Globalization and The Welfare State
A Case Study of Finland

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Chapter I: Introduction

The development of the welfare states in the western countries is considered as a particular historical phenomenon. However, nowadays there seems to be a general agreement that the welfare states are 'under threat' and urgent changes and restructuring are needed. The reasons, found for the current situation of the welfare states, therefore are various. One largely approved approach is that the overall conditions, in which the welfare states were built, no longer exist. The changes in the global economy, in production, family, demographic structure, working life and technological development are often mentioned as causes for the cessation of the previous form of welfare state. Less consensual therefore is the problematic behind these changes and diagnoses of the crisis: are the sources of crisis exogenous or endogenous? Are they caused by market failure or are they faults of the welfare state? Are the states’ fiscal crises a consequence of a new economic order? Or is it the demographic change and aging population that makes the welfare state no longer affordable? - The solutions or explanations proposed depend on the interpretation of the crisis.

In this scenario, Finland is still considered as one of most affluent democratic countries in the world, recognized for having an extensive welfare state structure producing a high level of services, income security and equity. From a global perspective, Finland has a rather marginal position in world politics due to its geographic location in the outskirts of Europe and its small population with little more than five million inhabitants. Nevertheless, Finland has a particular history being located between the east and west, with a desire to be rather seen as part of the west. The development of Finland, from a backward and poor agricultural country to one of the most advanced countries in the world, serves as an interesting example where economic progress and the development of the welfare state went hand in hand. However, alongside with various reforms triggered by the economic crisis at the beginning of 1990s, there have been some recognizable changes in the state's role and commitment to welfare.

Many new reforms were already planned in the 1980's. The deregulation of the Finnish financial markets in the 1980's, led to rapid growth and a booming economy but ended in a banking crisis and deep recession. The impact of the recession was strengthened due the simultaneous collapse of Soviet Union, which was one of the major trading partners of Finland. This economic crisis has been seen as the major contributor to the Finnish welfare state crisis. However, it was the 'ill-structure' of the welfare state, which was primary blamed
for the crisis - a view which was fostered also by international organizations in favor of more liberalization, deregulation and privatization. The collapse of the Soviet Union strengthened the (neo)liberal world view and the tools recommended from IMF and OECD seemed to be the right policies to overcome the crisis.

Some authors (e.g. Patomäki 2007, Jutila 2010) have contested this view and the causes of the crisis. First, they claim that the welfare state was not causing the economic crisis. They see the uncontrolled opening of financial markets as the main cause of the crisis, which served as a facilitator helping to legitimate even further (neoliberal) reforms. These reforms would most likely, in a better economic situation, been much more difficult to put into practice. On the other hand, there are others (e.g. Pierson 2001, Iversen 2001) that point to internal factors, such as the aging population, maturation of the governments welfare commitments and transformations in the household structures, as the main contributors to the sustainability dilemma of the welfare states, independently of any global forces.

The case of Finland offers an interesting study of the changes, which have taken place in a traditional and deeply institutionalized welfare state. The interplay of local and global forces introducing new policies and new goals in the shade of the stubbornly popular welfare state are observed in this thesis. The main research questions to be addressed are; to which extent can it be claimed that the recent reforms are an 'adaptation', upholding the Finnish welfare state model or could it be claimed that a more fundamental change has occurred? And what is the role of global and local forces in triggering these changes?

Two case studies are conducted in order to approach these questions. With examples from Finland, the case studies aim to demonstrate how global trends and pressures can be experienced and how they can influence national policy making. In the first case study, part of Pierson’s (1994) theory of welfare state retrenchment is applied to show the changes that have occurred in taxation and trends in income inequalities. Other structural reforms will be shortly discussed when they are interlinked with the changes in taxation. Since in the scope of this thesis it is not possible to discuss all significant dimensions mentioned by Pierson, the focus is on the systemic retrenchment which brings a long term retrenchment for the whole system. The strategies of systemic retrenchment are 1) defunding the welfare state, 2) weakening the popular attachments to public social provision, 3) modifications of political institutions and 4) increasing non-welfare expenditures. This thesis argues that these strategies are mutually
reinforcing; defunding leads to lower level of benefits and services, which will decrease the support basis of the welfare state. The second case study discusses the role of the education policies as a significant part of the welfare state. The focus in this part is in the recent reforms of higher education. The reforms will be discussed with the help of governmental reports and other sources providing insight for the current changes in education policies.

Global trends have a role to play and many countries are experiencing similar reform waves as Finland. Cox, R.W. (1987) has analyzed the dual process of internationalization of the production and internationalization of the state, which in neo-gramscian terms creates a new 'historic bloc'. Globally, the 1970s can be seen a starting point of an emergence of a new historic bloc, where the 'Keynesian consensus' was challenged by a more liberal and market oriented world view. The approach of critical international political economy helps to analyze the changing roles of the state and the interaction of global and local forces. This interaction will be demonstrated in the case studies of Finland's reforms.

The hypothesis is that the global forces, working through international organizations, such as the EU, OECD and IMF, propose certain views and trends. Nevertheless, local will is required to adopt the proposed policies. In the national context the adopted policies are legitimated with the assumption that everybody benefits from them. The power of recommendations of organizations such as the OECD and IMF lays in their creditability as multilateral international organization, creating the best available expert knowledge in global matters, especially in terms of economic issues. Finland, unlike some countries in a tougher economic situation, is nevertheless not obliged to follow these trends and suggestions made by these organizations. But since the 1980's Finland has been increasingly willing to follow these suggestions in order to cope in the internationalized world and in order to remain globally competitive. The focus of the case studies is to demonstrate how the pressures from global trends interacts with the local will to adapt and shape the traditional strong welfare state in Finland. By following the OECD and IMF recommendations and the 'right' economic policies, positive short term results are likely to occur, measured according to the standards of these organizations. The price of these 'right policies’ is a further departure of the values of a universal welfare state.

The theoretical chapter begins by defining the most important concepts for this thesis; the welfare state, social policy and globalization. The second part of theory presents the three
worlds of welfare capitalism, as classified by Esping-Andersen 1990. Esping-Andersen’s theory is considered to be a ground breaking theory analyzing the historical development of different welfare state regimes. Even though the developments of various systems have a long history, the era of 'Keynesian consensus' after the Second World War has been called the 'golden age' of welfare state development, institutionalizing the national welfare apparatuses. Therefore the historical ideal type of the 'social democratic' model provides a reflection point to the later changes in the case of Finland. The third section of theoretical analysis introduces the challenges welfare states have come to face after the 'golden age' of Keynesian consensus. The main positions and different emphasis of relevant factors circling around the welfare state discussion will be presented in this section. The following part moves to Pierson's (1994) theory on welfare state retrenchment. First the main points of his analysis are introduced and then complemented with some remarks, including Cox R. H.’s (1998) analysis on the retrenchment consequences. The fifth section of the theory moves to another level, analyzing how the global trends and changes in the economy are affecting the welfare states. R. W. Cox’s (1987) concept of internationalization of the state will be analyzed and the welfare state discussion will be connected through a critical approach to the global political economy.

The third chapter of the thesis will be devoted to the case study of Finland. The chapter begins with the methodology. After that the key characteristic to the Finnish welfare model and its progress will be shortly introduced. The economic crisis in the beginning of 1990s marks a turning point of the welfare state development. The first case study focuses in the systemic retrenchment, using Pierson's theory as a framework. The focus is in the changes and trends observable in the taxation mechanism and to some structural changes. The second case study focuses in the changes in education policy, especially in the reforms of higher education. Both cases present an example of the interplay of local and global forces, shaping the welfare state in a certain direction. In the fourth part the main outcomes of the case studies will be discussed and linked to the theoretical framework before the final conclusion.
Chapter II: Theoretical Framework

2.1 Definitions and Dimensions

As a most basic definition of the *welfare state*, it can be understood as a concept in which state policies have a key role in social protection and promoting the well-being of its citizens. However, this definition leaves out many questions, such as; are these policies emancipatory or not, do they help legitimize the system, contradict or aid the market process and what should be the minimal level of protection provided from the state (Esping-Andersen 1990:18). Before Esping-Andersen's groundbreaking work, Titmuss had already made a distinction between 'residual' and 'institutional' welfare state models. The institutional model refers to a universal system committed to production and distribution of welfare by an active state. The residual model considers the state as responsible for guaranteeing a minimum level of welfare only in the cases where family or market fails to produce it. Later, he added the 'individual achievement system', where needs were met through involvement in the labor market and through work-related welfare measures (Titmuss 1974).

*Social policy* generally refers to systems that allocate resources and aim to decrease the influences of social risks to the well-being of households through redistribution of resources, preventive measures and regulations (Saari 2005: 28). According to T.H. Marshall's (1977) definition, social policy is understood as state-lead societal policy, which aims to guide and complete the function of economy, in order to achieve goals that markets would not produce without political intervention. These political interventions are guided by other values that are dominant in the free markets. The term welfare state is connected with social policy and encompasses an idea of an institutional structure, which produces welfare and has been built through conscious political choices. The concept is based on the idea that it is possible to influence the 'amount' of welfare or people's well-being through socio-political measurements. The goal of producing and increasing people’s well-being legitimizes the concept of the welfare state (Kajanoja 2005:93). Additionally to the traditional GDP ranking of nations, many indicators have been developed to take into account welfare aspects such health, nutrition, income distribution, housing, human rights, and social security, which all arguable have a major impact on people's well-being (Kajanoja 2005).

In a narrow view, the welfare state encompasses income transfers, social services and the question of housing. In a broader view, a whole range of areas and programs can be added
encompassing pensions, work accident and sickness benefits, health care, unemployment insurance, family benefits and services, education, long term care, disability, labor market activation and social assistance. The broad definition of welfare state also includes the frame of political economy, states role in managing and organizing economy, including employment, wage policies and overall macro-economic steering (Esping-Andersen 1990). This broadest definition of welfare state therefore contains the relation between the state and external, slow-changing structures, such as industrial life, labor market structure, regional-household- and population structure (Saari 2005). It is notable that the stability of these supporting frameworks and production markets can, in many cases, be more important to the well-being of the households than social policy itself. Interestingly, until the 1990s, changes in the supporting framework of social policy explained the changes in the social policy. Later, more attention has been drawn on how social policy influences the functionality of the framework. The 'causes' and 'effects' have changed places in public discussion. (Julkunen 2001a,b; Saari 2001; Saari 2005; Pierson 2001). At the same time, the traditional emphasis on social policy and welfare state as mechanism to reduce class conflict and guarantee welfare for the whole population has moved towards adaptation to the consequences of the societal structural change and controlling the social risks (Saari 2005).

The structural changes, where the welfare states are increasingly required to adapt, are often linked to globalization in the public discussion. Globalization in simplest terms can be understood as widening, deepening and speeding up of global interconnectedness (Held et al. 1999). However, it has been difficult to construct generally accepted definitions for globalization. As stated by Yeates (2001), globalization has become a buzzword, which has been widely blamed and credited for a wide range of phenomena. The analytical positions vary from hyperglobalist and transformationalist to skeptic internationalist thesis (Held et al. 1999). Many authors relate the current global trends and societal transformations along the process of economic globalization.

Economic globalization has in many contexts become associated with a neoliberal agenda pursuing towards a genuine world market. The ideological presumption draws from the convictions of classical liberalism, which is based on the ideas of John Locke and Adam Smith. The main premise of the view is its trust on market forces and their capacity to deliver prosperity, liberty, democracy and peace to the whole humankind (Scholte 2000). The ideas of classical liberalism were rather marginal after the Second World War and displaced by the
‘Keynesian consensus’ advocating the state’s role in controlling and maneuvering the markets and pursuing for welfare production and increase of collective social security measurements. Friedrich von Heyek re-found the ideas of classical liberalism in the 1940s and his ideas were later taken over by Milton Friedman. Both men became considered as the most significant advocates for liberal economic theory (King & Ross 2010). Throughout the 1970s neoliberal ideas gained more and more supporters from powerful and well-funded think-tanks and institutions. Same actors and associations can be considered as devoted supporters of Thatcher's and Reagan's administrations (Patomäki 2007). These administrations were both devoted to change the perceptions and functions of states by following the ideas of neoclassical liberalism. The main change to the Keynesian consensus was the emphasis of the superiority of markets delivering the best possible outcome and maximization of welfare for all (Kajanoja 2005).

Nevertheless, globalization alongside the economic aspects is a multidimensional concept, which exercises a transformational consequence on a range variety of societal relationships and phenomena. Though, rather than being an external uni-directional force, globalization is actively produced by various actors, with the nation states in the forefront (Yates 2007). Some authors have considered globalization as a socially constructed myth, which is used in political, economical, cultural and even in the everyday life to describe the occurring social transformations (Hirst & Thompson 1996; Bradley et al. 2000). Nevertheless, these transformations can be seen as part of a wider ideology or project, which is changing institutional structures of societies at a global level (Vaira 2004). Meyer et al. (1987: 12-13) have described institutional structure as the complex of cultural theories, ideologies and prescription about how society works and how it should work to attain collective purposes. These institutional structures at the global level create the world polity (Thomas et al. 1987) or world order (Cox, R.W. 1987). The recent structural changes in the world order are commonly acknowledged as shift from fordist to post-fordist production regime (Vaira 2004), other authors emphasize the ideological shift and rise of neoliberal ideas behind the changes.

The international interstate organizations, such as the IMF, EU or OECD among others, are major agents in the global policy making arena. These agents are powerful in determining the overall direction of global trends and also as an institutions defining the norms of correct behavior, economical steering and organizational structures. The nation states apart from being members of the institutions have the task to translate the recommended policies and
regulations into the national policy making. This interplay of global and local forces is central in the transformation of the states alongside the global structure.

After all, it can be concluded that the term ‘globalization’ remains contested. Some authors argue (e.g. Hirst & Thompson 1996) that globalization as a phenomenon has existed for centuries and the current trends at highest can be considered as increased level of internationalization between national economies. However, this increased internationalization by other authors is considered as the beginning of the contemporary globalization experience, which is located in the ending of monetary and political post-war regime after the 1970's (Schwengel 2008).

2.2 Esping-Andersen's Three Worlds of Welfare Capitalism

The 'golden age' of welfare-nationalist states is located in the post-war era, where the Keynesian consensus and propitious economic growth created the framework for welfare state development in the western countries. Similarities can be found between the countries and models, but the national historical trajectories have created their own institutionalized arrangements, based on distinctive histories, values and cultural preferences (Esping-Andersen 1990). Esping-Andersen's (1990) groundbreaking work analyzes the outcomes of these factors and the development of the three different models of welfare capitalism in the western context. He argues that the social contract of the welfare state defines what are understood as the roles given to the states, markets or families in the welfare provision. Esping-Andersen notes that the welfare states must not be identified only in terms of what they do, how much money they spend or in terms of legislation. In order to gain an overall picture of the welfare state or welfare state regime, the whole interplay between private and public actors, the overall distributional structure, the relation between social rights and private contracts, inequalities of class, gender or status, must be discussed (Esping-Andersen 1990:103).

