

Why is the adequacy of Finnish basic social security under special scrutiny by the Council of Europe? A critical review

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In recent years, Finland has frequently been making headlines in national newspapers for being admonished by the Council of Europe for inadequate levels of social security. Finland is the only country that has been reproached for these levels as a result of a complaint. Consequently, Finland is obliged to regularly report about improvements to basic social security until its levels fulfil the requirements.

The recurrent reproaches seem strange when juxtaposed with the relatively high ranking of Finland in the comparisons of minimum income levels (SEGEABSS, 2015; Van Mechelen & Marchal, 2013). The existing studies place Finland's minimum social security level at the top or at a medium level in Europe, depending on the family type and life situation. In addition, the at-risk-of-poverty rates in Finland in 2017 were the second lowest in Europe (Eurostat, 2018).

This article aims to shed light on the factors behind the reproaches by the Council of Europe. For that purpose, we describe the evaluation method used by the Council and present a few critical points and potential improvements to the method.

A closer examination reveals that two factors underlie the criticism by the European Committee of Social Rights (ECSR). First, Finland is the only country that has allowed national non-governmental organisations, in addition to certain international ones, to file complaints (ECSR, 2019). Practically all European countries, including Sweden, Denmark and Norway, have also received critical notes for their low basic social security or minimum income level. However, Finland is the only country that has received a notice on the basis of a complaint, as a result of which the country's basic social security level is monitored particularly carefully.

The second factor is related to determining 'an adequate level', which is not a straightforward issue in the context of a single country, let alone at the international level.

International comparison of basic social security requires paying attention to several factors

International comparison of social policies is always complex because of the structural differences in the systems. For instance, many European countries do not offer a basic unemployment allowance

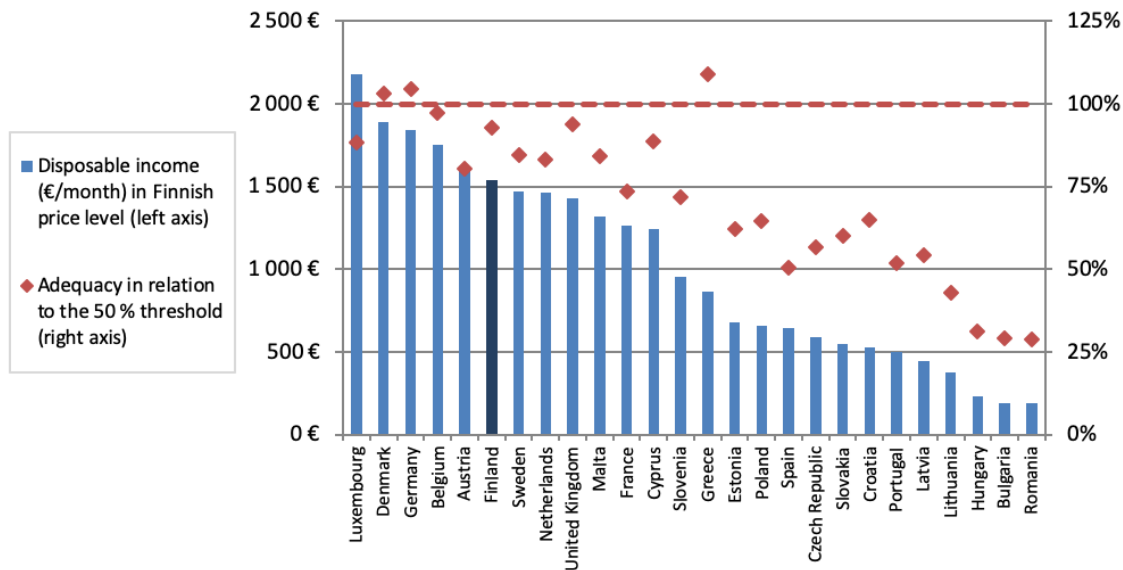
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corresponding to Finland’s labour market subsidy with no restrictions to its duration and no requirements of a work history. Rather, prior contribution or work history is often required. Also the degree and structure of sanctioning vary notably. (e.g., Van Mechelen & Marchal, 2013.)

