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THE FINNISH WELFARE STATE IN TROUBLE: LESSONS TO BE LEARNED FROM EAST ASIA OR DENMARK?

Bachelor's Thesis

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ABBREVIATIONS

Finnish political parties

KESK	Finnish Center
Ps	True Finns
KOK	National Coalition Party
SSDP	Social Democratic Party of Finland
VIHR	Green League
RKP	Swedish People's Party
KD	Finnish Christian Democrats
VAS	Left Alliance

Country abbreviations used in regression analysis

A	Austria
B	Belgium
D	Germany
DK	Denmark
E	Spain
F	France
FI	Finland
GR	Greece
I	Italy
IRL	Ireland
L	Luxembourg
NL	Netherlands
P	Portugal
SW	Sweden
UK	United Kingdom

ABSTRACT

The Nordic model is widely considered as an ideal example of a welfare state model that manages to combine economic success and efficiency with equity and high social protection, without any need for further reforms. This paper will challenge the claim that Nordic welfare states need no reforms, focusing especially on the case of Finland. Regression anaylisis on employment rate and strictness of employment protection law and replication of Sapir's (2006) computation of four welfare model groupings will be employed in order to examine relevant indicators of performance of welfare states and position of the countries in the groupings. Discourse analysis of the Finnish Prime Ministers' announcements since 2009 will be performed in order to find out the government's position in this debate. As the government argues, the Finnish welfare state is partly to be blamed for the lack of economic competitiveness in Finland. Statistical comparison of the Nordic welfare states suggests that Finland lags behind other Nordic model states and the combination of a relatively high unemployment rate, fiscal deficits and increasing public debt confirms that in fact, the Finnish welfare state is not on a sustainable basis and will need reforms to survive. East Asian productivity-oriented welfare states and Danish flexicurity system are examined as potential alternative models, which might deliver the increased economic competitiveness sought by the Finnish government. This paper concludes that Denmark is the more suitable model because of its greater political acceptability in Finland. The Finnish government is already implementing some reforms that seem to be inspired by the Danish system. However, in order to replicate the Danish success, Finnish government needs to allocate more resources to active labour market policies and seek cooperation with Social Partners more effectively.

Key words: Nordic welfare state, discourse analysis, statistical comparison, regression analysis, flexicurity, East Asian welfare state

INTRODUCTION

In the international community, the Nordic welfare states are often considered a hugely successful model of protection-oriented welfare states. They combine high living standards, high income equality and social protection with economic success. In the Nordic countries, the existence of a welfare state is also clearly identified. Some kind of a system of policies designed to address social problems, thus constituting a welfare state, exist in most countries. Hence, even though many countries do not publicly identify themselves as welfare states, in most cases they can still be classified as some type of welfare state.

Unlike some other European welfare state models, because of its efficiency, the Nordic model is not supposed to need reforms. However, especially in the domestic settings the Nordic model has come increasingly under fire due to claims of lacking competitiveness and unsustainability, especially in the case of Finland. Since the economic downturn became full blown in 2009, all consecutive governments have emphasised that the funding of the Finnish welfare is not sustainable. More specifically, the underlying assumption of the current government seems to be that the Finnish welfare state itself is also responsible for the funding problems it faces, as it has become too expensive, inefficient and unproductive resulting in the Finnish state accumulating unsustainable debt. Many politicians of the governing parties argue that the Finnish welfare state also is characterised by welfare traps and structural problems, and that reforms are necessary for the welfare state to survive.

Thus arise two questions: whether the claim that Nordic welfare state does not need reforms has become outdated, and if actually reforms are needed, what kind of reforms would be most appropriate. As much of the emphasis is based on the need to improve economic competitiveness, it would be natural to look at welfare models that focus exactly on this objective: East Asian productivity-oriented welfare states. The study of welfare states originated in and for a long time concentrated mainly on the Western world. However, the rapid development and huge economic success of some East Asian states has prompted increasing interest also towards their way of supporting and organising welfare of their citizens as well as

how their welfare state system is related to their economic success.

Still, there are culturally closer examples of economically successful welfare states as well. While Finland has one of the worst performing economies among the Nordic countries, Denmark has one of the best. The Danish welfare state model puts emphasis on improvement of competitiveness through a flexicurity system that combines labour market flexibility and social security.

To answer the two questions poised above, this paper will first establish theoretical background on welfare state families, their performance and Finland's position among these families, followed by analysis of what the Finnish government sees as the problems that the Finnish welfare State is facing and consideration of statistical evidence for the problems, and finally look into how other countries have dealt with those problems and if a similar approach could be applied in Finland.

Chapter 1 discusses first the theoretical background and classification of different welfare state families as well as their performance and later goes on to examine whether Finnish welfare state is in trouble and what are the possible causes of the problems, through combination of different methodologies. This paper will challenge the assumption that the Nordic model and especially Finland, is both efficient and equitable, thus not requiring any reforms. Focus will be especially on critically examining such arguments advanced by André Sapir, a highly cited and influential EU economist. First, a regression analysis on strictness of employment protection law (EPL) and employment rate will be performed in order to find out whether EPL strictness is still a valid explanation for performance of different welfare states in terms of employment rates. The results of the analysis seem to imply that actually the significance of EPL strictness in determining the employment rate of a welfare state is not as high as previously thought.

Then, Sapir's (2006) computation determining position of 15 EU states in terms of their welfare state model grouping will be replicated with more recent data in order to see if country groupings have changed over the decade and what this implies about their performance as well as position in terms of the welfare state model, with main focus on Finland.