Esping-Andersen uses the concept of welfare state regime putting emphasis on the institutional arrangements, rules and understandings that guide and shape concurrent social-policy decisions, expenditure developments, problem definitions and the response and demand structure of citizens and welfare consumers (Esping-Andersen 1990: 80). The previous comparative research of welfare state was often focused on the expenditure rates or/and the legal tasks taken over by the government. According to the expenditure definition,
a state can be defined as welfare state when half of the public expenditures are allocated to the social security (Saari 2005:27). The flaw of this definition, as pointed from Esping-Andersen (1990), is that the expenditure rates as such do not tell how, for what or to whose benefit the money is used. This can lead to very different consequences in terms of universality, coverage or re-distributive outcomes. On the other hand, the institutional definition describes a state as a welfare state if it has social protection systems, based on legislation and covering the whole population (Saari 2005: 27). However, this definition leaves out the question of the level and adequacy of the particular system. Equal, flat-rate benefits can lead to high inequalities in the population if the coverage of the social protection is low and the necessary additional, private insurances are not affordable to all. Four variables are considered essential in classifying the welfare state model; mode of access, benefit structure, financial mechanism and actors maintaining the system. This institutional structure plays crucial role in the construction of different welfare state models, forming its clientele and interest groups and also determining the political strength and support base for the given model (e.g. Bonoli & Parlier 2001).

According to Esping-Andersen's (1990) theory of welfare state regimes, the historical trajectories determining the development of the different welfare state modes also play a crucial role in determining the path for further welfare state development. Alongside the institutional arrangements between state, market and family, Esping-Andersen defines de-commodification, social stratification and employment as key factors in constituting the welfare state's identity. De-commodification refers to the state's capacity to diminish citizens’ status as 'commodities'. This can be understood as the degree, which social rights permit the people to make their living standards independent of pure market forces (Esping-Andersen 1990). He also understands the welfare state as a social stratification system on its own right; the regimes resulting from particular historical origins produce different models of stratification and also follow their own developmental trajectories.

Esping-Andersen identified three modes of western welfare states; the liberal, conservative/corporatist and social democratic. These models are characterized by their distinctive approaches or social contracts in organizing the institutional arrangement between the main actors in the society. Also their integral system of stratification and the way social relations are ordered reflect, form and reproduce themselves through the institutional setting of a particular state. These three models reflect a different type of compromise of balancing the relationship between capitalism and welfare in the western countries (Esping-Andersen
2.2.1 Liberal Model

The *Liberal* welfare state is characterized by means-tested benefits or/and modest universal transfers and social-insurance plans for the middle class. The modest benefits are used by low-income working class and state dependents. Eligibility for benefits is strictly regulated and often carries a negative stigma for the users. The state encourages market either passively, by guaranteeing only minimum or actively, by subsidizing private welfare schemes (Esping-Andersen 1990:26-27). From an ideological point of view, the market is seen as superior provider, which fosters equality and erodes poverty (Esping-Andersen 1990:42). Middle classes have become institutionally wedded to the market, through private or occupational based insurance solutions and therefore have less interest to promote future welfare state expansion. The de-commodification effect in liberal welfare state is minimal and only the very poor or the poor working class is a client of welfare state services.

The goal of the liberal regime is to promote individual freedom, equal opportunity and healthy competitiveness through free markets. As one 'prototype' of liberal regime, Esping-Andersen cites the United States' welfare arrangement.

2.2.2 Conservative/Corporatist Model

Germany, France, Austria and Italy are defined as typical examples of *conservative/corporatist* regimes. Characteristic for this model is its preservation to status differences: rights are attached to status and class. Churches played an important role shaping the model, which is associated with a strong commitment to the traditional family with a male breadwinner. Family benefits encourage motherhood and the state only interferes when the family does not manage without extra support (Esping-Andersen 1990).

This regime developed through conservative political forces, which feared that liberalism, democracy and capitalism could threaten the base of their power and privileges. Therefore, the aim was to institutionalize middle-class loyalty to both, preservation of occupationally segregated social insurance, and to dominant political forces. The stratification structure of the conservative social policy therefore is designed to maintain traditional and hierarchical status relations. Benefits are typically earnings-related and determined by occupational status. Relatively large groups of the population have traditionally not participated in labor markets; especially the women's place was considered outside that realm and defined through the status
of her husband (Esping-Andersen 1990).

2.2.3 Social Democratic Model

Unlike in the liberal model where services and benefits provided by the state are mainly limited and targeted for the poor, or the conservative/corporatist regime where insurance schemes are determined by occupation and aimed to maintain class and status differences, in the Social Democratic model the principles of universalism and de-commodification were extended also to the new middle class. Social democracy has been considered as the dominant force behind the social reforms, which goal was a welfare state that would promote equality, instead of dualism between the state and market, between the working and middle class. One universal insurance system, which covered every individual regardless of age, status or gender served as a base for national solidarity and promoted welfare in equal terms. Earning-based benefits and relatively high level of services guaranteed middle class support for the system. The core idea of the social democratic model was that everybody was contributing and benefiting from the same system (Esping-Andersen 1990).

The particular fusion of socialism and liberalism has been considered as characteristics of the social democratic model since it provides a collective solution for individual security and freedom. To put it in Esping-Andersen's words: “collectivism is not pursued for its own sake, but in order to bring out the utmost in every individual soul” (Esping-Andersen 1999:171). In the early days of the development of the social democratic model, also the absence of private options, facilitate the creation of collective solutions. Universalism became the guiding principle, which equalized status, benefits and responsibilities of citizenship and helped to build political coalitions (Esping-Andersen 1990).

2.2.4 Remarks on Esping-Andersen's Typology

The typology of Esping-Andersen has been a widely used tool but it has also drawn some criticism. Arts & Gelissen (2010) have summarized the general critique towards Esping-Andersen's model. Firstly, it has been noted that the typology is neither exhaustive nor exclusive. In reality, there are more than three worlds of welfare capitalism and there are more anomalous cases than presumed, which therefore would require substantial modification or revision of this typology. Other scholars have noted shortcoming in the methodology and questioned the criteria, operationalisations, methods and variables used by Esping-Andersen.
Therefore there is some skepticism towards the regime concept altogether and for its usability for comparative analysis (Arts & Gelissen 2010:527).

The feminist critique has pointed out the lack of importance given to the gender contract in each model, and the different distribution of paid and unpaid work between men and women, which are issues that Esping-Andersen has paid some more attention to in his later work on welfare states. Nevertheless, the regimes are bound in time and countries, and can also shift from one regime to another (Laitinen-Kuikka 2005:312). This is especially significant in the time when most welfare states are experiencing a wide range of reforms. Therefore, the solid typology might not correspond to the changes that have occurred. Some authors (e.g. Kautto 2010) have questioned whether the models classified by Esping-Andersen have ever existed empirically.

Esping-Andersen has respond to the critique by developing his theory and pointing out that the three models are based on an ideal type of each regime, which does not necessarily have an absolute counterpart in the reality. However, it is still possible to cluster countries in relation to the regime type they fit the most. Despite the critiques and some limitations given to any typology, Esping-Andersen's classification can be considered as a solid picture and analysis of the different welfare state models as they existed in the late 1980s. Therefore, these ideal types can also serve as a starting point for an analysis of the changes that have occurred during the last decades.

### 2.3 Welfare State Challenges

As mentioned earlier, the post-war period until the collapse of Bretton Woods system in 1971, has been defined as the 'golden age' of welfare state development. The early roots of welfare states have however, often been associated to the introduction of obligatory social insurance by Otto von Bismarck or the national insurance scheme created by William Beveridge. Nevertheless, it was the leading role of Keynesian economic theory with rapid economic growth that shaped the state policies in the post-war years, legitimating state's role in controlling economical and social matters allowing further development of welfare nationalist states.

The starting point for gradual deterioration of welfare states or welfare state 'crisis' has been
associated with the weakening of the Keynesian consensus, break down of Bretton Woods
system and the oil crisis at the 1970s. Overall, in the welfare state literature, there is a
widespread consensus that simply the conditions of the time when the welfare states were
developed no longer exist. The changes in the economy – the collapse of Bretton Woods
system, the breakdown of the Soviet Union accompanied with long term secular changes such
as increasing internationalization of the trade, capital and finance – have drastically changed
the economic framework where the nation states operate. Technological change has enabled
and accelerated wider changes in the international economy, in production, ways of
communication and in the process of de-industrialization. Increased participation of women in
the labor market has changed the family structures and the gender roles have been questioned
as well as the division of female/male – unpaid/paid work. The demographic structure has
changed, increasing the dependency rates at the same time as less people are contributing to
the welfare system. The premise of full-employment does not seem attainable in the current
situation, especially when today it would also include the woman's labor force (Esping-
Andersen 1996).

Many authors agree with Esping-Andersen that through the various and fundamental changes,
the conditions of the original welfare states no longer exist. In Esping-Andersen's words:

“In the west welfare states were built to cater to and economy dominated by industrial mass
production, in the era of Keynesian consensus there was no perceived trade-off between
social security and economic growth, between equality and efficiency. This consensus has
disappeared because the underlying assumptions no longer obtain, non-inflationary
demand-led growth within one country appears impossible, full employment today must be
attained via services, given industrial decline, the conventional male-breadwinner family is
eroding, fertility is falling, and the life course is increasingly “non-standard”.” (Esping-
Andersen 1996:3).

Even the devoted welfare state supporters have come to increasingly acknowledge that the
variety of changes, nationally and internationally, have created a huge challenge to the
sustainability of the welfare state. Kaufmann (2001: 30-31) has classified the different aspects
of diagnoses as fiscal crisis, demographically induced crisis, crisis in control and crisis of
trust. The first two are closely related to the changing conditions mentioned above; changes in
the economic environment, the process of de-industrialization and slower growth with current
demographic trends, longer life expectancy, increasing amount of unemployment have
contributed to a major fiscal pressure and questioned the (economic) sustainability of welfare states. With this 'crisis of control' Kaufmann (2001) refers to the increasing suspicion of the states' capacity to make efficient social policy decisions in the globalized world. However, different positions towards the welfare critique can be identified; the liberals protest against the expensiveness and inefficiency of the welfare state and claim that social welfare weakens work ethic, competitiveness and families’ potential for self-help. The critique from political science on the other hand, fears that democratic institutions will be overburdened with demands for decision ('crisis of governability') or overruled by corporatist bargaining. The sociologist point out the lack of quality and effectiveness in legally and bureaucratically controlled service production. Lastly, the crisis of trust can emerge from the state’s failure to bring improvements and act as mediator in the class conflict decreasing solidarity and trust in the state (Kaufmann 2001).

'Globalization' is often named as one major challenge to the welfare state. Actually the hyperglobalist view challenges the existence of the basic unit, the nation state, itself (Yeates 2001). As stated earlier, globalization is largely contested, and as Yeates (2001:631) notes, the states are in many cases the key actors shaping and mediating globalization. In the critical discourse globalization is often connected with the raise of neoliberalism. From the neoliberal point of view, welfare has been increasingly considered to be part of the problem, not part of the solution as it was in the Keynesian era (Leibfried & Obinger 2001). According to the liberal standpoint, the welfare state slows down economic growth, encourages unemployment, sets poverty traps, is an unaffordable burden to the economy and diminishes international competitiveness. These claims have been powerful, despite the fact that empirical proof is non-existing (Leibfried & Obinger 2001).

Globalization is typically conceived as an 'external' and unavoidable phenomenon but it may allow politicians to use it rhetorically to justify the necessity of chosen strategies or reforms. Nonetheless, portraying globalization as an external force clearly undermines the role that government has to play as facilitators of globalization (Yeates 2001). In a pessimistic scenario, globalization leads to the decline and end of social democratic policies upon which the welfare state was build on (Mishra 1999; Beck 2000). According to this view, globalization leads to the spread and strengthening of neoliberal ideas and curtails the autonomy of national governments, restricts their pursuit of comprehensive programs of redistribution, full employment and economic growth and exerts a downward pressure on
wages and working conditions (Yeates 2001: 640).

On the other hand an increasing amount of authors and welfare state specialist consider these claims widely exaggerated. According to Pierson:

“Globalization has little effect on the content and direction of welfare state change: Welfare states indeed face unprecedented budgetary stress, but this is primarily related to endogenous processes of social change, as the economic profiles of affluent societies have become increasingly “post-industrial” and as their welfare states have matured and their populations have grown older. These important shifts are related only loosely, if at all, to the changing international economy. To focus on globalization is to mistake the essential nature of the problem.” (Pierson 1998: 540).

However, it can be claimed that there are various endogenous and exogenous forces that challenge or question the viability, efficiency and legitimacy of the welfare state. The aging population, changes in family structures, slowdown of economic growth, high levels of unemployment, soaring budget deficits, growing resistance to high taxes, ascendancy of market forces, privatization of economic and social activities, increasing national and international competition accelerated globalization and technological change are commonly agreed to play a crucial role (Ghai, D 1996:vii). For Esping-Andersen (1996), changes in the family structure, occupational structures and life circle together with growing dissatisfaction with the welfare state's capacity to address emerging demands are the *endogenous* challenges welfare states are facing. The changing economic conditions, such as increasing competition and slower growth and demographic trends are *exogenous* factors challenging the welfare state. Pierson (2001), on the other hand, highlights the shift from manufacturing to services, leading to more limited productivity improvement and slower economic growth combined with maturation of government commitments, transformation of household structures and aging population intensified welfare states fiscal strains.

Whereas for Esping-Andersen, endogenous and exogenous factors seem to play a more intermingled role, and the answer of welfare states future depends on the diagnosis of the crisis, Pierson emphasizes the role of endogenous factors and claims that welfare state pressures are wrongly attributed to globalization (Pierson 2001). Though, as noted by Julkunen (2005:338), Pierson as a US American might have a different perception to internal and external pressures than someone who is coming from a smaller and less powerful country. Internal decisions made in world leading economies, such as liberalization of financial
markets, spread across the globe as external pressure.

In the Three Worlds of Welfare Capitalism Esping-Andersen argues that “a theory that seeks to explain welfare state growth should also be able to understand its retrenchment or decline“ (1990: 32). He argues that due to path-dependency, the three types of welfare states produce three different types of responses as governments try to address the new pressures of post-industrial economic adjustment and other emerging challenges. Pierson holds a contrary position to this claim. According to him, the power-resource theory of Esping-Andersen could explain the emergence and expansion of welfare state but has a limited relevance explaining the retrenchment of mature welfare states (Pierson 1994:27-28). With “new politics of the welfare state” Pierson (2001) refers to the change from politics of expansion to the politics of retrenchment or adjustment. He argues that since the policy goals and the whole context where governments operate has changed, the new politics follow a fundamentally different logic and mechanism and therefore cannot be explained with the old theories of welfare state emergence and expansion.

2.4 Pierson's Theory on Welfare State Retrenchment

In his groundbreaking book 'Dismantling the Welfare State?' (1994), Pierson attempts to fill the gap of missing analysis on welfare state retrenchment. He notes that the literature mainly focuses on explaining and theorizing the emergence or/and expansion of welfare state. According to Pierson, the policy goals and the context have changed from the era of welfare state expansion. These changes set limitations to explain the current changes with the old theories. Nevertheless, the politicians operate in an environment that has been fundamentally conditioned by the previous policies (Pierson 1994).

According to Pierson's institutional approach, the challenge for the governments has been to identify possibilities for reforms that would not generate major negative attention and strong opposition against them. His study on Thatcher's and Reagan's administration came to the conclusion that retrenchment in general is a difficult task to conduct. Nonetheless, indirect reforms, where the consequence would come into effect with delay, are one possibility to gain welfare retrenchment in the long run (Pierson 1994).
2.4.1 The Strength of The Welfare State

Despite the various 'crisis' associated with welfare state in the current literature many authors have also came to the same conclusion as Pierson, namely, that welfare states have been rather resistant for radical changes. According to Pierson (1994), retrenchment is a difficult process and even under direct attacks from Thatcher and Reagan, the basic foundation and structure of the welfare state remain largely untouched and the social spending even increased in both countries.

