Political Economy of the Finnish Welfare State

Jukka Pekkarinen

Introduction

In its basic outline, the Finnish welfare state meets the broad characteristics of a Nordic type of welfare state: an emphasis on public services and reliance on relatively autonomous local administration for their provision, as well as, in social security, a combination of universal flat rate benefits and earnings-related social insurance. Yet the Finnish case has certain salient features of its own; the system is subject to tight economic constraints, and welfare expenditure has been constrained to the dividend left over by economic growth. Even in a cyclical context, the balanced budget constraint has made welfare expenditure clearly pro-cyclical.

On a more positive side, the viability of the Finnish welfare state structure is enhanced by the fact that it is supported by the main political parties from the right to the far left; it also has the backing of the labour market organizations. This broad support influences the dynamics of the Finnish system. While under normal circumstance adjustments are often delayed by distributive struggle on some minor details, the Finnish welfare state has proved itself capable of deep structural reforms in times of serious economic or social crisis. We shall see that this capacity to make rapid adjustments in difficult times adds to the sustainability of the welfare state system in Finland.

Accounts of the emergence, scope and performance of welfare states in different industrial societies are understandably diverse. Following loosely the tradition of the Great Transformation by Karl Polanyi, many studies interpret the role of the welfare state in functionalist terms, as society’s self-defence against the disruptive influences of the market economy. From this angle, much stress in the explanations for the rise of the modern welfare state is given to the level of development of the market system in each society. Differences in the structure of various national social protection systems are in turn accounted for in terms of such structural prerequisites of the economy as its industrial structure and its exposure to foreign trade.
There are also studies whose starting points are more ‘voluntarist’ in the sense of assigning a central role to factors like historical heritage, ideologies and political power balance of each society. Finally, an economist is inclined to account for both functionalist and voluntarist viewpoints by assuming that different types of welfare states represent different sorts of socio-economic equilibrium. These all meet the constraints imposed by the structural characteristics of the economy and society in question, but can be sustained, under these constraints, by different sets of choices determined by interaction, conflict and coordination between firms, employers, employees and their organizations, political parties and government.

The interpretation of the rise and scope of the welfare state in Finland given in this chapter largely follows the economist’s approach just described. It proposes that there exists, at a general level, a Nordic model of a welfare state, which differs from its Continental European, Anglo-Saxon as well as Asian counterparts and reflects the specific structural characteristics of the Nordic countries. Yet, at a more specific level, there are clear differences among different versions of the Nordic welfare state. This divergence of the Nordic experience is exemplified by concentrating on the Finnish case, which supposedly is the least well-known to foreign scholars. Its divergence is indicated mostly by comparing it with the Swedish welfare state, which outside the Nordic countries is often understood as the Nordic model.

What is being argued is, first, that both the similarity at a general level as well as the divergence at a more specific level reflect different structural, ideological and political preconditions of each welfare model. Sweden and Finland share much in common as far as their economic structure is concerned, yet differences in the geo-political exposure and foreign trade structure of the two countries as well as differences in their ideological traditions and political power structures have given rise to salient differences between the Swedish and the Finnish varieties of the Nordic model.

Second, differences between the two versions of the Nordic model are in the first instance not that much reflected in the structure, not even in the socio-economic outcome of the two welfare models, as in the politics by which they are managed and adjusted to changes in economic circumstances. The Swedish model is generally interpreted as a social democratic creation and is laden with a high degree of conflict between the left and the right. The Finnish welfare state model, on the other hand, is more broadly based on a consensus between the main political forces from the moderate right to the far left as far as the basic scope and framework of the welfare system is concerned. The welfare state in Finland does not have as strong a social democratic image as its Swedish counterpart – or, as some observers have put it, all main political forces in Finland are social democratic to the extent that they share the basic values and priorities of a welfare state.

This difference in the politics of the welfare state accounts, third, to certain differences in the dynamics of the two types of the Nordic model. In...