Next, will be a discourse analysis of the Prime Minister's announcements about the policy of the year, economy and the main projects, undertaken by Finnish Prime Ministers since 2009. The discourse analysis of the Prime Minister's announcements permits examining how consecutive Finnish Prime Ministers portray the problems faced by the Finnish welfare

state, what it signals about the government position in the discussion about effectiveness and sustainability of the welfare state and how the government arguments about the sustainability of the Finnish welfare state have evolved over the years. The year 2009 was chosen as a starting point because it is when the problems in Finland became clearly visible. It must be noted that Mari Kiviniemi, Prime Minister from 22 June 2010 to 28 April 2011, continued the policy line and government programme of her predecessor Matti Vanhanen and did not add anything to the discussion of the Finnish welfare state at least in her announcements but instead concentrated on the wider economic problems in the EU. For Prime Ministers' terms and the composition of cabinets, see *Table 2*.

At this point, a statistical comparison will be employed in order to gain deeper understanding of whether there is reason for concern, nature of the problems the Finnish welfare state is facing and to determine more clearly the position of Finland in relation to other states with Nordic model and the EU average.

Chapter 2 analyses welfare states found in East Asia that are specialised in productivity and competitiveness with a focus on the characteristics that allow the welfare system to support the highly successful economic development. However, it is questionable whether their approach would be politically acceptable in Finland. Hence, there is a need to consider other social policy approaches as well.

Finally, Chapter 3 focus on Denmark and flexicurity as a potential example to upgrade the Finnish welfare state. Through closer inspection of the Danish welfare system, it becomes clear that in fact the current Finnish government seems to be already moving the Finnish welfare state towards a system similar to that in Denmark, even though this is not publicly stated. However, further actions are needed especially in terms of the active labour market policy and cooperation with the social partners. In order to see the benefits of the upgraded active labour market policy in Finland, it is likely that the TE-offices that implement in practice the activation measures of the unemployed people need to be allocated more resources. The cooperation between the state and labour and employer confederations is considered essential to successful development of the Danish flexicurity system, thus it would be beneficial for the Finnish government to improve its currently relatively cool relations with the social partners and encourage them to become more involved in designing possible ways for improvement of the Finnish welfare state.

1. The NORDIC WELFARE STATE

1.1. Welfare State Classification

The concept of welfare state is complex and multidimensional as welfare systems vary in their approach to ensuring welfare as well as how well they succeed in doing so. The classification of welfare states has advanced significantly over decades with categories being expanded and specified. Some of the earliest models include institutional and residual concepts of welfare put forward by Titmuss in 1958. Institutional models point to a system where a state takes responsibility for production and distribution of welfare universally to its citizens. In the residual model family and market are the main providers of welfare and the state ensures the minimal welfare of its citizens only if the family or market fail to do so. Later, Titmuss expanded this classification adding a third model, individual achievement system, where work-related welfare measures and participation in the labour market were the main ways to meet one's needs (1974, 30-31).

In 1990, Esping-Andersen developed another three-pronged approach identifying three main clusters of welfare states: social democratic, liberal and conservative. The social democratic model, present in Scandinavian countries, is characterised by high social spending, de-commodification of social rights, social stratification, earnings based benefits and universalism that unites everyone under one universal insurance system. Everyone enjoys the same rights regardless of status or gender. The responsibility of caring for children, the elderly and helpless is shouldered by the state, allowing women to participate in the workforce and maximizing individual independence rather than dependence on the family. This system creates universal solidarity towards the welfare state and as everyone benefits and depends on it, they will also feel it is necessary for them to contribute to it.

The liberal model, mainly found in Anglo-Saxon countries, is characterised by means-tested benefits and modest universal transfers or social insurance plans. Eligibility for assistance is often strict and stigmatised, and limits are designed to minimize the likelihood of

people choosing welfare assistance instead of work. Through guaranteeing just the minimum or allocating subsidies for private welfare schemes, the state is encouraging the market. In the conservative model, found in countries such as Austria, France, Germany and Italy, the state and the family are the main welfare providers and thus the role of private insurance benefits is only marginal. One of the main ideas is that the state intervention is minimal, with focus not on public services but on cash benefits that allow the welfare services to be provided by families. The rights are often linked to class or status and redistributive impact is minimal.

However, more recently studies of European welfare states have grouped national systems into four different social policy models, namely Nordic, Anglo-Saxon, Continental and Mediterranean model. Some similarities can be found between what Esping-Andersen (1990) describes as the general characteristics of social democratic model and what Sapir (2006) points out as characteristics of the Nordic model, as well as between the liberal model and Anglo-Saxon model. However, the most notable difference is that Sapir (2006) presents two versions of the conservative model called Continental and Mediterranean model.

Sapir points out that in the *Nordic model*, present in Denmark, Finland, Sweden and Netherlands, the social protection expenditures are the largest, and they are characterised by universal welfare provision as well as strong labour unions, which in turn support highly compressed wage structures. With different active policy instruments it is possible for them to perform extensive fiscal intervention in the labour markets. On the other hand, in the *Anglo-Saxon model* found in Ireland and the United Kingdom, the last resort social assistance is relatively large and it is the working age people who are mainly targeted by the cash transfers. Activation measures and schemes conditioning access to benefits are central to the system. Trade unions are weak, wage dispersion is relatively wide and increasing, and low-pay employment quite common. *Countries such as* Austria, Belgium, France, Germany and Luxembourg, where the continental model is found, are mainly characterised by insurance based non-employment benefits and old age pensions, and strong trade unions as non-union situations are also covered by collective bargaining. In countries with a Mediterranean model, such as Greece, Italy, Portugal and Spain, old-age pensions are also the main focus of social expenditure and the high segmentation of entitlement and status is allowed. The system exempts segments of working age population from labour market participation with the help of employment protection and early retirement provisions. The wage structure is strongly compressed as it is covered by collective bargaining at least in the formal sector. (Sapir 2006)

1.2. Welfare state performance

In addition to explaining general characteristics of the four models, Sapir (2006) compares their efficiency and equity. First, he looks at the performance of each model in three areas: reduction of income inequality and poverty, protection against uninsurable labour market risks and rewards to participation in the labour market. The Nordic model ranks consistently at the top while the Mediterranean model is at the bottom. In terms of reduction *of income inequality and poverty*, Nordic countries have the highest extent of redistribution through taxes and transfers followed by Anglo-Saxon then Continental countries, leaving the Mediterranean countries at the bottom. Nordic countries also have the lowest poverty rate after taxes and transfers, this time followed by Continental countries, then Anglo-Saxon countries and lastly the Mediterranean countries.