The political strength of the welfare state is based on its popular support on one hand and on the 'institutional stickiness' on the other hand. Pierson notes that interest groups did not build the welfare state but the welfare state contributed to the development of the interest groups. Consequently the welfare state enjoys high level of popularity and commitment among these groups (Pierson 1994). According to Pierson, people have a 'negative bias', which means that people tend to react more intensively to potential losses than for potential gains. Therefore, apart from institutionalized structures, politics matter since people have the power to 'punish' politicians for unpopular initiatives (Pierson 2001: 413). During the years of welfare state development, the institutionalized welfare state has generated its own political support base. Therefore, previous government's commitments lock-in policy making and set limitations to the possibilities of retrenchment attempts (Levy 2010).

The second feature of the welfare states, the institutional path-dependency, leads to the situation where the key programmatic arrangements of mature welfare states reflect the operation of self-reinforcing processes over an extend period of time (Pierson 2001). In this way path-dependent patterns shift the preference of key political actors and constrain the range of reform initiatives that are politically plausible in a particular setting. Historically constructed and interconnected webs of organizations and policies condition what actors want and what they can hope to get. Programs and benefits, once initiated are hard to reverse. Individual and organizational adaptations to previous arrangements tend to make reversal highly unattractive (Pierson 2001).

2.4.2 Dimensions of Welfare State Retrenchment

Pierson's work (1994) focuses on conceptualizing and measuring welfare state retrenchment.
According to him, welfare state retrenchment is one of those cases where identifying what is to be explained is almost as difficult as formulating persuasive explanations for it (Pierson 1994:13). He comes up with three different dimensions, which are needed to be taken into account in analyzing and measuring retrenchment as well as various strategies politicians use to avoid the blame for unpopular decisions. As the first dimension the systematical research on retrenchment policies should take into account both, long-term and short-term spending cuts. Secondly, changes in the program structure as well as in the spending matter and thirdly, to study both systemic retrenchment and programmatic retrenchment (Pierson 1994).

Programmatic retrenchment results from spending cuts or reshaping individual programs. On the other hand, systemic retrenchment contributes for retrenchment in the whole system. Pierson identifies various types of systemic retrenchment. Cutting taxes or making future tax-raises difficult, shifting to unsustainable sources of finance (for example asset sales instead of income taxes) and increasing budgetary deficit for short term are different strategies to defund the welfare state and block its future expansion. Another way to a systemic retrenchment could be a policy induced change in the public opinion, which aims to weaken the popular attachments to public social provision. As a third type, modifications in political institutions for example changing decision making procedures, will change the rules of the game and balance of power between different actors. The politicians can also aim indirectly or directly to weaken the pro-welfare state interest groups. Especially groups depending on state financing can be vulnerable. By changing regulations, state can also make it more difficult for groups to organize or practice collective bargaining (Pierson 1994).

According to Pierson, the major challenge for politicians is the fact that they are largely wedded into commitments made by previous governments and unpopular retrenchment policies are likely to be punished by electoral lost. Because of the 'negative bias' people are much more likely to remember losses than gains and also are much more likely to protest against possible losses than to go to street to claim more rights or benefits. Pierson claims that especially in the case of mature welfare states, the policies have became much more 'an exercise of blame avoidance' than about claiming credits for new programs or improvements (Pierson 1994).
2.4.3 Political Strategies

Pierson claims that in the time of permanent austerity it has become important for politicians to hide what is happening by fashioning proposals that lower the visibility of changes or obscure responsibility for those changes. According to Pierson's theory, struggles over social policy have become struggles over information about the causes and consequences of policy change (Pierson 1994). Again Pierson identifies several strategies to minimize political resistance. Obfuscation strategies aim to diminish public awareness and complicate direct causal connections between political reforms and negative consequences. As main strategies to confuse and divide the opposition Pierson mentions governments' attempts to decrease the salience of negative consequences by diffusing these over time instead of delivering them in one shot.

'Decrementalism' refers to the tactic of shifting to a less generous indexation formula such as indexing pensions by inflation instead of wages. By blurring the link between program cuts and policies, governments might reduce traceability. For example, more responsibility might be shifted from national to local authorities. Without adequate funding, the local authorities are forced to conduct the cuts/saving measurements and therefore take the blame of the unpopular changes. Automatic cutbacks, like changes in taxation rules or in indexation, in the long-run can make a significant difference. Making the reform more complex, delegating some of its enforcement to the lower levels and delaying the direct effects and consequences, are all strategies to obfuscate and diminish the traceability of policy changes. 'Divide and conquer' strategies can help to isolate subgroups of opposition and diffuse interest groups for example by making one group to lose to the others benefit, or just designing reforms to affect only one part beneficiaries. The opposition gets smaller and the people spared from the consequences can feel grateful for their position and are therefore unlikely to mobilize against the reform. Compensation strategies can provide something else for the victims of the reform. With 'grandfather clauses' current recipients can be spared from the impact and the losses are restricted to and unspecific and unorganized group of future recipients. The public sector retrenchment can also be compensated by expanding the private benefits, and pushing towards a market solution, even with a government subsidy (Pierson 1994).
2.4.4 Upgrading Pierson's Theory

In his study in 1994, Pierson created a framework for systematic analysis and evaluation of the strategies and possible success of Thatcher's and Reagan's administration, which openly were devoted to dismantling the welfare state. In these two cases he comes to the conclusion that the welfare state resisted surprisingly well and no radical change occurred in the USA or in the UK.

In his later work, Pierson (2001) considers the fiscal deficit, caused by changing conditions (especially due transformation into post-industrial economies, slow-down on of economic growth and demographic structure), as the main reason for the 'permanent austerity' affecting the development of all western welfare states. Due to this reality, even the most devoted welfare state supporters have come to recognize a need for reconstructing the welfare state. Retrenchment has become part of regular policy making, to reconstruct the welfare state onto sustainable ground.

Levy (2010) modified Pierson's theory of retrenchment, pointing out firstly that the policies of today are not just about blame avoidance but a lot depends on the way reforms are justified. Retrenchment can be put in a more positive light and as a measure to serve higher objectives; for example rescuing the core of the welfare state during economic crisis. In these cases retrenchment is not aimed for its own sake but in order to gain other objectives such as recovering public finances, restore economic growth and employment or to make the welfare state more sustainable in a long run and improve the fairness of the system (Levy 2010). Nevertheless this kind of argumentation can also just serve as convenient excuses justifying retrenchment policies (Levy 2010).

Another comment by Levy (2010) on Pierson's theory is that retrenchment is not always conducted in a non-transparent and undemocratic way. On the contrary, in many cases wide consensus for reforms is sought rather than a 'minimum winning coalition'. This helps any particular party to avoid blame for the reform and also guarantees the continuance of the policies than decisions made with smaller coalition. Apart from blame avoidance and securing continuation, broader consensus legitimates the claim of the necessity of a particular reform. (Levy 2010, also Pierson 2001).
Levy (2010) suggests that there are two basic approaches to retrenchment. The first is, as Pierson describes it, is typical for a secular right-wing government and occurs often within the 'liberal' welfare world. The alternative approach is often more common in Christian democratic or social democratic countries and also gives space for negotiations between the government and social partners. Of course these two approaches are not mutually exclusive but demonstrate different ways to cut, adapt and modernize the welfare state.

2.4.5 Virtual and Mental Consequences of Retrenchment

Pierson comes to the conclusion that the welfare states have been rather resistant to radical changes and resilience has become the ability needed to reconstruct the welfare state in order to adapt to the new circumstances and challenges. However, growing literature suggests that international developments, such as globalization, European integration and the neoliberal initiatives of institutions such as the IMF and OECD were intensifying the pressures for retrenchment (Levy 2010). Apart from that, it seems that there is a trend, which is driving all welfare states in the same direction (minimal state) by the imperatives of international competition (Taylor-Gooby 1997).

There are some limitations recognizable for Pierson's conclusion for the modest effect of retrenchment attempts. Firstly, taking the GDP share of social spending for measuring retrenchment can be problematic. This measurement does not take into account government spending as relative to need. Therefore, the fact that social spending has increased or maintained at the same level, does not tell how adequate it is compared to the possible increase of social need (Levy 2010). Another important issue, especially in the context of Anglo-Saxon world, is the retrenchment in both, public and private/work related welfare benefits and social protection. Also, the composition of spending and taxation plays a crucial role, which in some countries has produced a large transfer of resources from the poor to the wealthy. Finally, government's commitment to maintain full employment and income for its citizens has decreased at least from the days of Keynesian full-employment policies, secured through government ownership and regulatory capacity. Together these streams might have created a greater impact on the welfare state retrenchment in the long-run, than Pierson advocated in his research in 1994 (Levy 2010).

A further aspect for long term consequences hardly considered by Pierson are the mental
changes occurred through welfare state reforms. Nevertheless, these changes might play different roles in different contexts. Hence, Cox R. H. (1998) has analyzed how the conceptions of social rights are affected and changing due welfare state reforms. He refers to T. H. Marshall's definition of welfare state as an entitlement based on citizenship and as a gradual process towards realization of civil, political and social rights. According to Cox, R. H. these rights are expressed through a variety of programs and social security. Every welfare program represents a set of principles as well as set of measures to realize these principles. Therefore, efforts to change the measures will also have an impact on the principles of the entitlement (Cox, R. H.: 1998).

Across-the-board cuts are one example of austerity measures. They are often justified as cost-saving measures, which will not challenge the principles of the entitlements. Nevertheless, Cox R. H. notes, that:

“...when they are introduced into programs that strive to realize a social optimum, across-the-board cuts mark a departure from the principle that a right should be guaranteed at an optimum level towards the idea that it should be guaranteed as a level that may be called 'prudently reasonable'.“ (Cox R. H. 1998:6).

On an extreme level, program cuts can mark a shift that replaces commitment to the optimum to guaranteeing the minimum. He continues that the entitlement could be still considered universal, but its content and assumptions about the rights would have changed (Cox, R. H. 1998:7).

The second example mentioned by Cox, R. H. is the effort to reduce program take-up rates. The leading idea of this measurement is that only the truly needy ones should exercise their rights to public provisions. The concern arises from the possibly descent moral standards, which allows people to exploit the system. Discouraging welfare take-ups reduce costs but also changes the way people view their rights (Cox, R. H. 1998). The third focus of Cox's analysis is in the targeting measurements. Targeting brings savings, since it restricts the scope of the beneficiaries. After all, Cox, R. H. (1998) argues that even when the impact of single reform may appear small, these reforms change the very conception of the entitlement and in the long run the cumulative effect of all reforms fundamentally changes the idea of social rights and welfare state. The recent tendency of the saving measurements is to make programs more exclusive rather than inclusive, more selective than universal and put greater emphasis on needs than on rights (Cox, R. H. 1998).
2.5 Global Trends, Internationalization of the State, New Public Management and Internationalization of Education

With this overview of welfare state literature, the disputes and contested views of the global influences on welfare states, and more precisely to its recent reforms, have been recognized. As noted by Pierson (1994:13), welfare state retrenchment is an issue where identifying what is to be explained is almost as difficult as formulating persuasive explanations for it. There is little agreement of what kind of political changes are important or how they might be measured and, like added by Esping-Andersen, many theoretically relevant outcomes of welfare state simply cannot be captured with different measurements (Esping-Andersen 1996). Nevertheless, there seems to be a general consensus that the welfare states as we knew them are under threat or at least have came to face serious challenges. There seems to be an agreement as well that changes are needed.

What kind of changes though, is a highly contested issue but at least three main positions can be identified. For the market liberals, retrenching the welfare state and the retreat of the state is seen as desirable, necessary and as an 'unavoidable' direction. For others, welfare states need to be reconfigured and reconstructed to adapt to the current situation, to be able to answer to the new demands and basically in order to survive. This group seems to construct the mainstream position in the welfare state literature, including Pierson, Esping-Andersen, Leibfried & Obinger, to mention few of them. The common view holds also that despite the turmoil of the last decades, the core elements and values of the welfare states have remained untouched. The standpoints vary nevertheless according to which seems to be the main reason behind the reconstructing pressures and therefore, which would be the best way to continue and secure the welfare states in the future. Finally, the 'pessimistic' view holds that a fundamental change has occurred, eroding the core values and subjugating welfare states to the markets (e.g. Cox, R. H., Julkunen).

Despite the recognition of global trends affecting the national decision making, in the welfare state literature the social and welfare policies are largely considered within the given national domain. This 'methodological nationalism' tends to overlook the changing nature of global governance structures, in which the national economies and political systems are affiliated to (Icaza et al 2009). Authors of critical political economy (e.g. Cox, R.W. 1987; Brand 2007) have used the concept of 'internationalization of the state' to explain the historical transformation, which can be understood as creation of a new 'historic bloc' replacing the
Keynesian consensus of the post-war period.

Historic bloc in Gramscian terms, can be understood as common sense perception to the 'naturally given' tasks and limits given to the states (Brand 2007; Cox, R. W. 1987). The welfare-nationalist state played a crucial role, or hegemonic role as stated by Cox, R.W., in making capital accumulation on a world scale appear to be compatible with range of interest of subordinate groups in the post-war period. The welfare nationalist state nonetheless did not contest the markets and private property in means of production (Cox, R.W. 1987). The 1970s is generally considered to mark an incipient emergence of a new historic bloc where legitimacy of the state’s role and the right to intervene in markets in order to optimize the outcome and produce welfare became questioned. The Keynesian consensus was gradually eroded and replaced by a stronger emphasis and belief in market forces.

Cox, R.W. (1987) emphasizes that the complexity of production relations, classes and historic blocs do not exist in isolated national compartments but are linked into a world order. The parallel process of internationalizing the state and internationalizing production can be considered as the main components creating the new world order, in which the states became more and more adjusted to the rhythms of world order (Cox, R. W. 1987). Nevertheless, both internal and external forces have a role to play in the internationalizing process. The Scandinavian model can be considered as an example where countries used to determine their own developmental goals along with the world economy but did not subordinate their national economies to a development of world market (Cox, R.W. 1987: 219). However, if globally the emergence of a new historic bloc, transforming the states, production relations and overall interstate structure is located in the 1970s, it can be claimed that these trends reached the Scandinavian countries with some delay. During the 1990s, along with the reforms accelerated by a deep economic crisis, new ideas started to gain more ground and the tenability of historical compromise between global competition and welfare policies were questioned for the first time also in the Scandinavian countries.

The critical theorist (e.g. Brand 2007; Cox, R. W. 1987; Gill 2002) of international economy and politics consider the international organizations as one mechanism through which the universal norms of world order are developed, expressed and spread around the globe. Globalization of capitalism as an economic process is closely tied to political institutional developments (Brand 2007). The international institutions such as the IMF, OECD, NATO
and EU shape, select, determinate and prioritize developmental goals, of which all have global consequences. Brand (2007) classifies the latest developments as a transformation of nation states into 'internationalized competition states', which are more and more dependent on the international capital and financial markets. Along this development, the Keynesian welfare state has become regarded as prejudicial for competition in the world order where competitiveness, efficiency and 'realpolitik', which disavows all kind of alternatives, have gained a common sense, - and a common interest view (Brand 2007:18). However, the proposed world order driven by international institutions is not absolute but at least contested. Especially, the third world countries have become largely hostile towards the adjustment programs of institutions such as World Bank and IMF (Brand 2007).