However, even if the different countries had similar systems, comparing basic social security levels is complicated by differences in standards of living. In its assessment, the ECSR uses an income level corresponding to 40 or 50 per cent of the country’s average income (so-called equivalent median income) as the threshold of adequacy. The basic social security benefits are compared to the level of 50 per cent. If they fall below this threshold but are nevertheless over 40 per cent of the median income, supplementary benefits, such as housing allowance and social assistance can also be taken into consideration. (ECSR, 2015.)



Note: The examination assumes that the unemployed people have no work history. Depending on country, the rates include unemployment benefit, housing allowance and/or social assistance. The used housing costs amount to 20 per cent of the average gross earnings in each country, which is the assumption used in e.g. calculations by the OECD. For more information, see e.g., Ilmakunnas & Moisiso, 2019.

Figure 1. The level of minimum income for unemployed people and its relation to the threshold of adequacy used by the ECSR in 2017, an average of four different family types (lone dwellers, single parents with one child, couples, couples with two children).

Source: EUROMOD (see Marchal et al., 2019), own calculations.

In Finland, 40 per cent of the median income amounted to some EUR 776 per month in 2013. All basic social security benefits were below this level, which means that supplementary benefits were not taken into account. The Committee concluded that all of Finland’s basic social security benefits, including the labour market subsidy and the guarantee pension as well as the last-resort social assistance, were inadequate (ECSR, 2015). Later assessments have come to the same conclusion (ECSR, 2017).

The way the Committee assesses the adequacy of basic social security (in Finland) leaves room for improvement. The Committee has ignored the supplementary benefits if the basic social security benefit falls below a certain level. However, the majority of labour market subsidy recipients in Finland supplement their income with a housing allowance and one third with social assistance (Korpela, 2018; SEGEABSS, 2015).

Moreover, a certain percentage of the country's median income says little about the standard of living enabled by the income level (see Goedemé et al., 2015 for discussion). For instance, even after purchasing power parity adjustment, Finland's at-risk-of-poverty threshold – calculated as 60 per cent of the median income – is twice as high in euros as Estonia's, and four times as high compared to the Romanian poverty threshold.

This issue is indicatively illustrated in Figure 1, which presents the levels of minimum subsistence in European countries and its relationship with the 50-percent threshold used by the Committee. The numbers are the means of four different family types.

European countries differ considerably in minimum subsistence levels. In Finland, on average, the level of minimum income protection is fairly close (93 %) to the threshold value used by the Committee. Only three countries appear to meet the threshold used by the Committee: Germany, Denmark and, somewhat surprisingly, Greece.

These calculations portray the basic social security of Greece, a country struck by economic problems, as adequate due to the country's low median income. This highlights the problems of an indicator tied to the median income. The indicator provides no information about what kind of a standard of living the guaranteed income level actually facilitates in different countries.

Research cannot determine the “correct” level of basic social security

There is no absolute definition of an adequate level of basic social security. What is considered an adequate or correct level of basic social security is largely a political value judgement for which research cannot provide a direct answer. The 50 percent threshold used by the committee does not have a solid scientific reasoning nor would any other threshold.

Naturally, if we are to set standards for an adequate level of social security, agreements for thresholds have to be made and they are always non-scientific to some degree. The adequacy of social security can be regarded ultimately as a subjective issue – depending on the life situation of the household – but objective measures are needed at the institutional level when determining national benefit levels or evaluating the adequacy of social security. Moreover, the issue should not be reduced to a question of income. Low-cost access to certain services such as health care can essentially improve the standard of living, an issue which is not measured through median-tied indicators.

Some of these issues can be tackled through consensual methods such as so-called reference budgets which reflect the minimum adequate level of living in a country. Reference budgets include core items such as goods and services required for a socially acceptable standard of living (see e.g., Goedemé et al., 2015). Reference budgets have been used, for instance, in assessing the adequacy of basic social security in Finland (SEGEABSS, 2015). However, compiling the reference budgets is laborious and they are currently available for only a handful of European countries (see Goedemé et al., 2015). Research work for developing reference budgets at the level of the EU is supported by the [European Platform on Reference Budgets](#) network.

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