On the other hand, provision of *protection against uninsurable labour market risks* can be taken care of in two ways: focusing on protecting those who already have a job against firing and without a tax burden through employment protection legislation (EPL) or insuring the whole population with tax financed unemployment benefits (UB). Nordic countries have generous and comprehensive UB but relatively loose EPL. Similarly, Continental countries have quite generous UB but they also have stricter EPL. Mediterranean countries have strict EPL with UB that has only a low coverage. In comparison to the other groupings, in Anglo-Saxon countries strictness of EPL is much lower and they provide the least protection even though unemployment insurance is at the same level with Continental and Nordic model. Sapir claims that whereas the role of generosity of unemployment befits is secondary, there exists strong negative connection between strict employment protection legislation and the employment rate generated by the social system, meaning that while strict EPL hinders employment, unemployment insurance might be useful for it.

However, more recent regression analysis based on 2013 EPL strictness and employment rate of 35 OECD countries implies that the causal relationship between EPL strictness and employment rate is not as strong as Sapir found it to be in 2006. As can be seen from *Table 1*, while the negative sign of the coefficient implies a negative relation between EPL strictness and employment rate as Sapir (2006) also found, the low R^2 value (0.03) indicates that level of EPL strictness may barely explain the level of employment rate minimally. In

addition the p-stat value (0.29) that is above acceptable probability of random effect, suggest that the regression is not statistically significant.

Table 1. Results of Regression analysis on the extent that employment rate is affected by EMP strictness

Regression Line y = -2.7x + 70.8	
Intercept	70.8
	(15.3)
EPL Strictness	-2.7
	$(-1.05)^2$
p-stat	0.29
N	35
R^2	0.03

Source: Calculations made by the author on the basis of data provided in Appendix 1

When comparing efficiency and equity of the models, Sapir (2006) used provision of sufficient incentives to work, reflected by a high employment rate, to signal efficiency and relatively low risk of poverty to signal equity. As shown in *Figure 1*, during the time of Sapir's study in 2006, in all countries belonging to Nordic and Anglo-Saxon model, as well as Austria and Portugal, had an overall employment rate that was higher than average while in most Continental and Mediterranean countries the employment rate was below average. In terms of risk of poverty, Nordic and Mediterranean countries remained at the same place in the rank while Anglo-Saxon and Continental model switched places, The Continental model being above average and Anglo-Saxon being below average. Sapir (2006) finds that distribution of human capital brought to the market by individuals is a better explanation for the ranking in poverty risk than extent of redistribution through taxes and transfers as the amount of population aged 25-64 with at least upper secondary education in the countries corresponds to their ranking in the poverty risk perfectly. Consequently, Nordic model is supposed to deliver both efficiency and equity while Mediterranean model delivers neither, the Anglo-Saxon model is efficient but inequitable and the Continental model is equitable but much more inefficient. Finally, Sapir (2006) reasons that in order to withstand growing strains on public finances coming from

globalization, technological change and population ageing, Continental and Mediterranean countries must undertake labour market and social policy reforms to eliminate their inefficiency and unsustainability while the Nordic and Anglo-Saxon countries are already efficient enough, the Nordic model being especially successful in combining both equity and efficiency.

However, a replication of Sapir's computation about position of the 15 EU countries with more recent statistics, presented in *Figure 2*, shows that many countries have moved their position and especially those that Sapir identified as originally belonging to the Anglo-Saxon model. Most notable changes are that both Ireland (IRL) and United Kingdom (UK) have improved their poverty situation significantly but Ireland has also lost its efficiency, falling between Continental and Mediterranean model, Germany (D) has jumped from inefficient Continental model to the more efficient Anglo-Saxon model and Sweden, which used to be one of the most equitable countries among Nordic model, has now dropped closer to the Anglo-Saxon countries. The current average employment rate of the 15 EU countries studied by Sapir seems to be close to what it was almost a decade ago, but on average people seem to be somewhat poorer than when Sapir conducted his study.

On the other hand, Finland has remained pretty much in the same place. This should imply that to some extent Finland could still be considered efficient enough. However, the Figures 1 and 2 also show clearly that both a decade ago as well as now, Finland is behind other Nordic welfare states in terms of efficiency. In addition, basing the calculation of what is efficient and what is not on the average EU employment rate might not be appropriate as the Nordic welfare states would require much higher employment rate than the average to maintain their expensive system. Thus, even if the employment rate signals relative efficiency in comparison to the EU average, it might not be enough to sustain the Nordic welfare state, especially as the government deficit and general government debt in Finland do not look good either. According to OECD, in 2006 Finland had much better government deficit (3.9%) compared to 2015 (-2.7 %) and the general government debt was also lower. To sustain the welfare state and fix the current problem with deficit and debt much, better employment rate would be needed according to Sipilä, but Finnish welfare state has failed to deliver that.