Cox R.W. (1987) has classified social action into one that supports the hegemony or the world order and the other that seeks to challenge it. The social democratic model in this picture has gained remarkable compromise in 'taming' the class struggle, though as mentioned, it did not challenge the capitalist way of production and accumulation as such. However, if the model did not succeed in abolishing social classes, it indeed was a system of stratification in its own right (Esping-Andersen 1990), which allowed an upward social mobility through a universal welfare state scheme and successfully diminished inequalities within the society for decades. On the other side, this development can also be portrayed as a formation of a strong middle-class historic bloc, which as a consequence of the close and mutually supportive relationship between the state and the people, has been effective in absorbing any counter movements. In the case of social democratic states, the place for alternative social movements or civil society has been traditionally rather limited and the political atmosphere has been characterized by a wide consensus and trust on the political power and the overall system. This can help to understand why and how sometimes even radical changes in the policy or welfare programs have been able to be implemented without a large public outcry.

Especially after the economic crisis at the beginning of the 1990s, the Scandinavian countries also have increasingly been under pressure to adapt to the needs of the global economy and the legitimacy, as well as the desirability, of the social democratic policies have became questioned. The recommendations and norms of international organizations such as IMF or binding rules of EU have set limitations to independent national policy making. The governments face increasing contradictions by balancing between the pressures and desires towards the international economical community and the demands of the population, which
still highly supports the traditional welfare state model. Gill (2002) talks about 'new constitutionalism', which he understands as a political-juridical counterpart to disciplinary neoliberalism. New constitutionalism helps to 'lock-in' also the future governments to follow certain developmental path. This can be achieved through reforms that limit democratic control over central elements and economic policy or/and by subjecting the national legislation under international law and regulations, which prevent future governments undoing previous commitments (Gill 2002).

Apart from the 'hard' and binding laws and regulations, international organizations have created various forms of 'soft' policies to impose the correct and appropriate norms and 'best practices' to also organize interstate structures. The EU ‘open coordination’ of social policy; OECD ‘naming and shaming’ comparisons, such as PISA; best practices such as the doctrine of new public management as organizational structure of public sector or the Bologna process, can be cited as examples of these ‘soft policies’. They impose certain trends and ideas without binding international law. Their influence largely depends on government’s will and capacity to adopt new practices but despite the voluntary base, the impact of these trends can be far-reaching.

Therefore, it can be concluded that the global trends play a role, but the internationalization does not occur without active governmental support. For this thesis, the Bologna process and new public management appear as especially important factors. The ideas of new public management was created in the United States in the 1970s and can be considered as a whole new way to think and organize public administration. The critics of the new public management have claimed that it follows the leading ethos and assumptions of neoliberalism emphasizing the superiority of free market as an organizational principle (e.g. Eräsaari 2006, Patomäki 2007). The guideline of new public management is to promote new markets in the state-provided services through privatization or to create 'quasi-markets' within the public administration where privatization is not possible. In the rhetoric, the promises of new public management appear as changes from 'bad' to 'good', from producer salience towards user salience, from monopolies to free markets, from imperatives to free choice, from conformity to plurality and from culture of dependency to culture of independence (Clarke & Newman 1997). However, many authors have associated these trends as lock-in mechanism of neoliberal principles in the public sector by running it down through corporatization, privatization and increasing market orientation.
The Bologna process is based on the Bologna declaration and aims to harmonize and standardize higher level education. This internationalization of education supports the emergence of a European educational area, which eases and encourages the free mobility of people within the Union and also make the educational markets of Europe more attractive for people outside the EU/EAA countries (Vaira 2004). Despite the fact that the Bologna process is largely contested in academic circles, it reflects the overall tendency towards market solutions, which have became increasingly considered as a ‘natural’ part of global development – a view, which is also fostered by international organizations such as OECD and IMF (Eräsaari 2006).

2.6 Summary

To sum up the main points of the theoretical discussion, the text started by presenting the key concepts of; welfare state, social policy and globalization. The development of distinctive welfare state regimes in the western countries was described using Esping-Andersen's regime typology. Despite the limitations of any given typology, Esping-Andersen's classification apart from explaining the historical trajectories, serves as a solid picture of how the regimes could be categorized as they existed at the end of the 1980s. A wide range of changes have clearly put pressure on the welfare states and questioned not only their sustainability but also their legitimacy. As the discussion presented, there is little agreement on what the changes are that have been the most commanding and in which direction to continue. For some authors (e.g. Pierson) the welfare state fiscal strains are caused merely due endogenous pressures and 'global' or other external forces have hardly a role to play in that development. From an opposite point of view, globalization, especially in form of increased economical competition, can be considered as a driving force and main reasons for the crisis welfare states are facing. Pierson's conclusion about the modest impact of the retrenchment attempts and his current position, which sees the retrenchment as unquestioned necessity in the contemporary situation, can be widely questioned. Nevertheless, his theory on retrenchment serves as a tool to analyze the current changes. Cox, R. H.'s analysis on the consequences of welfare state retrenchment questions the insight, which sees adaptation and adjustment necessity, but claims that the core values have been maintained. However, globalization is also discussed in the welfare state literature, but it might be due the disciplinary distinctions, that the discussion many times dismisses the connection of the internal changes with global trends. One way to understand globalization is the increasing internationalization of states. In this process trends
and norms defined by interstate organizations are converted into national policy making. 'Right' fiscal policy, organizational structure or internationalization of education are examples of these trends, which will be further elaborated in the case study.
Chapter III: Case Study

3.1 Methodology

Welfare state, especially in its broadest sense, is a complex and multidimensional concept. As noted in the theory chapter, there is little agreement on which kind of changes and policies are the most important, when analyzing the changes in the welfare state. Also the role of globalization remains contested. Therefore, to answer the research questions and observe the interplay of local and global forces in the Finnish policy making and their influences in the main characteristics of its welfare state, two different realms were chosen for the case studies. The first case study focuses on changes made regarding taxation and how these changes have contributed to welfare state retrenchment, through direct and indirect means. The second case study focuses on the education sector and examines the changes in educational policies and how the transformational pressures converted into a new university law in 2009.

The areas chosen for the case studies might not represent the most conventional areas of welfare state research. Nevertheless, both taxation and education, have always had and continue having a significant role in the welfare state's construction and development. The aim is to portray, through these two examples, what kind of changes have occurred, to analyze if they can be considered supportive to the social democratic welfare state model and to assess which is the role, or interaction, between local and global forces triggering these changes.

In the first case study, the significant reforms made in the taxation structure will be identified and their consequences are discussed using statistical data. The selected statistics demonstrate the recognizable trends in the overall economic development and income distribution. Pierson's theory, focusing on the systemic retrenchment, will be applied to analyze the consequences of the tax reforms. Other reforms are discussed when they are related to systemic retrenchment and to changes in the taxation. In the second case study, the major reforms in the educational policy will be identified with the focus of higher education. The governmental reports and statements are used to demonstrate what the official causes, needs and goals behind the reforms are. In both cases, major changes can be located during the 1990s and linked to an overall structural reform, which introduced a new type of public management in every level of state administration, increasing municipal self-determination. The implicit influences of global trends will be included in the analysis.
Regarding to the structure, before moving to the case studies, the Finnish welfare state model is briefly introduced. The first case study examines the systemic retrenchment in Finland with the theoretical framework created by Pierson's (1994). His theory is shortly revised, putting emphasis on the relevant aspects for this case study. The aim is to demonstrate how defunding has been carried out in Finland and observe the influence of global trends and pressures on the overall systemic retrenchment process. This first case study is divided in five sections; the first focusing on changes in taxation, the second in reforms in municipalities, the third in the external influences. The fourth section analyzes the changes and the role of external influences. The fifth section draws together the consequences of the reforms and relates them in the framework of Pierson's theory.

The second case study observes how the pressures to internationalize education have been experienced in Finland. The first section introduces some main characteristics of the Finnish education system. The centrality of the education system to the overall welfare model will be discussed and the changes of educational policies will be related to overall changes in political atmosphere and structures. The second section addresses the university reforms, which have taken place during the 21st century. The third section discusses the resistance that occurred in the academic community. The conclusion connects the changes in higher education and brings them back to the overall discussions of the welfare states in the era of globalization.

Regarding to sources and data collection, in the first case significant tax reforms were identified with help of previous welfare state literature. Their impact and consequences are addressed with help of statistical data. The information was collected mainly from the Statistics Finland, from the web page of the National Tax Office and other relevant sources. The IMF's report on Finland and governmental reports, mainly from the Ministry of Finance, were included in the analysis. The sources of the second case study consist largely of reports from the Ministry of Education. The resistance towards the reforms is discussed mainly using the open statements of the two most known opponents of the reforms, Patomäki and Koskenniemi.

Regarding to the limitations of the study, due the extensive and complex characteristics of the welfare state structure, many important and interesting aspects had to be left out of the research. No specific methodological approach is applied to analyze the case studies, because
of the distinctive characteristic of the chosen areas of inquiry. The overall taxation regime of a country is a complex subject and closely interlinked with a range of other dimensions. This case study attempts to introduce the most relevant changes made in the taxation policy of the country in terms of welfare state retrenchment. Because of the scope of this thesis, a decision was made to focus only in its systemic retrenchment. Using statistics from secondary sources always implies some uncertainties and can be questionable especially in international comparisons. Therefore, statistics selected for this case study were mainly from sources (Statistics Finland, OECD, Eurostat) committed to consistent criteria.

Especially for the second case study, primary interviews would have enriched the data. The case study presents pro- and counter-arguments for the reforms from different sources. However, due to time and space constrains a wide range of discussion and perspectives that were present in the media, in private blogs and student’s associations, according to the university reforms could not be exhaustively included to the case study. Despite the methodological short-comings, the collected information contributes to the empirical evaluation of the research questions and hypothesis

3.2 Introduction to The Finnish Model

Finland can be considered as a late-comer to the family of Nordic welfare states. It developed from a poor, vulnerable and conflict-prone country (Jäntti et al. 2006) to one of the most advanced countries in the world, today ranking high in almost every area of country comparisons. The common view holds that the successful development of Finland to a modern society with a high level of wealth and equity has resulted from the conscious political will of several actors. The economic growth was facilitated by active government involvement in the economy and conducted in part through the management of social risks; building the welfare state institutions and partly through corporatists bargains between economic actors (Jäntti et al. 2006). In the early approaches to the Finnish welfare state, it is seen as closely connected to a nation building project. In this context welfare state meant a normative and conceptual re-determination, which encompassed political will and goal (Saari 2005: 27). Later the institutional point of view or views measuring the public expenditure rates have become more determinate to the definition, putting more emphasis to the scope and resources used for the system.

In Esping-Andersen's (1990) definition, Finland was considered as part of the social
democratic family, with an extensive welfare state structure providing universal coverage for its citizens. However, the mix of public provisions and public subsidies for private services has been typical for Finnish welfare arrangements and the measurements, especially after the recession in the beginning of 1990s shifting more emphasis to service privatization, to earning-based benefits and means-tested public supply, have raised the question if Finland still can be considered as part of the Scandinavian family. Finland has been said to have suffered the deepest economic crisis of all the Scandinavian countries at the beginning of the 1990s. Despite all the austerity measurements and extensive cut-backs in the after-math of the crisis, the public narrative holds that the core values of the model have been maintained (Julkunen 2001a).

Certainly, in the public discussion it is hard to find anyone openly opposing the welfare state structure. Some business institutions and research centers have carefully tried to introduce new ideas and perceptions as complementary to the welfare state, but these ideas have been received with skepticism and little support from majority of citizens. Any action, which could be connected to an attempt to shut down or curtailing the welfare state is politically not feasible. Open support for market-liberalism or attacks against the welfare state structure are rare in the Finnish context. The world 'neoliberalism' is practically banned in the public debates. No one who depends on voters support in elections wants to be classified as market liberal or associated with tendencies to curtail the welfare state. On the other hand, opposing market-liberal suggestions by classifying them 'neoliberal' seems not to be feasible either in the public discussion. Even one of the leading scholars of social policy in Finland, Saari (2001), considers that naming proposals or ideas neoliberal, mainly indicates poor knowledge, lack of understanding or is used as a political method to put the proposal and the proposer in unfavorable light.¹

As it will be demonstrated with the case studies developed for this thesis, even though a pure neoliberalism might not have triumphed in the Finnish context, the current tendency is an increasing market-orientation, which follows the guidelines of leading international economic institutions. The Welfare state remains important, though it is widely connected and

¹ Saari: "...in my view the politics, especially social politics, ... indicates that the idea behind naming or labeling certain policy option and choices as 'neoliberal' results either from poor knowledge of the actual content of policies implemented, lack of understand of relative importance of the 'politics' in socio-political change or the intention labeling persons in order to produce the effect aimed at rejecting such a proposal. Indeed, much talk about neo-liberalism seems to be virtually unconstructed in terms of content: the unwanted policies are called neo-liberal simply and only because it frames the policies in a negative way. That said, one also must be ware that, although structural by origin, the crisis of the 1990s comprises also a politico-ideological element, aimed at framing the political discourse in a new way by redefining the agenda. This is reflected also by international examples." (Saari 2001:136)
subordinated to serve for global competitiveness than as political goal or objective as such. Also the increased use of the term 'Welfare Society' instead of 'Welfare State' reflects a shift in the perception and understanding of what the tasks and responsibilities of the state are. 'Welfare Society' gives more emphasis on the third sector and civil society, whereas Welfare State refers to the legislation, policies and social protection, normative expectations and aims that encompass the whole country (Saari 2005). When talking about the welfare state, it is clearly pointed that the state is the actor and carries the responsibility. The term welfare 'society' is lacking an actor and therefore no institution or body is specified as accountable.

3.3 Case Study 1: Systemic Retrenchment in Finland

Pierson's (1994) theory on welfare state retrenchment is used as a tool to analyze the systemic retrenchment in the case of Finland. Pierson developed his ideas while analyzing the strategies, methods and consequences of Reagan's and Thatcher's administrations – both devoted to dismantling the welfare state. Pierson was looking for evidence of a complete dismantling of the welfare state, and he could not confirm it for neither the UK nor the USA. Therefore, he came to the conclusion that retrenchment attempts, not to mention a total dismantling of deeply institutionalized welfare states, is very difficult, if not impossible to carry out. The value of Pierson's theory for this thesis is his systematic analysis for the dimensions, factors and governmental strategies which are needed to take into account when analyzing welfare state retrenchment.

After exploring Pierson's list of different retrenchment dimensions and strategies, probably for each one of them at least one equivalent example from Finland could be found. However, as mentioned in the theory part, some modification for the theory seems judicious. In the case of Finland, the retrenchment during the difficult years at the beginning of 1990s was not necessary non-transparent or undemocratic\(^2\). Rather a wide consensus was sought under the so called rainbow coalition, which was in power from 1995 to 2003. The coalition continued the policies started from the right-wing parties in the late 1980s, under the strong guidance of social democrat Prime Minister Paavo Lipponen.

The recession in the early 1990s was deep enough to justify the retrenchments, as a measure to rescue the national economy and the welfare state as a whole. The recovery package

\(^2\) The economic crisis was a shock in Finland also for the political decision makers. The members of the Parliament agreed on mandate one person to create a list of possible cuts, which then was approved by the Parliament. The budget frames where also introduced – a decision that significantly increased the power of the Ministry of Finance (Jutila 2010)
increased the national debt (see Appendix, Figure 1), which has kept the austerity measurements on the agenda also during the better economic years.

