployment in this sector (Government of Sweden 2002: 27).

Finland is imitating Sweden in adopting a national programme for increasing competences (*osaamisennosto-ohjelma, kunskapslyftet* in Sweden), to be launched in 2003 with the aim of increasing the educational and training qualifications of adults with only primary level education (a group that is particularly vulnerable to unemployment). SAK has demanded that the programme should involve at least 10,000 adults every year from 2004 onwards (SAK 2003: 4). Swedish trade unions have tried to persuade the government to emulate Finland in establishing a special 'buffer fund' that would prevent the need to increase unemployment benefit contributions (which have a negative impact on businesses and on purchasing power) during economic downturns. While such a fund is not in existence in Sweden, it may yet come into existence as a part of a compromise designed to facilitate Sweden's entry into the EMU.

In addition to combating unemployment, Finland and Sweden utilise a number of other means to increase people's capacity to work and to remain in employment. These measures could be seen as 'preventative' rather than 'curative' in that they aim to prevent unemployment and reduced capacity to work. Maintaining the ability to work, early detection of inability to work and assessing the need for rehabilitation are the main aims of the new (2002) Finnish law on maintaining health in employment (*työterveyslaki*). A new law on safety in the workplace (*työturvallisuuslaki*) adds to traditional concerns such as prevention of accidents and occupational injuries or diseases new issues such as physical and mental stress, ergonomics, threat of violence, bullying, and the dangers of working alone. So-called TYKY (enhancing the ability to work) projects have been implemented in workplaces since the 1990s and have proved highly cost-effective. From 2004, employees under the threat of inability to work as a result of sickness or injury will be entitled to occupational rehabilitation. Heightened effort is also being made to enable people with disabilities to access the open labour market as an alternative to social security. Currently most people with disabilities of working age are receiving pensions and are not included in unemployment figures.

In 2004-2006, Finland will undertake a structural reform of the employment services with the view to creating the preconditions for solving the problem of structural unemployment. Supports for the unemployed will also be developed further in the direction of activation (Ministry of Social Affairs and Health 2003a). 2,400 additional training places and project jobs are currently being created for the unemployed; following these additions, some 97,200 Finns will be engaged in active labour market

training or work placements in 2004. Preparations are in train to make labour market support of limited duration so that the support would be continually paid only to those who take part in active labour market measures. It is intended that the labour market authorities will draw up individual action plans for all long-term unemployed persons. Under 25-year-old long-term unemployed persons are to be given a work or training placement after three months of unemployment.

Proposed Solutions

The number of sickness benefit recipients, especially those on long-term sick leaves, has increased dramatically in Sweden, imposing a great burden on public finances (Interview: The Swedish Centre Party). Solving this problem will require investing more in education, training and preventative measures. A rehabilitation guarantee that would speed up return to work is also needed as part of a general move from passive to active measures such as investment in health care and rehabilitation. TCO has been promoting a system where people would be encouraged to save so that they could use the money to educate and develop themselves later in their careers (*individuell kompetensparande*).

There has been vigorous debate in Finland about the right recipe for curing the problem of persistently high unemployment. Business representatives tend to take the view that excessively high taxes weaken the employment situation and therefore also the revenue basis on which the welfare state relies. The Director of the Bank of Finland, Matti Vanhala, has also argued that taxes in Finland are already too high from the point of view of improving the employment levels (Speech by Matti Vanhala May 2002): Instead of increasing taxes in order to finance increasing social expenditure, taxes should be cut. Income tax cuts are also advocated by the Central organisation of Finnish tax payers (Veronmaksajien keskusliitto), on the grounds that the tax wedge is comparatively high. It is also argued that income tax cuts would not lead to a decrease in aggregate income tax revenues, as the cuts in rates would stimulate more consumption and employment creation, and hence increased tax revenue (Interview: Central organisation for Finnish tax-payers). The Central organisation of Finnish tax payers believes that income tax cuts across all income levels will create the resources to tackle the 'hard core' of unemployment in Finland, i.e. the long-term unemployed. While income taxes were increased by the Centre-Right government during the recession years, the subsequent two rainbow coalitions (in power 1995-2003) have consistently, if fairly carefully, reduced income taxes.

A similar stance has been taken by some prominent Right-wing politicians such as Ville Itälä, the leader of the Finnish Coalition Party who has argued that employer social security contributions should be cut or returned to employers in the low-wage sector. This would promote the creation of low productivity jobs and therefore alleviate structural unemployment. It was proposed by the party leader that such an experiment be financed through cutbacks in active labour market policies, which he argued to be less effective than tax cuts (HS 27.10.2002). In this context it is important to note that employer contributions in Finland are not particularly high, but approximately at the same level as in the EU on average. A different stance has recently (in the run-up to the March 2003 general election) been taken by the social

democratic Prime Minister Lipponen, who argued that income tax cuts and the resulting increase in purchasing power, combined with increased active labour market policy funding and a greater activation element in labour market support, would together be a more effective way of addressing the unemployment problem.

Increasing the employment rate is seen by most actors as the most important single factor in trying to secure the public finances and therefore the basic structures of the welfare state. The employment rate in Finland in 2002 was approximately 67 per cent. It is frequently argued that unless the employment rate increases significantly, the financial base of the welfare state will collapse. As a solution, it has been proposed (among others by the employment working group that was chaired by Raimo Sailas in 2002-03) that the problem of financing the welfare state would be for the most part solved if the employment rate was to increase to at least 75 per cent. A significant proportion of the approximately 180,000 long-term and repeatedly unemployed would have to find employment for this target to be fulfilled. The Director of the Bank of Finland has argued among others that increasing the employment rate calls for first, increasing the average age of retirement, second, earlier entry into the labour force by young people, and third, decreasing structural unemployment through changes in taxation (Speech by Vanhala, May 2002). According to this argument, the tax wedge is still at a level that hinders an expansion of service sector employment, and wage setting also needs to be made more flexible at the level of individual companies and employees.