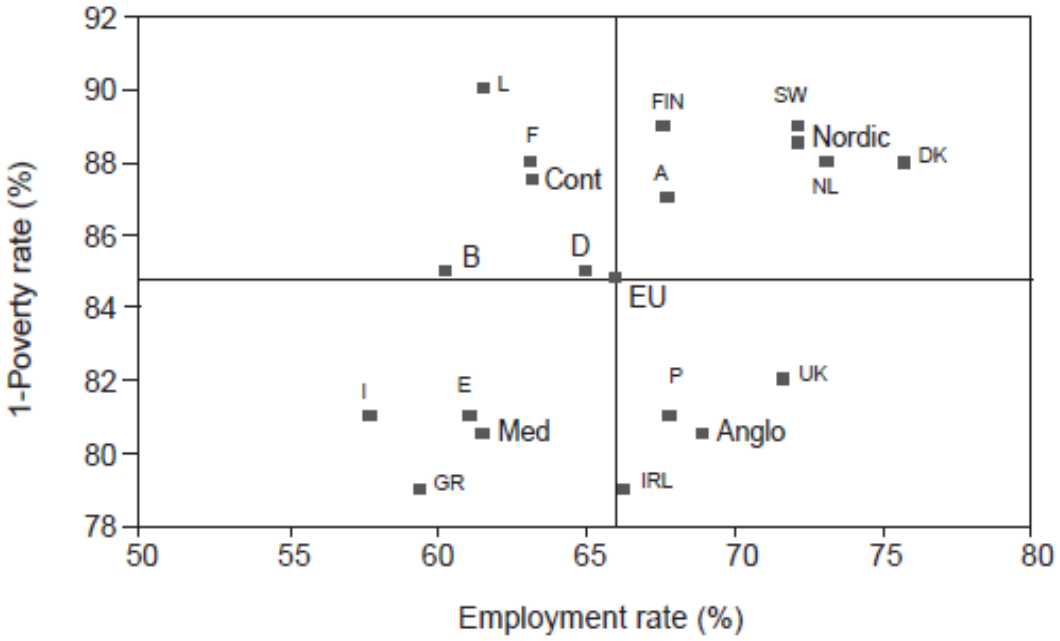

Figure 1. Sapir (2006) computation of position the of 15 EU countries in the four welfare state models, indicated by employment rate signalling level of efficiency and poverty rate signalling level of equity, based on Eurostat data

Source: (Sapir 2006)

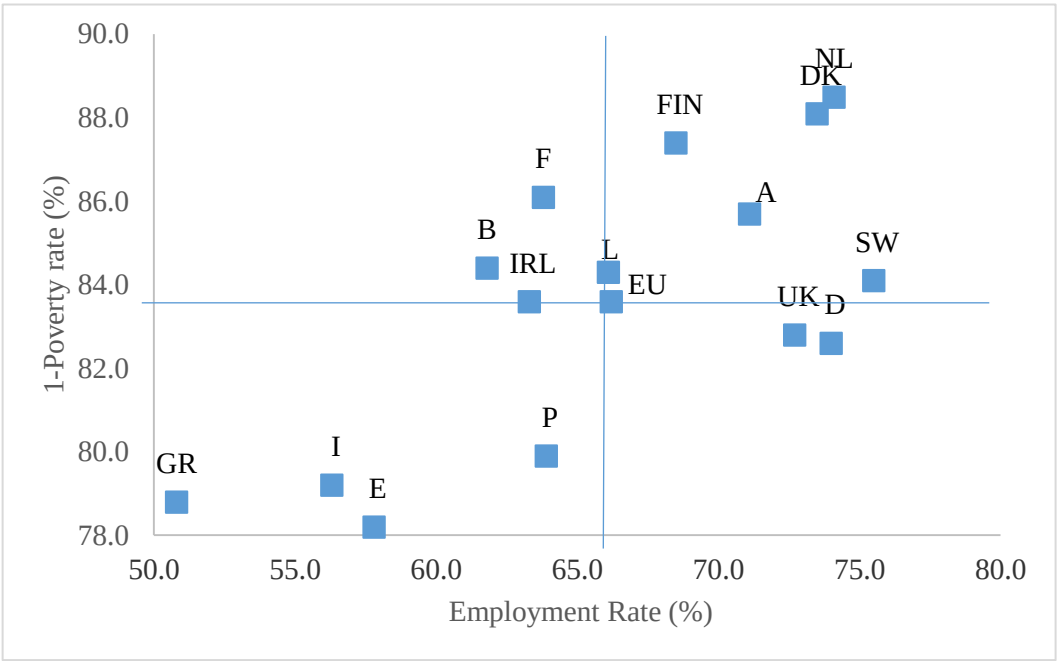

Figure 2. Authors replication of Sapir (2006) computation position the of 15 EU countries in the four welfare state models, indicated by employment rate signalling level of efficiency and poverty rate signalling level of equity, on more recent Eurostat data, from 2015.
Source: Eurostat 2015

1.3. A Nordic welfare state in trouble

However, the sustainability of the Nordic model is increasingly being questioned and, especially in the case of Finland, it is the national government that is raising concerns about the future of the welfare state. According to Sapir (2006), Finland belongs to the efficient, sustainable grouping that does not require reforms but the decreasing employment rates and increasing public debt of the past few years raise the question whether his analysis has become outdated.

1.3.1. Evolution of Government Arguments

Concern about lack of funding to fulfil Finnish welfare promises was voiced in the Prime Minister's announcement already in 2010 by Matti Vanhanen. Since then the concern has been repeated by all following governments and emphasised in the Prime Minister's announcements on multiple occasions. While some issues have received increased emphasis throughout the years, most have been discussed to some extent by all Prime Ministers. Various problems such as ageing population, debt-ridden municipalities, unemployment and lack of investment have received relatively continuous attention from the prime Ministers.

Table 2. Finnish Prime Ministers

Prime Minister	Term in Office	Party composition of the Cabinet
Juha Sipilä	29 May 2015 - Present	KESK*, Ps, KOK
Alexander Stubb II	20 Sept 2014 – 19 Apr 2015	KOK*, SSDP, RKP, KD
Alexander Stubb I	23 Jun 2014 – 20 Sept 2014	KOK*, SSDP, RKP, KD, VIHR
Juha Katainen II	25 Mar 2014 – 16 Jun 2014	KOK*, SSDP, RKP, KD, VIHR
Juha Katainen I	22 Jun 2011 – 25 Mar 2014	KOK*, SSDP, RKP, KD, VIHR, VAS
Mari Kiviniemi	22 Jun 2010 – 28 Apr 2011	KESK, KOK, VIHR, RKP
Matti Vanhanen	19 Apr 2007 – 18 Jun 2010	KESK, KOK, VIHR, RKP

*Party affiliation of the Prime Minister

Source: ParlGov

However, much of the discussion has also revolved around imbalances in public finances and excessive accumulation of debt. In recent years, the emphasis on structural problems and excessive regulation as a major causes of unsustainability has also grown significantly.