For the scope of this thesis, it is not possible to list and analyze all the dimensions (1. long-term/short-term spending cuts; 2. program structure and program spending; 3. systemic retrenchment and programmatic retrenchment) mentioned by Pierson or to list all the programs cut in Finland after the 1990s. Therefore, the focus of the first case study is on the systemic retrenchment. According to Pierson, programmatic retrenchment modifies individual sectors of the welfare state and systemic retrenchment modifies the overall context for the future struggles over programs (Pierson 1994:131). He claims that the expectation of retrenchment as self-reinforcing process has failed to materialize (1994:181). This case study questions that view and also claims that not only are the different dimensions more difficult to separate in the real life, but they also are interlinked in the complex welfare state structure and mutually reinforcing.

Systemic retrenchment according to Pierson (1994) is connected to policy changes that alter the broader political economy and therefore may promote overall welfare state retrenchment. The first type of systemic retrenchment is defunding the welfare state. Defunding can take several forms. Cutting taxes or reducing the ease with which the government can raise taxes in the future is one possibility. By shifting to more unsustainable sources of finance, future financial capacities can be diminished. Heavy deficit financing will finally leave raising taxes or reducing public expenditure as only choices. Governments might also seek to increase non-welfare state expenditure in the cost of public services. A government that succeeded in these defunding efforts, according to Pierson, would have created a significant level of systemic retrenchment, even though the structure of social programs can remain relatively constant in a short term perspective (Pierson 1994).

The second type of systemic retrenchment is a policy-induced change in public opinion, which aims to weaken the popular attachments to public social provision. The third type is modification of political institutions. This can mean, for example, changes in the decision making procedure or shifting more responsibilities and blame of conducting further retrenchment to the local officials. The fourth type is to weaken pro-welfare state interest groups or political opponents. Changes in the rules about collective bargaining can make it more difficult for groups to organize and pursue collective action.
The main focus of the first case study is on the significant tax reforms from 1990s onwards. Additionally, some consequences of structural reforms will be discussed when they help to understand the trends in taxation. The role of international organizations in shaping the direction of the Finnish system will be observed.

The aim is to show how defunding has been carried out in the case of Finland through changes in taxation and structural reforms shifting more responsibilities to the municipalities. It is difficult to draw an exact line that mark which are the strategies and which the consequences, but defunding together with modification of political institutions is likely to produce a change in the public opinion and weaken the welfare state's support base. The justification of the chosen policies is backed up with the expert information and suggestions provided by international organizations, such as the OECD, IMF or EU. The tendency is to lower taxation and reduce the size of the public sector through direct or implicit encouragement of the private sector. As an indented or unintended side-effect the reforms are rising inequalities and gradually eroding the support and finance base of the welfare state.

3.3.1 Taxation

Tax revenues are the most fundamental source of any public provision. Especially in the social democratic model of welfare state, the taxation structure as a whole had a crucial importance not only to finance services but also as a redistributive mechanism. Characteristic to the social democratic model, progressive taxation, income redistribution and universal social services have been the major tools to decrease inequalities. These policies were successfully practiced in Finland over a 40-year period following the World War II (Jutila 2010: 18). The basic idea of the system has been that everybody contributes and benefits within the same system. Additionally, characteristic to the model was that the degree of contribution depends on the individual's capacity to contribute. As 'compensation', most benefits have an earnings-based element. Earnings-based benefits might seem unequal at the first look, but as the example of the social democratic model shows, their impact has proven to be the opposite. By buying out private alternatives, which are commonly known for having a tendency to lead to growing inequalities, earning-based benefits contribute to a more equal outcome (Esping-Andersen 1999).

The direct taxation of Finland is constituted by progressive state income taxation, municipal
taxation, social insurance payment, capital taxation and church taxation (for the members). Taxation, as well as benefits, in Finland are individual. This means that marital status, amount of dependents, spouse's labor status or other similar factors play no role in taxation. The state income tax is to be paid by incomes that are higher than 15 600 Euros yearly\(^3\). People with smaller incomes are obliged only to pay the municipal tax. Taxes for earning higher than 15 600 are to be paid according to the progressive income tax scale (see Appendix, Figure 2). The municipalities nowadays determine their tax rate autonomously according to their need and economic situation.\(^4\) Unlike the state income tax and apart from some deduction rights, the municipal tax is non-progressive. Capital tax has a fixed rate, which in 2010 was 28 per cent (National Tax Office 2011).

Figure 3 in the Appendix demonstrates the change in the income differences between 1987 and 2005. Apart from the convergence during the international economic crisis at the beginning of the 21\(^{st}\) century, the trend reflects a constantly growing income difference from 1993 onwards. The international comparison from the year 2007 (see Figure 4 in Appendix) still allows to portray Finland as a rather equal country. Nevertheless, when looking at the development in different countries, calculated with the gini-coefficient, the picture changes (see figure 5 in appendix). The income differences in Finland have grown faster than in any other country in the time period from mid-1990s to mid- 2000s.

In Finland, the unemployment rate rose significantly during the economic crisis at the beginning of the 1990s reaching it highest peak at 1993 (see Appendix, Figure 6). From 1994 onwards, the number of unemployed below the poverty line (50 per cent of national average income) started to rise (Riihelä et al. 2001). The incipient economic growth starting at 1994, allowed many people to return to the labor market. However, for others the job loss at the beginning of the 1990s turned into long-term unemployment. This helps to understand the two parallel phenomena that can explain the radical growth of income inequalities from 1993 onwards (see Appendix, Figure 3). On one hand the budgetary austerity did not allow for the raise in social benefits along with rising living costs and wages (Jutila 2010: 54). On the other hand, several tax reforms, mainly benefiting the better offs in the society, can be identified.

One significant tax reform was made in 1993 when the so called dual income system was introduced. It differentiated the income of self-employed and owners into a labor income and

\(^3\) This was the limit in 2010. Source: National Tax Office 2011

capital income component (Riihelä et al. 2001). The labor income part remain progressive but the capital tax rate became fixed. The capital tax rate at the moment is 28 per cent (National Tax Office 2011). The development of capital income can be seen in the Figure 7 (see Appendix).

The trend determinedly to lower the progressive state income taxation can also be seen in the Figure 7 in Appendix. The state income tax has been lowered every year since 1996, with an exception in the years 1998 and 2005. This trend can be explained through the general deduction and changes made in the income tax scale. The scale has been overall lightened and the stages reduced from six to four between 1996 and 2010. When in 1996 income exceeding 48,744.5 Euros was taxed 39 per cent of the exceeding part, in 2010 incomes exceeding 66,400.00 Euros were taxed 30 per cent (see Figure 2 in Appendix).

In 2005 a decision was made to abolish the tax on wealth. The wealth tax can historically be seen as an important part of the Social Democratic program and therefore it is rather curious that the reform was made with the support of SDP under the SDP Finance Minister Antti Kalliomäki in 2006 (Jutila 2010). The left-wing party and the green party objected the abolition as one part of the tax reforms, which benefits the rich and allows inequality to grow in Finland (Finance Committee 2005).

3.3.2 Reforms in Municipalities

The municipalities have gone through several reforms after the beginning of 1990s. The reforms have been related to the efficiency needs under the pressure of an aging population and also through the increasing responsibilities shifted from government to the local level. The municipalities have gained more autonomy in terms of organizing the obligatory services. They no longer need to produce the services themselves, but they can outsource them from other municipalities, private or third sector actors (Local Government Act 1995).

As the government debt hit a new record due the subsidies to the banking sector, the saving program 1994-1995 included structural reforms and less money for the municipalities (Kosunen 1997: 36-37). The decrease of governmental support together with rising demand has converted into pressure to raise municipal taxes (see Figure 5 in Appendix) and service fees collected from the inhabitants.
The 1995 structural reform also abolished the National Board of Public Buildings, (Rakennushallitus), which was replaced by a State Real Property Agency. After that the state and municipal facilities have been charged according to market prices (Eräsaari 2002). This can be considered as a significant add to the budget strains of local governments. The change has put pressure on local decision makers to centralize services and according to Eräsaari (2002), also significantly changed the use and perception towards public spaces. Additionally, the government has encouraged municipalities to search different ways of savings and increasing efficiency, for example, through privatization, outsourcing services and by encouraging municipalities to assimilate into bigger entities (Jutila 2010:51).

3.3.3 External Influences

Finland is part of many international organizations such as the EU, OECD and IMF. The political decision makers have emphasized the importance of belonging to international bodies and participating in international matters and decision making. Finland has been named as the 'model pupil' or the 'lab' of EU and OECD, since the implementation of their directions and recommendations has been rather rapid and thorough in Finland. Especially the Ministry of Finance has a close cooperation with OECD and IMF and they frequently rely on their consultation.

In the Concluding Consultation Statement (IMF 2010) for Finland, a budget consolidation is recommended to start 2011 onwards, to bridge the sustainability gap:

“The mission also counsels a strong and credible commitment to fiscal consolidation for the medium- to long-run. With parliamentary elections in 2011, clear identification of time-bound fiscal adjustment targets for 2012-15 and supporting measures to be enshrined in the program of the new government is essential to make progress toward fiscal sustainability. Given the tradeoff between output and public debt stabilization, the mission believes that an adjustment slightly higher than a percent of GDP per annum on average would be desirable and close the sustainability gap by 2020.” (IMF 2010)

The same IMF (2010) consultation report recommends that fiscal adjustment efforts should focus on expenditure retrenchment and tax base broadening. However, the report notes that prevailing tax rates and international tax competition leave little room for rate increases, with the limited exception of the value added taxes and property taxation. But, since in the case of
Finland the expenditure-to-GDP ratio is already rather high and demographic reasons exercise an upward pressure, expenditure-based consolidations would be more appropriate and also have proven to be generally more durable. Therefore, the report suggests that the central government spending ceiling framework should be maintained, while pension, health- and old-age care reforms, as well as an overhaul of local government, are key to containing expenditures (IMF 2010).

Three main suggestions are made by IMF to contain expenditures. Raising the effective retirement age (as currently planned), reducing the accurate rate for pension benefits, and tightening access to early retirement via disability or unemployment are the recommended measurements to reduce pension outlays. Secondly, the municipalities, which are responsible for most of the social spending and have the fastest expenditure increase, should be reformed. Their reliance on highly cyclical corporate taxes tends to boost spending in good times and therefore should be reduced and be offset by higher property taxation. Additionally, the report suggests a ceiling on municipal income tax rates, and restrained growth in central government transfers, would strengthen incentives for expenditure consolidation. Also greater use of information technology, outsourcing in service provision and further mergers of municipalities would lead to efficiency gains, according to the report. Thirdly, increased user fees would moderate growth in health expenditure and tighter definition of entitlements in long-term care could spawn significant savings. Also, sustained productivity increases in health- and long-term care would lower significantly projected rises in spending (IMF 2010)

The 'Fiscal Choices'\(^5\) report of the Ministry of Finance (2010) is assigned to give accurate and reliable information of the overall economic condition and sustainability of the public sector. It also serves as guidance for the public discussion about urgent decisions, which are needed to determine the future of public sector (Ministry of Finance 2010: 13). The report is largely on line with the Consultation Statement from IMF (2010); bridging the sustainability gap is the major objective for the following government and this should be made in a way that would not harm the overall economic development; the overall high taxation makes further tax increases unadvisable; though, to respond to the increasing pressure of public sector due aging population, calm tax increases on consumption and cuts in overall public expenditure are necessary. The report assures the reliability of the statements by referring to the expert opinions of OECD and IMF consultations and their overall research results on the world

\(^5\) Own translation.
Many times international and also national reports refer to the expensiveness and inefficiency of the Scandinavian welfare structure. Nonetheless, international comparisons calculating the total money spend in social services do not necessary support these claims. When calculating the total private and public spending in the old EU countries\(^6\), Finland expenditures tend to be slightly under the average.\(^7\) Compared with OECD average, the overall expenditure in Finland still is somewhat higher (see Figure 8 in Appendix). Therefore, it can be claimed that a universal model has been able to offer an equal, comprehensive and inclusive system that is still rather cost-saving and efficient. However, as stated from the Ministry of Finance, more efficiency is needed to respond the increasing demand due the aging population and reduced state subsidies (partially caused by reduced state income taxation). Further service privatization and outsourcing services are one recommended tool, encouraged by the government and backed up by the various international consultation reports. Cost-efficiency, better and more individualized services for the people and positive impact for the overall economy through new markets have in generally been seen as advantages for privatization.

### 3.3.4 Analysis

The 1993 tax reform introducing the dual income tax system was criticized because of the fear that it would enable tax avoidance by the capital owners. The possibility that self-employers and owners have to transfer their labor income to capital income might serve as a way to avoid the progressive income taxation. Apart from the possible tax avoidance, the reform also lightened the capital taxation, especially for the higher capital incomes. Therefore, the 1993 reform has been considered as one major contributor to the increase of income inequality in Finland (see Figure 3 in Appendix). The profits made by the capital owner and the unequal distribution of the growing wealth after the recession, have been justified by the claim that even though the wealthier might have benefited the most from it, that was not at the cost of the poor. However, in absolute terms, the poor might not become poorer, but the growing gap between rich and poor has become evident.

Pauli K. Mattila (KKK 2010) from the Central Chamber of Commerce, analyzed the consequences of the 1993 reform. He admits that some people might have benefited a lot from

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\(^6\) EU countries before the East enlargement in 2004.

\(^7\) The social protection expenditure as share of GDP in Finland was 25.4 in 2007, whereas the average of the old EU countries was 26.2. The health expenditure as share of GDP in Finland was 8.2 and the OECD average was 9.1 (See KELA 2009).
the reform. Nevertheless, he notes that in general the capital gains are taxed higher than labor income, since the capital gains are taxed the same percentage stating from the first Euro. Mattila concedes that this counts mainly for the self-employed with rather low or medium capital income. Therefore, it can be concluded that the benefits from 1993 reform, increases together with the amount of capital income, benefiting the richest strata with the highest capital income the most. At the same time the overall tax reliefs weakens the state's tax revenues and tightens the finance base and the redistributive capacity of the welfare system.

The decrease of the state income taxation is an obvious trend and consequence of conscious decision making. The emphasis to lower the labor taxation goes along with the OECD and IMF recommendations. According to OECD (2009), corporation tax is the most harmful to economic growth, followed by labor income tax. The suggestion to replace the tax revenues is to shift taxes from these areas to taxes on goods, services and property. These suggestions have been taken seriously in Finland. The issue neglected here is that the state income tax is the only progressive taxation, and the shift to non-progressive taxes also reduces the redistributive effect of taxation. Apart from the declining redistributive effect, the decreased state income revenues affect foremost the public services. One suggested modification in this regard has been further privatization of previously public provided services, also recommended by various international institutions. Also the Research Institute of Finnish Economy, in the report of economic sustainability of the public sector, encourages private insurances to ease the pressure of the public sector and compensate the decreased level of state provided basic security (ETLA 2001).

At the moment there is some pressure to increase the capital taxation and the Social Democratic Party has suggested converting it back to a progressive model. However, capital is more sensitive to economic fluctuation, especially in the globalized world. This can also be observed in the Figure 7 (in Appendix) where the state capital income revenues are affected by global trends. For example, the global crisis at the beginning of the 21st century and around 2008 can be detected in the figure. Therefore, replacing the lower labor income tax revenues by slightly tightening the capital income taxation, as suggested in the report of the Ministry of Finance (2010), would mean a shift towards a more unstable source of taxation.

