

Editorial note

Depending on the emphasis of the welfare state scholar, Western welfare states have been seen as being in a phase of recalibration, restructuring or transformation. New directions of change aim towards targeting and enabling state and social investments and active citizenship. The main reasons for these changes are internal and external pressures witnessed by advanced economies. A long-term shift from manufacturing to services, with slower economic growth and lower productivity of service employment, together with a tremendous post-war expansion of welfare state commitments have created a context of permanent austerity. Changes in the global economy, the slowdown in economic growth with rising labour market insecurities and the changing demographic balance due to population ageing and family formation all generate considerable fiscal stress. As Paul Pierson argued in 2001, “There is little reason to expect these pressures to diminish over the next few decades. If anything, they are likely to intensify” (Pierson 2001, 411). The economic crisis of 2007-2008 has served to sharpen that focus.

Concurrently, from Pope Francis to the World Economic Forum, there are concerns about rising inequality. There is ample evidence for these concerns. For instance, the OECD (2008; 2011; 2015) has warned that inequality will continue to grow. This warning is in line with Thomas Piketty’s (2014) prediction of “a fundamental force for divergence”. We are back to the historic norm of persistently high and growing inequality.

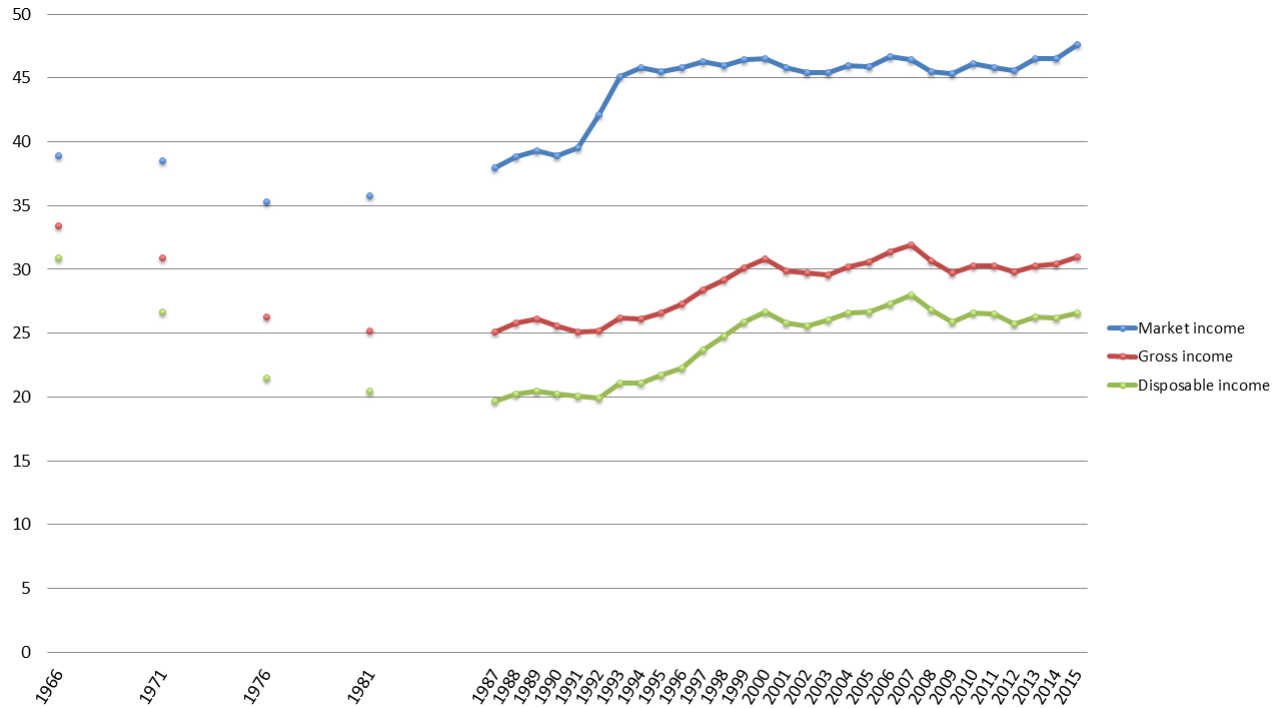
Finland is a tremendous example of a country of rising economic inequality. The increase in income inequality during the latter part of the 1990s was one of the fastest in the OECD hemisphere. In particular, the period between 1995 and 2000 was marked by dramatic increases in both gross and disposable income inequality (Figure 1). The rising tide did not lift all boats in the same way; consequently, a substantial number of people lagged far behind. The upper-income groups enjoyed exceptionally rapid increases in their income, whereas income increases in the lowest deciles were negligible. In some cases, such as the unemployed, income stagnated for a decade or so at the 1990 level (Blomgren et al. 2014).

After the turn of the millennium, the development of income inequality has been somewhat stable. Only a minor economic downturn decreased income inequality between 2000 and 2003, followed by a slight increase until the financial crisis in 2008, when income inequality began to decrease again. Following Piketty’s line of reasoning, the development of Finnish income inequality during the past two decades shows that we are living in an era of persistently high inequality.

The main reason for growing income inequality has been an increase in income among high-income groups, which has been mainly driven by increases in capital income. At the same time, the redistributing role of taxes and benefits – especially taxes – has been diminished. This has been mainly due to a dual-taxation system (i.e., differences in taxation between capital income and earnings). The increased importance of capital income has been a key factor in rising income inequality in Finland. Unlike the general trend in other OECD countries (OECD 2008; 2011), greater inequality in wages and salaries is not the most important driver of inequality in the Finnish case.