1.3.1.1. Structural Problems

During the years 2010-2011, in the Prime Minister's announcements about policy of the year, a strong emphasis was put on the ageing population and the financial crisis as the main causes of the difficult situation regarding public finances and welfare state funding. The underlying argument was that before the financial crisis Finnish public finances had a strong position but as Finland is an export-oriented country, it had no choice but to borrow extensively to stimulate the economy, support its municipalities and fund the welfare services, thus throwing out of balance the public finances. (Vanhanen 2010: Katainen 2011: 2012: 2013) The above argument seemed to imply that without the global financial crisis of 2008, the Finnish public finances would have been in good shape and the funding for welfare services at least relatively secure.

However, already during the middle of Katainen's term as Prime Minister,

structural reforms as a necessity started to receive increasing emphasis. In 2012, he stated *that "long-term sustainability of welfare society requires structural measures which strengthen the funding base of welfare services".* While the need to improve the economic position and competitiveness remained central in almost all of the considered Prime Minister's announcements, the need for structural reform began to feature in the speeches more often and visibly culminating in Prime Minister Stubb's announcement of Spring 2015. There had been calls for important structural reforms already since Vanhanen was Prime Minister in 2010 but Stubb was the first to go as far as to claim that the public spending used to uphold the welfare state would be unsustainable even during more prosperous times, putting specific emphasis on the structural problems: *"Funding of the Finnish welfare society does not have a sustainable basis. There exists a sustainability gap in public finances. […] Public revenues would not be able to fund the current level of public spending even in the conditions of normal economic and employment development. […] Economic growth will not cure the structural problems in Finland".* Indeed, the structural reforms, which include reform of social welfare and health care reform as well as municipality and administration reforms, are one of the central tools also in the current Government Programme led by Prime Minister Juha Sipilä.

1.3.1.2.Competitiveness and Productivity

Despite economic growth being challenged as the cure-it-all for the Finnish public finances and welfare state funding, it is still considered an important goal for the current government. The need to attract more investment, improve the employment rate and productivity has been widely stated (Katainen 2013; Stubb 2015; Sipilä 2017). Indeed, economic growth and improving business conditions, has been linked to strengthening competitiveness but also to retaining trust in the state and economy thus encouraging investment and willingness of companies to employ people (Katainen 2013).

In addition, competitiveness in particular has been considered one of the main pillars of the Finnish welfare state throughout the years. While more emphasis has been put on competitiveness as a whole, productivity has also been mentioned multiple times in Prime Minister's announcements by all four Prime Ministers usually as a way to improve competitiveness or as a goal of government action (Vanhanen 2010; Katainen 2013; Stubb 201; Sipilä 2016). Indeed, already in 2010, Prime Minister Vanhanen stated that *"increasing productivity in all sectors, but especially in production of welfare services"* is the way to save

the Finnish welfare state.

On the other hand, in 2012 Katainen argued that the sustainability of the Finnish welfare society is *"ultimately based on international competitive companies which can afford to employ people."* In 2013 he went more in detail and explained that:

> *"Our [Nordic welfare State] model is expensive. That is why it functions only if we work enough. Service society […] is possible only if we retain competitiveness in global competition. If Finland retains its position as a homeland of growing and international business and industry, the welfare society will make do as well. Our ability to make decisions that increase investments on industry, […], that increase jobs in the private sector, tells about our ability to keep the welfare and care promise. Ultimately, sustainability of Finnish welfare society is dependent on how well Finnish products and services fare on international markets. […] There is only one solution for securing Finnish welfare: working. On one hand, we need more jobs, on the other more labour supply and reduce the employment barriers.* "

In 2014, he added that the fact that wages have risen faster than productivity plays a part in weakening the Finnish competitiveness.

Weak growth of total productivity was also mentioned by Stubb in 2015 as one of the main factors contributing to sustainability gap in funding the welfare state and in 2016 the current Prime Minister called for increased productivity stating that *"the Finances of Finnish welfare state are eroding. Finland needs significant improvement of performance in all sectors of society to be able to fund such services as the current ones, in the ageing society" (*Sipilä 2016).

1.3.1.3. Other issues

2015 also saw unprecedented emphasis on deregulation as Prime Minister Sipilä identified excessive regulations as a cause for loss of agility and competitiveness in Finland and announced that *"the whole government is dedicatedly committed to dismantling of excessive regulations. It is an important part of the government programme and affects all sectors of governance. […] Some standards have to be dismantled also on EU level. […] The government will evaluate all EU-regulations from the point of view of economic growth,*

competitiveness and employment. The EU must seek better and lighter regulations than the currently existing ones." (Sipilä 2015b) There had been calls to clarify and simplify some procedures and standards already by other Prime Ministers but never so clear or strongly stated. Similarly, Sipilä also emphasised a point made by the other Prime Ministers that improving the employment situation is essential. He claimed that if the employment rate would be around 75 percent, the public finances would be more or less in balance and with 80% employment rate the sustainability gap would be nearly fixed.

The announcements of the current Prime Minister Juha Sipilä differ from the announcements of his predecessors notably in that he concentrates on government actions even more than his predecessors. While previously the Prime Ministers had given some suggestions on how to solve the problems, they also tended to put quite a lot of emphasis on why Finnish public finances and welfare state is in trouble. However, it seems that in his Prime Minister's announcements about policy of the year, Sipilä concentrates more on explaining the government actions concerning specific problems affecting the public finances instead of repeating why the problem exists (2016; 2017).