Bridging the sustainability gap, as stated by consultation documents of international organizations and by the Ministry of Finance, is one of the major objectives for the coming
government. However, it seems that the decision of the necessity to cut public expenditures has already been made. The public discussion is not a question of if it is necessary or not; the necessity is the self-evident starting point, backed up with the recommendations of the IMF and OECD. The same recommendations called for ruling out raising taxes on business and labor. Therefore, the discussion seems to be about which indirect taxes or deduction rights could be trimmed and where to find expenditures that could be cut in the public sector.

The trends to shift the overall revenue from progressive taxation, to non-progressive taxation, such as capital, but also communal taxes and value added taxes follows largely the 'right policies' recommend by the international organizations. The Ministry of Finance plays a key role to convert these recommendations into Finnish policy making.

The government has gradually increased the responsibilities and the autonomy of the municipalities starting at the beginning of 1990s. To raise municipalities' welfare responsibilities without adequate funding, serves as a good receipt for defunding the welfare state in the long term. At the same time as the distributive effect of taxation has decreased, the decline of service quality because of lacking funding erodes the popularity of public services. The ones who can will increasingly opt for private services. This tendency is also encouraged from the government. To some extent eligibility classifications have been tightened in a way that actually forces the middle class to buy their services from the private market. As stated by Esping-Andersen (1990), middle class support is crucial for the social democratic system to survive. Therefore, excluding the middle from the services and benefits, instead of improving and extending them, seems to be in a direct conflict with the goal to 'rescue' the welfare state.

Also the overall impact of service privatization in Finland remains, at least, contested. In many cases the consequence has been rather poorer quality of services, increased waiting times, and increased user fees, driving those who can afford it to the private sector (Jutila 2010). These drawbacks are often seen as a result of municipalities’ inexperience to assess the offers of providers, following the general competition policy determined by EU, which will improve with time. Meanwhile, many cases are finally solved in trials, by the initiative of municipalities when the outsourced services have not reached a satisfactory level or by the initiative of the business actors, when fairness of competition has been questioned. Not only the trials are costly but they also encumber the municipal authorities and bind resources. Although, privatization (as well as trial cases) can contribute to the national GDP growth. Nevertheless, as Patomäki (2007) notes, privatization undeniable increases the transfers in
applied statistics but does not necessarily mean that something would be produced more, better or more efficient.

Lastly, the aim to decrease the public sector and encourage market options confronts difficulties in a sparsely inhabited country like Finland. The inequalities do not just grow in terms of different income groups but also between regions. With many services that municipalities are obliged to offer, there are simply no profits to be made in the rural areas. In these cases the burden remains on the shoulders of the municipalities, whereas in the bigger cities and growth centers, private companies may compete for the profits provided through new markets on health, social and insurance services.

3.3.5 Consequences and Public Opinion

So far, different defunding strategies mentioned by Pierson (1994) have been identified. To sum up, additionally to tax cuts, the tendency has been to move towards more unstable and non-progressive taxation. The public deficit puts pressure on raising taxes on consumption and cutting social expenditure. Replacing the National Board of Public Building by a State Real Property Agency, which started to charge market prices for the public facilities, was one reform that increased the non-welfare state expenditure in the cost of public services.

As the given example of structural reforms shows, the modification of political institutions in Finland has shifted the blame and the austerity measurements increasingly on the shoulders of municipalities. Solving the budget strains through outsourcing services and privatization has in many cases led to questionable outcomes. These two systemic retrenchment measurements (defunding and modification of political institutions) have occurred interlinked but still it can be asked if they have lead to change in public opinion and have they weaken the pro-welfare state interest groups?

The public support for the Finnish welfare state remains high. According to the value survey of The Finnish Business and Policy Forum (EVA) in 1992, 61 per cent agreed that 'Although good social protection and other public services are very expensive to maintain, the Finnish welfare state is worth its cost'. In 2000 85 per cent of the responded agreed with the statement (EVA 2001). By 2005 the number had decreased to 81 per cent (EVA 2005). Similar changes can be recognized towards the attitudes on service privatization. In the year 2000, 32 per cent
of the respondents agreed with the statement that 'To produce better services overall, a big proportion of public services should be privatized'. In 1992 the equivalent number of respondents was 52 per cent (EVA 2001). Therefore it can be argued that trust in the system and overall welfare state support was somewhat weakened around the economic crisis and people were more open to try new means, such as privatization, in service production. At the beginning of the 21st century the results revealed a slight re-evaluation for the welfare state and to some extent increased skepticism towards privatization. The welfare state's support has been proven by various surveys and researchers in Finland. Also Rahkonen (2009), was surprised of the strong support by all income classes to maintain high taxation and an extensive welfare state model, in his research.

In general, the welfare state support remains strong, but the drop from 85 per cent to 81 per cent, together with the increase of additional private insurances could also reflect the perceived extenuation and declining trust to the system. The possibility remains that the different types of systemic retrenchment became self-reinforcing. Private alternatives are likely to contribute to the support loss and with time lead to a change in public opinion towards the system. If the middle class is increasingly forced and encouraged to opt for private services, the public services start to be seen more as the last supply for rather marginalized groups. Attracting skillful labor for rural areas is difficult and the changing clientele will also make public services less attractive working places in general. In the long run this situation, worsened by lack of funding, might erode the quality of the public services. This can lead to further systemic retrenchment if public services in generally became to be seen as bad, low quality services produced by incompetent staff. As mentioned by Pierson (1994, 2001), and also by Esping-Andersen (1990), not just the clientele but also the workforce of public sector, creates an interest group on the behalf of welfare state. This support group will also disperse if the public sector loses its attractiveness as a service provider and as place of employment.

The changes in the state income scale, the implementation of the dual income tax system, the abolition of the wealth tax and the shifting emphasis to non-progressive taxation, have all benefited foremost the richest strata. At the same time, the overall redistributive effect of taxation has decreased. The consequence can be seen as a growing income inequality. However, this is not the only consequence. The income inequality with eroded the public

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8There are no cohesive statistics of the amount or increase of additional voluntary insurances, but private insurance companies in have in general announced stable annual growth (Turun Sanomat 2009).
sector's capacity to respond the middle class demands leads to a further segmentation. Encouraging service privatization increases the trend implicitly. The downward spiral of public welfare can become self-reinforcing. In Pierson's terms, defunding through the changes in taxation and modification of political institutions, in this case by shifting responsibilities for municipalities, can be clearly be identified in the case of Finland. The welfare state interest groups are weakened through encouragement for private alternatives.

Global trends and ideas also influence the public opinion in Finland and the demands of new internationalized economy are portrayed as a challenge for the Finnish welfare system. International organizations play an important role by providing information and guidance to cope with the internationalized economy. Especially the Ministry of Finance has actively used the consultation services from IMF and OECD. Their reports provide an additional backup for the selected policies, which emphasizes the importance to bridge the 'sustainability gap' and maintaining first-class credit ranking in the eyes of international organizations.

3.4 Case Study 2: Internationalization of Education

Overall, nations experience pressures to adapt to the institutional world order sketched by international institutions such as the World Bank, IMF, OECD and EU. These agencies therefore, play a central role defining, translating and disseminating the necessary ‘myths’ worldwide to create the common framework of the new context, imperatives, ends and means of the globalized world, in which also the institutions of higher education have to operate these days (Vaira 2004). The second case study demonstrates how these pressures were converted into a new university law in the case of Finland. First, the role of education policy will be shortly discussed as an integral part of the overall social democratic welfare state. The main focus of the case study is on the reforms made in the institutions of higher education of Finland. The impact of the reforms will be discussed and the citations of the government documents demonstrate how the need for the reforms were constructed and justified. However, the reforms were not carried out without resistance, but a strong criticism arose in Finland. The third section of this chapter will discuss the main critiques towards the reforms before the concluding remarks.

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9 The health sector provides an example of service segregation in Finland, which has also been noted in the OECD reports. A threefold division can be recognized where the rich primary use private services, most employees are covered through occupational health service and the rest uses the public health care.
3.4.1 Educational Policies as Part of Welfare State Regime

Education policy in Finland has always had a central place in the national development. The law of compulsory six-year education was made in 1921, four years after Finland gained independence. The school net covering the whole country served from the beginning also for other social political matters. For example, the long tradition of free school lunch played an important role for the overall nutrition. Therefore, additionally to the educational purpose of the citizens and as an institution guaranteeing equal rights and obligation for education, the school also played a key role in delivering other social political goals such as nutrition and healthcare. The constitution guarantees free education starting from the compulsory school, encompassing the secondary school and institutions of higher level education. Government warranted loans, nowadays complementary for study grants that everybody has a individual right to, ensure that further education is not dependent on wealth and that everyone has the same (financial) possibilities to access the institutions of higher education. The educational policies have been closely linked to national welfare policies, contributing to the overall social and economical upheaval of the country and developing a universal and inclusive welfare state scheme.

At the moment, the compulsory education normally starts when the child is seven years old and ends by the age of sixteen. Basically, all the children attend for nine years to the same compulsory school. The vast majority continues their education after that in the three year high school or vocational school, which both allow to attend institutions of higher education (universities or polytechnic schools) later on. The nine-year compulsory school is seen as a fundamental component of the universal welfare state, ensuring equal opportunities for everybody, independently from class or socio-economical background, to success in society. However, the structural changes made in the beginning of the 1990s also had an influence on the schools. The reform in the state subsidy system in 1991 replaced the ‘ear-marked’ funds for each sector with a lump-sum, which the municipalities could divide as they preferred. Many authors have noted that the new freedom of municipalities to rationalize their functions in practice meant finding ways to save costs. For comprehensive education, this basically meant saving measures, such as closing of smaller schools and incorporating them into larger units (Rinne et al. 2002). Rinne et al (2002:11) perceived the silent submission to budget cuts and savings in the school level as one indicator to the acceptance of a 'world without alternatives' and rising idea of 'managerialism' also in the schools. Accordingly to the spirit of the time, more freedom of choice was demanded for parents to choose the school, for the
schools to determine their curricula and for pupils to have more options to specialize in certain subjects. The state led model, determining a curricula reaching the whole nation and treating all schools and pupils alike, was not seen to be able to respond to the differentiated educational needs in the changing circumstances in the era of globalization. According to Rinne et al.:

“The changes in educational policy during the 1990s were linked to changes in the cross-national environment of action on the one hand, and to changes in Finnish politics on the other. A large number of those within the education policy elite thought that increasing international competition required added investment in the education of the gifted.” (Rinne et al. 2002:3)

A former director of the National Board of Education has described the changes made in the 1990s as 'hidden educational policy' (Rinne et al. 2002:5). With this statement, he refers to the way, in which smaller separate changes were carried out as independent projects. These changes finally turned out into a completely new educational policy – no controversy or discussion has occurred since the gradual small changes did not appear that significant in the overall picture. The new ideas supported the notion to 'free the lead'; the comprehensive school had played its part in raising the educational level of the whole nation and the time has came to channel more resources to the best (Rinne et al 2002). The fear was that the 'level pegging' education would not support the most brilliant students. This would finally turn into a loss in the global competition and therefore harm the whole nation.

In the globalized world, the role of education in the national competitiveness has become one of its key determinants. Finland's performance in the OECD Prorgramme for International Student Assessment (PISA) has become a national pride and strengthened the faith in the school system. Despite the fact that the differences of schools' performances in the national level remain modest compared with other countries, critical voices have noted that the tendency is increasing differentiation. This trend is associated with the growing income differences and question of housing, which has started to classify neighborhoods according to income divisions. The polarization is stronger in the bigger cities, especially in the capital area, where certain districts and their schools have become more elitist and other schools in less attractive neighborhoods become associated with a range of social problems. Nevertheless, the regional differentiation remains modest in international comparisons and the PISA results have stayed high. These excellent results though, have turned the attention to the
institutions of higher education and raise the question, why are our universities not doing that well in international comparisons?

3.4.2 University Reforms

Three major reforms in the university system can be identified in the recent years, with the goal to raise the academic level and international competitiveness of Finnish universities. Firstly, the degrees were reformed according to the Bologna Process accompanied with a renewed curriculum. The Bologna Process aims to homogenize the degree structures within the EU to foster the creation of a European higher education area. In Finland, this degree reform was completed in 2005. Simultaneously, an overall administrative reform, which had gradually been carried out in all state departments, reached the universities and was completed in 2006. The last reform led to a new university law, under which the universities have been operating since 2010. The new law separated universities from the state apparatus and converted them into independent public corporations or foundations.

The Bologna Process and administrative reform with a new pay scheme for the personnel were prepared at the same time. The whole degree system was reformed, following the recommendations of the Bologna declaration. Bachelor and Master Degrees were separated and a 3+2 – year target program was introduced to accelerate graduation and students transition to working life. The implementation of new pay schemes and overall administrative reform introduced result oriented management, where the allowances were distributed according to the performance of the units and departments. The overall aim of the reforms has been to encourage universities and single units for better quality and productivity (more etc-credit points/students, degrees). (e.g. University of Helsinki 2004). In general, the internationalization of the institutions of higher level educational became one of the major goals of the education policy. All the universities and polytechnic schools were obliged to create a strategy for increasing international cooperation and exchange (Ministry of Education 2007a). The Bologna Process eased the international exchange between universities and the new pay schemes enabled more competitive payments to attract top academics to Finland.

In 2005 The Ministry of Education invited the previous chief executive of the Research Institute of Finnish Economy Niilo Jääskinen and Emeritus Professor, Director of the Finnish Institute of Occupational Health, Jorma Rantanen, as trustees to create a proposal for possibilities for a more thorough renewal of higher education. The main goal was to increase
the (financial) autonomy of the universities and their ability to respond and fulfill their task as an important part of Finnish society and economy in the globalized world. Another group of trustees were in charge of designing a new top university, which would assimilate the School of Technology, School of Business and the School of Art and Design into one unit. The new university, which in the planning phase was labeled as the 'innovation university', 'top-university' or 'university of excellence' now carries the name Aalto University after the most famous Finnish architect and designer Alvar Aalto. The goal was to create a top university in Finland, which would have the premises to become one of the world’s leading innovation universities. According to a press release of the Ministry of Education:

“The position of Finnish universities in the international educational field does not respond to the demands of globalization. In many studies, both domestic and European, it is found that there is a need to reform the university structures, operation and management system and to strengthen the internationalization of universities and their financial base. Finland’s competitiveness depends not only on general high-level system of higher education but on individual universities, whose research and teaching are the key sectors of the international top level, or just its immediate vicinity.”(Ministry of Education 2007b)\(^{10}\)

Despite the challenges created through increasing globalization, Finland is largely portrayed as a winner in the global competition. According to the view of the Ministry of Education, globalization is not just a challenge but also an opportunity for everybody:

“Globalization is an opportunity as promoter for both national and international well-being. Economic growth in developing countries has been strengthened so that the average growth rate in the 2000s has exceeded 6 per cent. At the same time, the change in industrial structure in post-industrial societies, has accelerated the traditional industrial processing to move to the new industrialized countries [...] Therefore, globalization allows a promotion of more equal distribution of wealth and lowers the gaps of living standards.” (Ministry of Education 2007a:10)\(^{11}\)

However, the changing conditions, especially globalization, employment development and demographic structure, create new demands Finland needs to be able to respond to, in order to remain successful:

\(^{10}\) Own translation.
\(^{11}\) Own translation.
“The future challenges of the Finnish society are the rapid changes in the international division of labor and in the competitive environment in the open global economy. The condition for Finland's success is that the level of expertise and productivity will raise in all economic and business areas. To achieve this goal, reforms in the innovation and educational system and strong development of the working life are required” (Ministry of Education 2006: 6)\textsuperscript{12}

The equal opportunity to access education and its quality is seen as fundamental for the well-being of the nation as well for national competitiveness. Finland’s assets in the global competition lay in education:

“Economic globalization means a move towards a specialization of the global division of labor and increasing competition. Finland’s competitive factors in the global competition are the highly skilled population, expertise and rapid transfer of innovations into production process. The challenge for the next ten-year period is to respond to the increasing demand for knowledge by strengthening the quality of education.[...] Internationalization support the development of high-quality education and research. Education, especially higher education, shall develop into a new business area for Finland.” (Ministry of Education 2006: 8)\textsuperscript{13}

The degree structure reform as part of the Bologna Process and the administrative reform introducing new pay schemes and administrative structure for the entire public sector were the first steps of the overall reform of universities. The new pay scheme followed the doctrines of new public management, or performance management, by dividing the salary into two components. The task-specific component depends on the competence classification of the duty and the personal component on the individual's performance at work. Both components are considered in the assessment discussion between the personnel and his/her supervisor. After the discussion, the supervisor makes a suggestion of the salary to the management. The main evaluation factors for research and teaching personnel are merits in teaching and research and merits in societal life and within the university community. The main evaluation factors for other personnel are professional management, responsibility at work, activities in the work community, quality and effectiveness. The aim of the new pay scheme is to foster the fairness of payment, improve the competitiveness of the salaries in the universities, support personnel's development, encourage better results and improve supervisor and

\textsuperscript{12} Own translation.  
\textsuperscript{13} Own translation.
management in the universities (FUURT 2006).