Some participants in the debate have highlighted the negative impact of centralised wage agreements on employment. According to this line of argument, broad national incomes policies mean that wage increases of approximately similar level are paid to the majority of wage earners in Finland. The Finnish labour market is driven to this kind of practice through the desire to prevent an increase in wage differentials. The economic logic behind this model is that uniform wage increases will lead to unproductive businesses shedding work force and to absorption of these workers by productive companies and sectors of the economy. However, some actors doubt whether such a mechanism is in fact in operation. At any rate, it does not appear to be the case that growing, productive sectors of the economy (such as the telecommunications sector) have demanded the very workers who have been shedded from unproductive sectors. Dismissals are targeted first and foremost at the least productive members of the labour force, i.e. people whose ability to compete and adapt is weakest, who find it most difficult to re-enter the labour force and whose risk of long-term unemployment is therefore greatest.

The alternative that some business and other actors in Finland are proposing involves channelling labour market resources through wage flexibility (see for instance Speech by Mattu Vanhala, October 2002). In a flexible economy companies compete for employees by offering wages in accordance with their ability to pay. Successful and growing sectors of the economy can pay higher wages in accordance with their ability to pay and therefore attract the most flexible and skilled workers from the unproductive sectors of the economy. It has therefore been proposed by some employer interest representatives that the solution lies in decentralised wage formation that is based on the state of the labour market and the skills of workers, i.e. that wage formation should be transferred to where the circumstances of each work place and each employee are best known (company level).

In retort to the argument that greater wage differentiation means a step towards a more unequal society, employer interests argue that making wages more uniform through central negotiations does not produce an equal society: it is more likely to produce high unemployment which is the most important cause of inequality and exclusion in Finland at the moment.

However, employer interests have not been alone in calling for changes in taxation as a recipe for improving employment levels. The Centre party has been arguing that unemployment is the main cause of inequality and poverty in Finland, and that cuts in indirect labour costs are the best way to address the problem (Centre party 2002). Even social democratic politicians in Finland have started to suggest that structural changes in taxation must continue to make the system more favourable to employment-creation and that cutting the indirect labour costs of low-waged work may be the most effective means of using tax cuts to enhance employment (Speech by the Minister for Foreign Affairs, Erkki Tuomioja, January 2003). This idea gained popularity among social democrats and was indeed incorporated into the party's election manifesto that was published in March 2003. However, a certain amount of ambivalence is still evident in social democrats' attitudes towards cuts in social security contributions, as is evident in a statement by Tarja Filatov, the Minister for Employment, who argued against transferring resources from active labour market policies to cuts in employer contributions. Like SAK, she was in favour of retirement for those who are deemed unable to find work, and emphasised that any cuts in employer contributions must not lead to the transformation of full-time jobs into part-time jobs in the female-dominated sectors of the economy, or such low wages that they are not sufficient for life above the poverty line. The social democrats are keen to stress that they consider a range of measures necessary in addition to cuts in employer contributions: these include increasing the activation element in labour market support and cuts in VAT on services (from 22 to 8 per cent) (SDP 2003).

A working group led by Seppo Leppänen (talousneuvoston pääsihteeri) recommended that income taxes be cut overall, with an emphasis on tax cuts for low-income wage earners. This was considered by the working group to be the best method for increasing employment at the lower end of the income scale. Other employment-enhancing measures recommended by the working group included lower employer social contributions in the low-wage sector, and lower value added tax for small companies. However, the working group did point out that lowering employer contributions has some disadvantages as the jobs thereby supported are not necessarily completely new ones but replacements for old jobs. Lower employer contributions in the low wage sector may also slow down job creation in the more productive sectors. Another working group led by Lasse Arvela pointed out that international tax competition was already rife, and that Finland had to respond to this by, among other things, cutting taxes for large companies. The working group also recommended that the highest marginal tax rate in income taxation be lowered to 50 per cent, and that both capital gains taxes and company taxes (*yhteisövero*) be lowered to 25 per cent.

SAK, the Finnish blue-collar workers' central organisation, has suggested that the employment rate be increased with the help of cuts in the VAT on services, increased investments in active labour market policies, pensions for those who are genuinely

unable to work, shorter periods spent studying, guarantees of work or training for those under 25, support for enterprises that hire people with disabilities and restrictions on immigration. In contrast to most other actors, SAK was opposed to cuts in employers' social security contributions.

A report published by the Ministry of Labour in March 2003 recommended a number of measures for dealing with structural unemployment i.e. the hard core of the unemployed (approximately 174,000 individuals in 2002) who find it difficult to enter or return to employment even during periods of economic growth. The Ministry suggested that the hard core of the unemployed may be most easily integrated into the service sector, and in the area of personal services in particular. There is a need to both increase demand for labour and to improve the educational level of the unemployed so that there is a closer match between the demand and supply of labour. While the Organisation for Service Sector Employers agreed with the bulk of the report, it would have highlighted more the importance of creating jobs in the open labour market, rather than through labour market measures. The report emphasises that income tax cuts are unlikely to lead to an improvement in the situation of the hard core of the unemployed. Instead, cuts in employer contributions and value-added tax in labour-intensive and low-wage sectors are argued to be more effective. The report also recommended a greater activation element so that labour market support in particular is paid only to those unemployed who participate in activation measures (Ministry of Labour 2003).

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