Finally, at least in Prime Minister's announcements, all Prime Ministers have avoided directly blaming the welfare state itself for the problems it is facing. However, at least in the case of the current government, it is clear that the welfare state is blamed to some extent. One of the main arguments is that Finland cannot afford to maintain the welfare state because of troubled public finances. Vanhanen and Katainen, in the beginning of their terms, gave relatively clear arguments for the situation: the economic crisis ruined otherwise healthy Finnish public finances and ageing is increasing the pressure. To survive the retirement age has to be increased, productivity and competitiveness improved, municipalities reformed, investments and business conditions upgraded. On the other hand, while the governments of Stubb and Sipilä agree with those actions, they put considerably more emphasis on structural problems and necessity of reform in various areas, including the welfare provision, than their predecessors, thus implying that welfare state itself is in fact causing various problems. When analysing the implementation plan of the current government programme it becomes clear that the Sipilä's government does put some blame on the organisation of the welfare state itself.

1.3.2. Government Policies

While the Prime Ministers have been reluctant to criticise the welfare state straightforwardly in detail, the implementation plan of the current government's programme (Appendix 2) shows many indications that the welfare state is in fact held responsible for at least some of the problems. In the implementation plan it is clearly stated that the sustainability of public finances will be improved through structural reforms (Action plan 2016) and the public governance will be organised into three levels: state, autonomous region and municipality. According to Sipilä, the social welfare and healthcare reform (SOTE) is the government's biggest and most important reform (Sipilä 2015c). It includes transferring the responsibility to provide public social welfare and healthcare services from local authorities to autonomous regional authorities that are created on the basis of the 18 Finnish counties and will be allowed to choose independently the method of provision of the services, whether it is trough outsourcing them to private or third-sector or providing them themselves. The government has been especially vocal also about the fact that the patients will be allowed to choose whether they prefer to receive the services from private or public sector whenever possible. The counties will form five cooperative regions that manage provision of most demanding and specialised services (Action plan 2016: Sote). The SOTE reform is also related to municipality or local government reform since the obligation of municipalities as service providers will be reduced significantly, it is expected that the need for state spending to further support the debt-ridden municipalities will be reduced as well. The SOTE reform and the privatization that is slowly encouraged through it, seems to imply that in the government's opinion state provision of totally public welfare services is not the most efficient or productive way to organise the welfare state and its services. Consequently, the organisation of the welfare state in a way that requires too much public spending, seems to be blamed for the imbalanced public financed to some extent.

Under the government's first strategic priority of Employment and Competitiveness, key project two deals specifically with incentive traps caused by the social and unemployment security system and key project four, the labour administration reform, is concerned with activation measures and sanctioning of those unemployed persons who avoid them. In essence, both these projects aim at removing the incentive traps and making the obligation to accept employment and take part in activation measures stricter (Action plan 2016). Emphasis is put also on the potential of the unemployment benefits to be used more

efficiently to support skill and competence development and reinforce inclusion in the labour market. This seems to imply that the less-than-desirable participation rate is also attributed to inability of the Finnish welfare state to encourage people to work.

As common to the Nordic model, collective bargaining and strong labour unions are central in the Finnish state, supporting and improving the position of the employees. However, the third key project under the strategic priority of Employment and Competitiveness shows the government promoting local bargaining, meaning that terms of employment such as pay, working hours and the pre-conditions for termination of employment among others, can be agreed on locally instead of collectively (Action plan 2016). This could improve business conditions and reduce barriers to employment as employers' position and employment conditions become more flexible. The wage compression would be reduced as well. Consequently, it seems that to some extent the welfare state is blamed also for non-encouraging business conditions thus hindering employment and competitiveness.

Other measures to improve the Finnish welfare state include issues such as the basic income experiment, introducing needs-based assessment for job alternation leave to make its conditions stricter, increased freedom in using fixed-term employment contracts, extended probationary periods. In addition, the government intends to do this by improving business and entrepreneurship conditions through deregulation and removing restrictive licensing and regulatory procedures which may act like legal and structural barriers to competition, introducing a "fast-track licencing procedure" for big industrial projects and a notification procedure routine license issues, increasing growth funding especially to SMEs and supporting internationalisation of Finnish companies (Action Plan 2016).

In terms of ageing, Sipilä also pledged in 2015 to *"implement pension reform on a tripartite basis under the agreement reached in the previous government term"* which includes increasing the retirement age (Sipilä 2015a).

1.3.3. Comparative Performance

Table 3. Comparative Welfare Performance[1]

	Finland	Sweden	Denmark	Iceland	Netherlands	EU average
Participation rate (employment) (2015)	75.9	81.7	78.9	87.9	79.6	72.9
Unemployment rate (% of labour force) (2015)	9.4	7.4	6.2	4.0	6.9	9.4
Employment rate (2015)	68.5	75.5	74.8	87.3	74.2	65.6
Social spending (% of GDP) (2015)	30.6	26.7	28.8	15.2	22.3	
Deficit (% of GDP) (2015)	-2.7	0.2	-1.3	-0.84	-1.9	
General Government Gross Public Debt (% of GDP) (2015)	74.89	60.3	53.09	111.45 (2013)	77.9	
Poverty Rate (2013)	0.071	0.088	0.054	0.046	0.079	

Source: OECD

Among the Nordic countries and the Netherlands, which has a Nordic welfare model, Finland fares worst in almost all of the economic indicators shown in *Table 3*. It performs worse than Sweden and Denmark in all indicators and better than Iceland and Netherlands only in the sense that it has lower general government gross public debt. It has the highest social spending and budget deficit combined with lowest employment and participation rate and highest unemployment rate which does not bode well for welfare state sustainability. As Esping-Andersen (1990) points out, the Social Democratic model needs high employment and participation rates to be able to maintain its costly public services. This also applies to Sapir's Nordic model (2006). In comparison with the EU average, the statistics further indicate that Finland is still at the acceptable level in terms of participation rate, employment rate. It

[1] Oil resources set Norway apart from other Nordic states in terms of welfare state funding. Thus it is not included in the table.

manages not to fall below average even in terms of unemployment rate. However, Finland's scores do indicate problems with sustainability of the Nordic welfare model. Thus, Finland seems to have a real reason for concern and in contrast to what Sapir (2006) claimed, there exists a need to reform the Finnish welfare state model even though it is classified as a Nordic model. Attention should be turned also to the poverty rate, in terms of which there is visible difference among the Nordic states, especially Sweden having quite high poverty rate, prompting the question if the Nordic welfare model should also turn more attention to actively retaining its high standard of equality.