The administrative reform in the universities with the new pay schemes can be seen as a follow up to the reforms starting in the 1990s. The principal decision of the overall reform of the public sector was taken already at the end of 1980s. According to this plan the whole state administration has been gradually reformed with the aim to develop services ability and productivity, strengthen the position of the Government and the Ministries, decentralize administration, strengthen the municipal self-government, business-enterprise reforms and enhance the utilization of technology and reform the steering systems (Vartola 2004). Despite the resistance within universities towards the planned reforms and autonomous status guaranteed by the Constitution, the new pay schemes were implemented and the departments became divided into independent profit centers.

A book published by the Ministry of Finance (2006), “Finnish Public Management, Building Sustainable Quality”, tells the story of successful reforming the public administration and finding the new market oriented way for the state to fulfill its functions in Finland. One of the success factors behind the reforms, according to this publication, has been the centralized reform departments, the Public Management and Personnel Department of the Ministry of Finance, which are in charge of planning the reforms and also have ensured the enforcement of the reforms by supporting the individual ministries in the implementation process (Ministry of Finance 2006). Also in this publication, the recession in the early 1990s, has been acknowledged as an important factor accelerating the performance management reform (Joustie 2006). The labor market analyst Reivilä (2006), from the Ministry of Finance, describes the pay scheme reform as following:

“The impact of the reform will go beyond actual pay policy, affecting effectiveness of operations, operating culture, employer image and implementation of the human resources strategy. The pay scheme reform is part of the restructuring of the entire public sector and leads changes in control and operating methods” (Reivilä 2006:28)

Nonetheless, the new hierarchical organizational structure and pay schemes, which enabled more competitive salaries to attract experts also from foreign countries, were not seen as sufficient premises in the global competition. The proposal made by the trustees of the Ministry of Education proposed changing the legal status of universities from autonomous state agencies into corporations subject to public law or into foundations subject to private
law (Jääskinen & Rantanen 2006). More freedom was seen necessary for the universities to allow them to rationalize their functions and improve the quality and effectiveness of its basic tasks, education and research. The increasing demands of the assignments and changing operational environment also demanded a reform to improve strategic management and overall administration (Ministry of Education 2006: 19).

The Ministry of Education has justified the university reform and classified the objectives and key impacts as following:

“The reform will facilitate operation in an international environment. Its purpose is for universities to be better able to: react to changes in the operational environment, diversify their funding base, compete for international research funding, cooperate with foreign universities and research institutes, allocate resources to top-level research and their strategic focus areas, ensure the quality and effectiveness of their research and teaching and strengthen their role within the system of innovation.” (Ministry of Education 2010).

3.4.3 Consequences of the New Law

The new law came into force in August 2009. It changed the status of universities from a previously autonomous part of the state into either a corporation under a public law or foundations subject to private law. The new universities started to operate the First of January 2010. Tampere University of Technology and the new Aalto University choose the form of a foundation university. The rest became corporations under a public law and simultaneously some universities assimilated into bigger entities. The universities were no longer to be developed as part of the state administration, but had a larger autonomy to determine their own specific orientation and goals. The university staff was no longer employed by the state but by the universities. Therefore the civil-servant status of university employees was replaced by contractual employment relationships. According to the official statements, these changes enabled the universities to pursue their own independent human resource policies, improve their attractiveness as an employer and therefore strengthen their competitive advantage to recruit the best personnel. The new financial autonomy given to the universities would improve their standing in the international environment. The capitalization of universities safeguarded their financial standing, however, the state remains responsible for the core funding. Additionally, the new legal status allowed universities to attract donations and improve their finances through business activities. A time frame was set for Universities to collect donations as basic capital. The State committed to participate in the basic capital
generation by allocating funding in proportion to the actual private donations the universities managed to collect within the given time frame\textsuperscript{14} (Ministry of Education 2010).

Through the reform, the universities were able to develop stronger and more specialized profiles and target research and education accordingly. The financial liability emphasized the importance of strategic management and the aim of the reform was to consolidate the influence, societal relations and financial skills of the boards of universities subject to public law. The reform of university administration and management aimed to strengthen the capability of the universities to respond more flexibly and independently to the challenges arising from their new financial status. Also the academic decision-making and the position of the rectors will be consolidated through the new law. Members of the university community (professors, other personnel, students) continue to be represented in the board. In case of a public university, the collegiate body elects the members of the board. However, at least 40 per cent of the board members must be external. The chair and the vice-chair of the board are elected amongst the external members. In case of a foundation university the board has seven members. Three of the members are nominated by the founding members of the university foundation and the number of candidates nominated by members must be at least double the number of seats. The chair and vice-chair must be persons external to the university and other members of the board can be freely elected from internal or external members. This election is done by a multi-membered administrative body constituted only by internal members. Degree education remained free of charge. Though, the reform makes it possible to charge tuition fees on a trial basis to students from outside EU/EEA countries who are taking part in separate master programs, provided that the arrangements include a scholarship scheme (Ministry of Education 2010).

3.4.4 Resistance

The process of university reforms and the new university law was determined and hard headed. However, their implementation did not proceed as harmonious and under a wide acceptance and cooperation of the university community as the governmental documents allow to picture. Already the first structural reform in 2006 faced resistance in the universities. Critics (e. g. Patomäki 2005a,b; 2007; Eräsaari 2006; Jutila 2010) have pointed out that the

\textsuperscript{14} The communication corporation Nokia has been exemplary in the new donation culture. In August 2010 Nokia decided to support the Finnish universities with 12 million Euros. The Aalto University received 6 million, The Tampere University of Technology 3, the University of Oulu 1,8 and University of Helsinki 1,2 million Euros. Source: Helsingin Sanomat (2010).
ideas of new public management as the common denominator for the reforms and as a way to impose neoliberal policies into Finland as the overall organizing principle in the public sector. The opponents of the new reforms have also noted that many changes, sometimes even radical ones, have been implemented as mere technical measurements. The well-prepared civil servant work, using the best available information of international organization, such as consultation from OECD and IMF, in this debate is seen rather as a way to by-pass inconvenient public discussion and democratic decision making procedures, which might not stand behind the reforms.

In the Finnish conversation, professor of international politics Heikki Patomäki\textsuperscript{15} has become personified as a strong opponent for the reforms. In his protest book (2005a), “The University Ltd”\textsuperscript{16}, he opposes the gradual process, which aims to turn the universities into business entities. He admits that the protest came late since the reforms have been going on already since 1990s in other sectors of public agencies. He argues that the 'divide and conquer' tactic has been efficiently used in reducing opposition and withholding it to turn into a broader movement. According to Patomäki, in the first phase the caucus negotiates with the related ministry, in this case the Ministry of Education, with the premise that “there are no alternatives”. The Ministry then has the task to negotiate with the related agencies and departments. Still, in the negotiations the single departments are rather in the position of taking orders than as equal negotiators. In the confidential consultation with individual departments the administration is tied to the reform. Therefore, most of the decisions are already made by the time the results of the negotiations are published (Patomäki 2005a).

Apart from his protest in form of a book, Patomäki (2005b), wrote an open letter to the Rector. Coincidentally, the same strategy was used by Koskenniemi (2005), professor of international law at the University of Helsinki. He also questioned the suitability of the new pay schemes and administrative reform in the universities. Patomäki and Kosenniemi together with many academics reject the underlying ideological base of the reforms and the perception of the value of science as only a market commodity. Both men were in a supervisory position in their departments and told by the upper administrative level to carry out the reforms and personal evaluations of the staff. The new pay scheme definitely caused turbulence in the

\textsuperscript{15} Patomäki is a Professor of International Politics at the University of Helsinki and the research director of the Network Institute of Global Democracy. He is on leave from his duty at the University of Helsinki since the first reform introducing the new pay scheme was planned for his department. He has been titled as the 'leading anti-intellectual' by the previous SDP Prime Minister Paavo Lipponen and he is often considered as someone 'who does not understand anything about economics', due to his critical views towards the neoliberal policies in Finland.

\textsuperscript{16} Own translation.
universities. Apart from the top-down command, reaching from the ministry to every employee of the university and concern for diminishing democracy and academic freedom, the critics have noted various negative effects of the reform. The new bureaucracy, including the implementation of the reform but also continual demand for new reports, evaluations, personal assessment and controls has been a major time consumer, at the cost of teaching and research. The wage policy was seen problematic as such, but also as a mechanism to imply more conformity in the hierarchical structure, which again threatens the individual and academic freedom guaranteed by the Constitution (Patomäki 2005a,b).

In the response to Patomäki and Koskenniemi, Rector Niiniluoto (2005) considered the critical and questioning voices regarding the fairness of the reform and new pay policy a very welcomed discourse. Nevertheless, he calls for more understanding for the administrative servants, who also are just doing their duty and patience from the university staff to cope with the organizational change. For Koskenniemi’s (2005) demand for further discussion, why the scientific view reflecting from the reform is seen superior to all other scientific views, concerned with human nature and behavior, Niiniluoto replies that according to his understanding, the new pay scheme and overall administrative reform do not reflect any scientific direction or paradigm but is only an administrative practice (Niiniluoto 2005).

However, many people in Finland have associated the university reforms and overall spread of new public management practice as connected with the neoliberal ideology. Eräsaari (2006) notes that the new public management has been an unexposed area among the research undertaken in Finland. She claims that critical research has become difficult since the result oriented management puts pressure and limitations on academic research and other research institutions are too closely linked to political or economical guidance to produce critical knowledge (Eräsaari 2006).

In the feedback request for the University Bill, collected by the Ministry of Education from various actors including the universities, political parties, organizations, business actors and other important societal agencies and stakeholders, especially the exceptionally tight preparation schedule, was seen as problematic. Many respondents considered that a reform like that would necessitate more profound discussion within the universities as well as in society. Many respondents also noted that even the Parliament did not have enough time to deal with the constitutional questions of the reform with usual thoroughness due to time
constrains. In general, the quality of the law draft and the lack of groundings for the proposal were questioned. Some expressed concern about various unsolved questions during the feedback round and also the lack of other alternatives and justifications of how the proposed solution was reached were seen inadequate. Concerns were also made about the equal treatment of different school sectors (universities vs. vocational high schools, subjects and also regions) (Ministry of Education 2008).

Also the political opposition led by the social democratic party made an interpellation (Filatov et al. 2008) to the government about the new university law. The reform was considered necessary in the globalized world, but the critic was towards the unequalizing way the reform was carried out. The main concern was the securing of independence and finances for the basic research and education. The interpellant noted that the proposal would put social sciences and humanities in a different position in terms of attracting external funding than technical or natural sciences. Also the pressure to assimilate smaller universities into bigger units was seen controversy to regional policies, which traditionally have emphasized the importance of the school and university net covering the whole country. The majority of external members in the boards and in the highest positions were considered against the principle of autonomous and free university education. The foundation form was also considered as a competitive advantage for technology-oriented universities, which in the long run is likely to lead to unequal development possibilities for the universities (Filatov et al 2008).

The amount of external members in the government of the universities was especially highlighted in the public debate. In the final proposal of Jääskinen & Rantanen (2007) the amount of external members was set higher than the amount of internal members, which was seen as problematic by the constitutional guarantee of self-determination of universities. The Constitutional Committee was humiliated and by-passed by the fact that the government formation document of the new Aalto University was signed and other universities had started to prepare for administrative changes according to the proposed rules and regulations before the proposal was discussed and approved by the constitutional committee. The final approved law orders that the board of the independent corporation universities would be determined by the university collegiate but at least 40 per cent of its board has to be external members. The government of Foundation universities will have seven members, which are chosen by a multi-member body, which can constitute only from internal members. This body is free to
vote how many external or internal members the government will have. In both university forms the chair and vice-chair must be elected amongst the external members (University act 2009).

3.4.5 Concluding Remarks

Education has arguably been a corner stone in the development of the welfare state and it remains in the center also in the era of globalization. However, the trend of new reforms made in recent years shows a strong believe towards market solutions. As the example of the university reforms demonstrates, many academics are concerned that the way important reforms are made seem to by-pass the democratic principles of decision making. In many cases, new laws are being prepared by civil servants behind closed doors and passed to the parliament in such tight schedules that it does not leave any room for further discussion. The university reforms can be considered as remarkable in the Finnish context in a sense that at least they created a noticeable resistance, which can be considered rather untypical in the political atmosphere and culture of Finland characterized by strong tradition of trust and consensus politics.

However, the gradual changes made before the new law already had created a mechanism to reduce open resistance within the universities. The new hierarchical organizational structure does not leave many possibilities for an open protest. The academic staff nonetheless, is also dependent on their jobs and wages and protesting towards the rules made by the upper level of the hierarchy might not have such a positive impact on their overall careers and in the personal relationships, which have become increasingly important due the new pay schemes. The increased autonomy as a consequence for the new law therefore cannot be understood in terms of individual or academic freedom. Even its financial aspect remains contested, as it can be debated if moving towards more market dependency can create more autonomy. The formal separation of universities from the state apparatus also does not reduce the universities dependency from state support nor does it free the universities from the state's control. The government and the Ministry of Education are still determining the overall guidelines for education policies, which the institutions of higher level education are also ought to follow. Therefore, the experienced unfairness of the pay policies, the democratic faults in the new law-making process and the introduction of tuition fees for students outside EU/EEA countries seem to be rather contradictory to the traditional social democratic mode
emphasizing inclusiveness in decision making, fairness and equality of opportunities.
Chapter IV: Closure

4.1 Discussion

This thesis started by presenting the key concepts of the welfare state, social policy and globalization and also their development and interaction with each other. The enlargement of distinctive welfare state regimes in the western countries was described with the help of Esping-Andersen's typology. Despite the limitations of any given typology, Esping-Andersen's classification apart from explaining the historical trajectories, served as a solid picture of how the regimes were categorized as they existed at the end of the 1980s. In his work, Finland, with some reservations, was classified as part of the social democratic model of the Scandinavian family. The characteristic of this model have traditionally emphasized the institutional welfare state committed to a universal, equal and extensive model, aiming for an optimum in welfare provision. However, a wide range of changes, which were identified in the theory, have recognizably put pressure on the welfare states in all affluent democracies and questioned their sustainability and also their legitimacy. As the discussion in the theory presented, there is little agreement on what are the changes that have been the most commanding and what should be the direction to continue. For some authors (e.g. Pierson) the welfare state fiscal strains are caused merely due to endogenous pressures whereas global or other external forces have hardly a role to play in that development. From another point of view, globalization, especially in form of increased economical competition, can be considered as a driving force and main reason for the crisis welfare states are facing.