The opening of the Finnish financial markets and the introduction of new types of investment instruments since the late 1980s and early 1990s, combined with the ICT boom in the latter part of the 1990s, created entirely different circumstances for business and financial markets. Consequently, the role of financial assets has increased in the wealth structure among the highest income decile. Net wealth inequality has also risen during the 2000s, and in absolute terms, the highest income decile in particular has increased its average net wealth (Jousilahti & Niemelä 2016). These factors, together with dual-taxation reform in 1993, were responsible for the shift from earnings to capital income, which in turn meant a diminishing redistributive role of income transfers.

As described above, we have a rather clear picture about the trends and general mechanisms of income inequality. However, the Finnish experience has critical implications for research and thus represents the outline for this Special Issue on the mechanisms of economic and social inequalities in Finland. First, to fully understand the mechanisms of inequality, we should focus on the political economy of inequality as well as its impact on specific policies. Second, as the Managing Director of the IMF, Christine Lagarde, stated in her speech at the World Economic Forum in 2013, “Excessive inequality is corrosive to growth; it is corrosive to society” (Lagarde 2013). Her statement concerns the social and economic consequences of inequality. If we want to draw a complete picture of the mechanisms of inequality, we should look at both inequality of outcome and inequality of opportunities over the life course (Sen 1979). High inequality can act as a barrier to growth, with inequality in capabilities, for instance, serving to reduce the size of the pie. Here, sufficient social protection and public services can potentially serve to provide an environment that supports, rather than undermines, economic growth. There is no shortage of evidence that inequality has concrete effects on people’s everyday lives. It produces the polarisation of everyday lives, a waste of resources, fear of others, sickness, and short life ex-



Source: Statistics Finland, Income Distribution Statistics

Figure 1. Income inequality in Finland, 1966–2015. Gini coefficient of equalised (OECD modified) income, %.

pectancies, among other things (e.g., Therborn 2013; Wilkinson & Pickett 2011). Aside from the individual-level impact, inequality generates effects at the macro level in terms of national economy, public health, social trust, violence, and social cohesion in general.

This Special Issue can be divided into three sections. The first section focuses on politics and specific policies. Hellman, Monni and Alanko provide an overview of how conceptions of the welfare state have changed in Finland over the past 65 years. The historical narrative of governmental programmes shows that the first constructs of Nordic welfare state policies entered these programmes in the 1960s and that the welfare state as a context was taken for granted in the late 1980s. In addition, since the mid-1990s, Finnish coalition governments have demonstrated that the welfare state has not been a product of strong social democracy but of splits within the right wing. Finally, this analysis shows that as late as 2014, the welfare state's aims of inclusion and universalism were dramatically toned down.

Aaltonen, Heino, Ahola and Martikainen examine the effects of more concrete austerity policy, namely, the 2016 pharmaceutical reimbursement scheme reform. Their microsimulation results indicate that the reform increased out-of-pocket costs for most patients. The largest increases affected patient groups with high health needs and a large number of purchases. Therefore, the aim of targeting cost containment measures to patients with lower medication use was not entirely successful.

Steel and Jyrkinen focus on employment services, particularly how official employment services and services offered by the third sector support the capabilities of immigrant women to find work. Although official employment services seem to have little time for personal advice, services provided by the third sector have formed an environment that has strengthened women's capabilities. As a policy recommendation, the authors suggest that the intersection of gender and foreign background should be taken into consideration. More emphasis is also needed on personal contacts in employment services.

The second section focuses on outcomes of policies by analysing trends in child poverty and differences in food consumption between different income groups as well as personal experiences of the receipt of charity food aid in Finland. Härtull, Cederström and Saarela examine the association between labour market status and income poverty among households with children in 1987–2011. They find that during the study period, income poverty increased markedly among parents who were unemployed or outside of the labour force compared to those who were employed. By examining disparities in food consumption among low-income and other socioeconomic groups in 1985–2012, Lindblom finds that disparities between the income groups have diminished. Therefore, she concludes that low income does not necessarily translate to less healthy eating habits. Finally, Laihiala, Kallio and Ohisalo focus on charity food aid, particularly on the shame experienced among recipients of char-

ity food aid. Approximately one out of four respondents perceive receiving food aid as humiliating or socially harmful. The authors also find that feelings of shame are associated with socio-demographic factors. Feelings of personal shame are more common among women, the elderly, the highly educated, and those who need charity food aid to support their entire family.

The final section focuses on the intergenerational aspects of inequalities. Karhula, Lehti and Erola explore the intergenerational effects of parental unemployment during the depression of the early 1990s on the socioeconomic status of children. Their analyses show that parental unemployment can have negative effects on children's socioeconomic outcomes. Moreover, the results indicate that parental unemployment is equally detrimental at any phase of the economic cycle. Kallunki and Purhonen explore the intergenerational transmission of cultural capital (education and cultural participation). Their results show that there is a clear association between the cultural capital of parents and their children. In particular, parents' education level strongly influences that of their children. In addition, parents' educational level and cultural participation is associated with children's cultural participation.

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Acknowledgements

This Special Issue was supported by the research project Tackling Inequalities in Time of Austerity (TITA), funded by the Strategic Research Council of the Academy of Finland (decision number: 293103). The guest editor and all of the contributors to this Special Issue are extremely grateful to Vesa-Matti Paasivaara for his valuable work as an editorial assistant. We also would like to thank all anonymous reviewers whose comments and suggestions have played an important role in improving the quality of the issue.

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