2. PRODUCTIVIST WELFARE STATES

One of the main arguments of all the consecutive governments is that Finland needs to improve its competitiveness and productivity to sustain its welfare state. Thus, a natural next step would be to look at productivity-oriented welfare states in East Asia. Attempts to identify different welfare states in the western world have been followed by attempts to do the same in other parts of the world. Difficulty in fitting the western welfare models, and fast economic development and improvement of living standards in East Asia have attracted interest also towards their way of organising welfare.

Esping-Andersen (1999) points out that there could be two ways to view the welfare states in East Asia: liberal and conservative welfare model hybrid or as altogether separate developing welfare regime. East Asia is similar to the conservative model in the sense that it puts much emphasis on the family as a welfare provider and status when choosing targets of state provided welfare, who are mainly government employees. However, familiarisation is mainly motivated by economic goals as it is most affordable way to provide welfare from the governments point of view rather than traditional values passed down through influence of the Church as in the western conservative welfare states. The state takes into account the interest of most productive groups, arranges their rights and obligations, and mobilises public measures and resources such as social insurance and mutual aid, in a way that focuses on supporting achievement of economic objectives rather than social protection (Lee and Ku 2007).

On the other hand, the productivity-oriented welfare states are similar to the liberal model in the sense that they also have statutory social security schemes characterised by means-tested, low-coverage of welfare benefits and the stigma that is attached to them. However, the difference from liberal model is that the governments' intervention tends to be strong, meaning that existence of large-scale private welfare markets is not obvious and that social expenditure kept low, not due to lack of but, through state intervention channelling limited resources into productive activities. Thus, East Asian welfare states do not fit either one

of the European models properly and have barely anything in common with social-democratic model. (Lee and Ku 2007)

Exploration of possible existence of fourth welfare regime by other scholars has led to a theory of productivity-oriented welfare states. Holliday (2000) argues that in the East Asian productivity oriented welfare states economic and industrial priorities are above all other state policies, while Gough (2001) and Kwon (2005) add that in these welfare states social policy is used as a tool to attain the main goal of economic growth. Holliday (2000) also points out that while East Asian welfare states have productivity-orientation in common, there also exists differences among them in terms of social rights, effects of social stratification and relationship between state, market and family. He identifies three clusters within the productivity-oriented welfare state: facilitative cluster including Hong Kong, developmental-universalist cluster including Japan, Taiwan and Korea and developmental-particularist cluster including Singapore. However, Hong Kong and Singapore are sometimes excluded from representation of East Asian welfare states because of their exceptional city-state economies (Lee and Ku 2007).

Still, in addition to productivity-orientation, the East Asian welfare regimes also have other common characteristics such as relatively small or medium social expenditure as a share of total public spending, relatively small fiscal deficits and flexible labour markets (Lee and Ku 2007). To some extent, these characteristics seem to correspond to what Finnish government officials are trying to achieve. Increased labour market flexibility through encouraging local bargaining is a central measure in the current Finnish government programme. There are also clear attempts to reduce social expenditure through reforms and restructuring the welfare provision system and calls to make the welfare service provision more productive.

However, closer comparison with the productivity-oriented welfare states shows that their social policy model is unlikely to be politically acceptable in Finland. Even though the Finnish government seems to have the will to slim down the Nordic welfare model, the differences in values are likely to remain too great between Finland and East Asian welfare states. In Finland, the improvement of competitiveness and productivity is desirable in order to maintain the welfare state unlike in the East Asian welfare states where certain welfare policies are maintained to support the economy.

In addition, perhaps one of the most pronounced differences is position of women and gender equity. Nordic countries are well known for continuously ranking at the top in The

Global Gender Gap Reports. In 2016 Finland was ranked second in terms of smallest total gender gap. On the other hand, East Asian countries tend to remain at the bottom, Japan being placed 111th and Korea 116th out of 144 countries in 2016 (Schwab et al., 2016). It is unlikely that a family-centred welfare approach of productivity-oriented welfare states, often reliant mainly on women, would be accepted in Finland where women's empowerment and labour force participation is seen as a fundamental right. The East Asian welfare states are also characterised by underdeveloped childcare and elderly care services as well as highly demanding working conditions with little room for women to combine family and career. In a setting where women increasingly prefer to pursue career rather than family, the East Asian welfare states have developed serious problem of low fertility rate (Jones 2009).

According to the World Bank, none of the countries with with a Nordic welfare state model had a fertility rate below 1.7 children per woman in 2015. In comparison, during the same, year South-Korea, Hong Kong and Singapore had a fertility rate of 1.2, Japan 1.5 (World Bank) and 2016 the estimate for Taiwan's fertility rate is even lower, 1.2 (CIA Factbook). Long-term fertility rate decline tends to result in increasing dependency ratio as amount of working age population decreases and number of old people increases. The replacement level of fertility rate is 2.1 children per women in developed countries. If the fertility rate does not reach the replacement level, the population is bound to decrease as not enough children are born to replace the previous generation. (Indicators 2007) However, to some extent the effect of declining fertility rate can be offset by immigration, as is the case with city-states Hong Kong and Singapore. Still, increasing immigration may not be a possible approach especially as it is increasingly surrounded by political sensitivities (Indicators 2007). Even though the fertility rate in Finland (1.7) is relatively high especially in comparison with East Asian countries, it still below replacement level. In addition, longevity and increasing life expectancy also contribute to the rising dependency ratio. As ageing population and rising dependency ratio are already considered a major threat to the Finnish welfare sustainability, avoiding even lower fertility rates would be essential.