None of the case studies chosen for this thesis represent the most typical realms of welfare state or welfare policy. However, when talking about the welfare states in their broadest sense, and as an organizational and stratification structure, both realms are momentous. Tax revenues are the main financial source for public provision and also a redistribution mechanism in the social democratic model. As concluded in the first case study, the changes made in the taxation have led to increasing income inequalities and together with structural reforms, slowly contributed to the erosion of the quality and availability of public services. The overall goal after the economic crisis has been to reduce public spending and the scope of the public sector. Education policies arguably have always had a central role in the Finnish welfare state development. Through the reforms made in higher education, this area is to be developed into a profitable export product, - a goal which many have criticized due its tendency to undermine the core principles and values of free and independent research and educational targets. Also
the introduction of tuition fees for students outside EU/EAA countries stands in direct contradiction to the social democratic welfare policy and principles of equality and promotion of more equal changes and globalization worldwide. At the same time, the space for alternative views according to the structures or desirable world order, the critical discussion of which kind of world order Finlad as a nation supports, of which kind of idea of human nature, justice and freedom this order reflects, are becoming more limited in the public discussion and academic research.

Pierson's theory served as a tool to analyze systemic retrenchment in Finland in the first case study. However, his assumptions, firstly about the modest impact of the retrenchment attempts, and secondly, his current position, which sees the retrenchment simply as necessity in the contemporary situation, can be questioned. It is true that the deeply institutionalized welfare model and the mechanism of path-dependency tend to lock-in and limit the possibilities for radical change. But instead what is widely experienced is a slow, gradual retrenchment, which nevertheless in the long-run exercises considerable influence and changes the character of the welfare state. The first case study identified mechanisms of systemic retrenchment. Different forms of defunding were the main focus of the case study and other forms of systemic retrenchment were included in the analysis. The first case study demonstrated examples of each mechanism of defunding; tax cuts, shifting to more unsustainable sources of financing, deficit financing and increasing non-welfare expenditure. As a parallel phenomenon to the defunding process, political institutions and decision making procedures were modified. In the case of Finland, this took place through the structural reforms starting from the 1990s, which increased the municipal autonomy but at the same time shifted more responsibility of the cost containment on their shoulders. This development, apart from increasing pressure to raise the municipal taxes, served as implicit encouragement for privatization and outsourcing services traditionally provided by the municipalities themselves. The overall benefits of privatization in terms of better quality or reduced costs have, at least, been contested.

Apart from the structural adjustments and systemic retrenchment, as noted by Julkunen (2001a), there is hardly a program or sector in Finland, which would not have been cut or reduced during or after the hard economic years starting at the beginning of the 1990s. Cox, R. H. (1998) analyzed the consequences of the retrenchment and came to conclusion that despite the apparently small effect of individual programmatic retrenchment, the overall
cumulative impact is substantial. On an extreme example, government’s commitment to an optimum can be replaced by guaranteeing the minimum. Additionally, the aim to reduce take-up rates and increased targeting change the perception towards the welfare programs. The introduction of targeting programs and so called ‘poverty packages’ in Finland have been considered as signs of gradual steps moving away from the universal institutional commitment to welfare towards a more residual model (e.g. Kuivalainen & Niemelä 2008).

Welfare state retrenchment can be better accepted when it is portrayed as a mean to serve for higher objectives, as noted by Levy (2010). Also in the Finnish case, the undeniable retrenchment and modification of the welfare structures have widely been justified as necessary measurements to rescue the core structure and values of the welfare state. Many significant decisions were made under the so called rainbow coalition led by the Social Democratic Party, but wedding in the whole political spectrum from left to right into the reforms. In Pierson's terms, this can be analyzed as blame avoidance and burden sharing for unpopular decision. At the same time, it can be considered as a major sample for the consensus politics in Finland. The political opposition was weakened since the main parties, traditionally with opposing views, were working together or co-opted under the rainbow coalition, continuing the politics the right-wing parties started at the end of the 1980s.

As mentioned, in the public discussion the term welfare state is increasingly becoming replaced by welfare society. However, the results of various surveys speak about remaining popularity and support to the institutionalized welfare state among the population. Therefore, the change in the discourse by replacing the state as actor with referring generally to ‘society’ together with the implicit encouragement for privatization can be considered more as attempts to change the public opinion than results of changed opinion or weakened welfare state support among the population. As the results of the values surveys prevail, the welfare state is still considered as worth its cost. Even more, against the believes and taken for granted assumptions of many economists, various surveys have demonstrate that the Finnish people, in all income classes, actually value the maintenance of the welfare state higher than tax reductions (e.g. EVA 2001, 2005; Rahkonen 2009). Therefore, an increased resistance towards taxes as some actors and institutions have claimed, cannot in the case of Finland explain the tendency of welfare state retrenchment. Nonetheless, continuing tax policies in favor of the richest, weakening the level and accessibility of the public services and encouraging the middle class increasingly to use private services, eventually will erode not just the financial
base but also the support base of an extensive welfare state model. Therefore, it appears like the most reforms made in order to sustain the welfare state and put it in economically sustainable ground, rather seem to mark a further departure from the core values and principles of the social democratic model. The neo-classical concept of freedom does not seem to include the possibility of any given nation or population to freely choose for an extensive and universal model, maintained by high taxation and income redistribution.

Despite the strong institutional path-dependency, locking-in future commitment to the welfare state model as observed by Pierson (1994) or determining and influencing the future development of the distinctive welfare regime as perceived by Esping-Andersen (1990, 1996), another kind of lock-in mechanism with its own path-dependency seems increasingly to draw the states in certain direction. Gill (2002) refers to this phenomenon as neo-constitutionalism, largely driven by powerful states, international institutions and major global stake holders. As discussed earlier, these actors and agents play a crucial role in determining the global trends, directions and defining appropriate behavior and recommended politics. Together the believes and structures of these actors create a common agenda and widely promote the perception of this as the naturally given World Policy or World Order, including the perceptions, values and ideas how the world and the societies should function in this framework. Cox, R. W. (1987) has classified behavior in this framework as an action that supports or challenges the current world order or historic block. In this picture, as noted also by Patomäki (2007), Finland as a small country is rather a follower than a creator or challenger of the global trends.

The chosen policies during and after the economic crisis, can rather be considered as a sign for increased willingness to be part and adapt to the challenges of the new world order. It can be questioned though, if this willingness is equally experienced among the Finnish population and who actually benefits from it. As the case studies demonstrate, the global trends have been prevailing in Finnish policy making. The reforms in taxation and administrative structures follow the recommendations and models provided by international institutions such as the OECD, IMF and EU. The global trends penetrate through the overall national framework and structure, as the example of the changing educational policies reveals. Cox, R. W. (1987) considered investments in education as investments in conformity since only a small percentage of the overall population will reach the critical level of education in an institution of higher education. Finland has always invested significantly in education, and continues doing so, even though the targets and goals might have changed. The
implementation of the new pay schemes and hierarchical structure in the universities caused a wide outcry, not just because they were considered unfair and contradictory to the values of academic researchers but also because it imposed a new form of conformity within the universities. If, as considered by Pierson (1994), politics have enlargeable become a struggle over knowledge, it can be concluded that the importance of critical research has become more significant than ever. The tradition of external members in the university boards had already existed, but to determine by law that the highest positions are to be filled by external members can be considered as a significant change. If the municipalities were given more autonomy starting from the beginning of the 1990s to rationalize their functions, now it’s the turn of the universities. Unconventional and non-profitable subjects, such as gender studies, have been the first ones on the list when the new management began to ‘rationalize’ or ‘target resources’ in the new universities.

The reports from the Ministry of Education express the important role of education in the nation’s success. Education has been perceived as one corner stone of the Finnish welfare state. However, there is an increased need to renew and internationalize the educational system in order to maintain competitiveness in the globalized world. Globalization or increased internationalization as the second case study shows seems to have a threefold function; it is the reason or challenge the nation is facing, it is the method or instrument to respond to the challenge and finally it is also the inevitable outcome. The Finnish experience with internationalization of higher education reveals how, especially in a geographically rather remote and climatically relatively unattractive country, globalization or internationalization does not just happen, but it has to be made to happen. To fail in this effort, as made clear in the governmental reports, would have a drastic impact for the national economy and for the well-being of the total population. In the public discussion, responding to the changes of globalization and bridging the sustainability gap, are considered as the major challenges that Finland is facing. Not to be prepared for these changes would mean destruction of the welfare model. Therefore, austerity measurements and reconstructing are necessary in order to 'save the core values'.

The country comparisons in social spending revealed that in terms of total public and private spending, the countries expenditure levels tend to converge. Actually, the United States, which can be classified as rather residual welfare state is on the top part of the list. Therefore, overall coverage and equality in terms of access and quality of the services can be perceived as more
distinctive factors than the expenditure levels. The welfare regimes are distinctive exactly in terms of their overall institutional arrangements; these arrangements are largely based on nationally shared values and ideals. It is an ideological choice if a country prefers to invest in pre-prevention of crimes and social risks with inclusionary policies or rather carries the cost of extensive security measurements and full prisons. The difference for individuals, their life changes or crime risks are enormous. Therefore, changes in the taxation or organizational structure, not to mention in terms of welfare programs, should not be passed through as ‘merely technical’ measurements, prepared behind closed doors in a consensus of a small group of top level civil servants. These changes have far reaching consequences, which would demand much profound public discussion and weighing the alternatives objectively.

The world order, with its economic realities, fostered by the international institutions seems rather an unquestioned ‘truth’ in the Finnish public realm. Typically reforms are perceived and justified as necessary measurements to reduce costs of the public sector and/or enable economic development. In the short term, policies and recommendations adapted from OECD and IMF certainly can materialize into a positive impact, though in the long run the short-sighted savings in the public sector tend to increase costs in other forms.

4.2. Conclusion

The main research question of this study asked if the reforms be seen as adaptation upholding the welfare state model or can it be claimed that a more fundamental change has occurred? In the light of this research it can be argued that significant changes have occurred. These changes, as demonstrated in the case studies, can rather be considered more contradictory than supportive for the traditional characteristics and values of the Finnish welfare state model. These changes did not happen at once, but rather step by step, finally influencing all sectors of the society. The Scandinavian model has been perceived as a particular type of compromise between capital and welfare, and its success in terms of social rights and fostering equality is acknowledged worldwide. In these terms, the Scandinavian countries still remain distinctive, but maybe rather because of historical lead, not necessary because of the current policies.

Which are the roles of global and local forces in triggering these changes? As mentioned, the Scandinavian countries have been recognized distinctive in their success to foster equality and social rights through an extensive and distributive welfare state scheme. The historical
development of the welfare state was connected to a particular time with favorable conditions of rapid economic growth in the short history of nation states. The changes in the world economy starting from the 1970s; opening economies, internationalization of production, increased states interconnectedness and the process labeled as globalization, have changed the framework, in which nation states operate. The raise of neo-classical ideas challenged the framework of Keynesian consensus and market orientation in all aspects of societal life gradually spread around the globe, many times through the international organizations or interstate institutions.

Since the 1980s, Finland has been rather eager to be part of the global (economic) development and competition. The turning point of the welfare policies is associated with the deep economic crisis, which followed the uncontrolled opening of financial markets. The underlying causes of the crisis remains contested, nevertheless the crisis triggered a wide range of retrenchment and the trend has been continuous even during better economic years. Various changes, often associated with globalization, have made the predicting and preparing for future increasingly challenging for nation states. International institutions, especially OECD and IMF, in this scenario are perceived as experts of the global economy. The case studies prevailed how seriously the global trends and recommendations proposed from these institutions are affecting national policy making and how strongly they are perceived as the only alternative to reach the desired goal of global competitiveness.

The international organizations create trends and guidelines for the 'right' policies. Nevertheless, this thesis argues that it is up to the national governments to implement and foster them in the specific national context. The Finnish government has been markedly capable in converting the global trends into national transformation process. Even if the resistance towards the new trends and demands among the population remains constant, the implementation of the new organizational structure, increased competition also within the nation and reducing and re-targeting resources along new goals, create a self-reinforcing path-dependency. This path-dependency is demonstrated partly through the structural changes occurring within the nation states in response to the global trends but also in binding laws and international agreements creating a new kind of path-dependencies based on quite different ideas than the traditional Scandinavian model.

Therefore it can be concluded that international organizations such as the IMF, OECD and EU
play a role by creating a desirable, appropriate and common sense framework for reconstructing national policies. The guidelines of the global institutions can have far-reaching and extensive consequences, when applied by the national government. Nonetheless, a national will and capacity to reform is required in implementing the changes to the national context and policy making. The changes in the taxation policy widely reflect the perceptions of OECD and IMF in terms of correct fiscal policy and economic steering. The doctrine of new public management, which was widely adopted from OECD consultations, is an example of another global trend. It became the overall guideline for the reforms in public sector in Finland in the 1990s - reaching the institutions of higher education at the beginning of the 21st century. This structural change was paving the way for further internationalization of the education system, a trend that again increasingly fosters further globalization.

The policies recommended or imposed from international organizations serve other goals and are based on different values and ideologies than the traditional values and goals of Finland are. Therefore, adapting the recommendations of international organizations in the national context can hardly support the previous welfare state arrangements or help to 'maintain the core', as often presented in the public rhetoric. It can be questioned, how much the current system reflects the core values and principles of universal welfare state mode. To a certain extent, as argued in this thesis, the Finnish welfare state seems to have became more an institutional facade of the previous model with completely new goals, contents and stratification structure.
Bibliography


17 The titles of Finnish Journals, Reports and newspapers articles are translated into English by the author and added in brackets to the bibliography


Saari, J. (2001) Reforming Social Policy – A study on institutional Change in Finland during the 1990s. Social policy association, Helsinki/Department of Social Policy, Turku


**Sources used for the Case Studies**


Appendix\textsuperscript{18}

Figure 1: Debt in Finland

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\* preliminary data

Source: Created by the author, from Statistics Finland (2010).

\textsuperscript{18} Some of the figures entail translations from Finnish to English by the author.
Figure 2: Progressive State Income Tax Scale

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References: A = Lowest Limit of Income, in Euros; B = Tax on the limit, in Euros; C = Tax Rate.

Source: Created by author, from Veronmaksajain Keskusliitto [Taxpayer’s Federation] (2011).
Figure 3: Income Distribution (1987-2005)

Note: 1987=100

Source: Statistics Finland (2007a).
Figure 4: Income differences in Europe according to gini coefficient in 2007

Figure 5: Changes in Gini Coefficients as % points from mid 1990s to mid 2000s.

Source: Statistics Finland (2007c), original OECD.
Figure 6: Unemployment Rate in Finland (in %)

Source: Statistics Finland (2009)
Figure 7: Tax Contributions from direct taxes in Finland. 1993-2008

Source: Statistics Finland (2008).
Figure 8: Public and private social expenditure in percentage of GDP in 2007

Source: OECD (2007)