3. FLEXICURITY: ANSWER TO PROBLEMS IN FINLAND?

Another welfare system worth closer inspection is the Danish flexicurity model. Similarly to the productivity-oriented welfare states, it manages to achieve high labour market flexibility of and thus supports competitiveness in the quickly changing business environment of the globalised world. However, typically for a Nordic country, it also puts large emphasis on social protection thus being culturally much closer to Finnish values.

The main idea behind flexicurity is to achieve a combination of low employment protection, generous unemployment benefits and effective activation measures, thus providing both flexibility to labour market, protection to workers and incentives as well as capability to avoid long-term unemployment (Flexicurity). However, the results of regression analysis performed in the first chapter of this paper imply that the link between EPL strictness and employment rate alone is not very significant, meaning that strict employment protection law does not necessarily lead to low employment rate and low employment protection law does not necessarily lead to high employment rate. Indeed, the Danish are careful to emphasise that all three elements are needed for the economic success of the welfare state and none can be preferred on the expense of others. In Denmark the Flexicurity model is often called a Golden Triangle, where ease of firing workers during downturns and hiring during better times is first side of the triangle, high level of unemployment security in form of benefit is the second side and active labour market policy including guidance, job or education to all unemployed is the third side (Flexicurity).

The Danish model is often described as an outcome of a gradual process of political struggles and compromises rather than a deliberate strategy. Much like the Finnish system currently, the Danish welfare state was criticised for un-motivational and too costly unemployment security schemes in the early 90s when Denmark was going through a period of economic crisis and high unemployment. However, lowering the unemployment benefits turned out to be politically unacceptable and thus the focus was turned on improving activation policies and training. (Gehrmann 2007) Collective bargaining is stated as the main factor contributing

to the development of the labour market and the tradition of social dialogue and negotiations among the social partners is considered essential to the Danish model (Flexicurity).

The success of Danish flexicurity model has also inspired the EU. In 2007, the European Council issued a set of Council Conclusions on flexicurity, stating that implementation reforms in EU member states aimed at fulfilment of Lisbon Strategy of Growth and Jobs, shall be guided by common principles of flexicurity. The Danish Ministry of Employment as well as The Danish Confideration of Trade Unions (LO) and The Confederation of Danish Employers (DA) participated in the development of the common principles. (Flexicurity)

3.1. Main aspects and key players of the Danish system

Municipalities and their Jobcentres, regional and national labour market authorities including corresponding Councils, unemployment insurance (UI) funds and trade unions are the key actors in the flexicurity model (Back 2016). A local and regional government reform was implemented in 2007 resulting in the reduction of municipalities from 271 to 98, replacement of 14 counties with five new administrative regions and establishment of four employment regions, where two of the five new administrative regions were combined under one employment region. The responsibilities of municipalities were increased to include activation measures of insured unemployed people, in addition to the activation measures and cash benefits to uninsured unemployed people and people who need special support in order to be integrated into the labour market, including receivers of long-term social benefits such as disability pensions. (AMS 2013: Hendeliowitz 2008).

3.1.1. National and Regional authorities and Councils

From the key actors the Councils are most connected to all of the three levels of the Danish employment policy: national, regional and local. Each level has a corresponding Council where the Social Partners are also represented. (AMS 2013)

Employment measures are managed in practice by municipalities at local level trough Job Centres. Especially the regional employment councils have a central role in the system, as one of the main responsibilities of the employment regions is to increase cooperation

and interaction between the local players such as the municipalities, local enterprises, trade unions and education establishments (AMS 2013). Regional employment councils, one in each of the four employment regions, also forward the national performance objectives to the Jobcentres of the municipalities and evaluate their performance in reaching those targets as well as offer guidance for Jobcentres that ask for it, develop and distribute examples of good practices (Back 2016).

Above the employment regions exists the Agency for Labour Market and Recruitment which takes responsibility for the implementation of new legislation, monitoring of national results and development of methods supporting employment. It also sets targets and does performance audits of every municipality annually. The final responsibility for the employment policy lies at the national level with the Minister for Employment that also has supreme administrative authority over the employment regions and employment measures of the Job centres. (AMS 2013: Back 2016)

3.1.2. Unemployment Insurance Funds

The unemployment system in Denmark has two parts: voluntary unemployment insurance (UI) schemes and basic social security system Despite their their voluntary nature, most of the labour force is covered by the UI schemes. Around 80 percent of private sector labour force and nearly 100 percent in public sector were members of the UI funds (Back 2016). The availability of comprehensive benefits is a main reason why low dismissal protection is accepted by the Danish trade unions (Hendeliowitz 2008). In Denmark, there are 27 UI funds that administer the UI schemes, are state-approved and partly financed by the state but otherwise relatively independent from the Ministry of Employment. The voluntary membership also creates competition between the UI funds which is likely to improve efficiency of the funds as they compete for members. Similarly to trade unions, with which the UI funds used to be linked, the funds have often a certain industry or occupational specialisation and some present it as an convincing marketing argument claiming they have better contacts among the employers of the industry than municipalities for example (Back 2016).

The main responsibilities of UI funds is to provide the UI benefits in cooperation with the Jobcentres. UI funds also monitor their members and issue sanctions to those who do not fulfil the requirements concerning job-search and participation in activation programmes. The UI is usually up to 90 percent of the previous income of a worker and it can be claimed

during maximum of four years, which includes activation periods. (Hendeliowitz 2008) The requirements for eligibility of unemployment benefit are that the member of the fund has paid the membership fees and had full-time work for at least 52 weeks during past 3 years, and to maintain the eligibility during unemployment, a person must attend regular meetings with representatives of Jobcentre and UI fund and participate in activation programmes such as job trainings administered by Jobcentres (Back 2016).

3.1.3. Municipalities and Jobcentres

After the 2007 reform, nearly all public services became the responsibility of the Municipalities. The municipalities finance and provide assistance and guidance to both insured and uninsured unemployed people trough Jobcentres that they finance together with the state. (Back 2016). If the period of unemployment becomes longer than 4 years, it becomes the political, administrative and financial responsibility of the local municipalities to take care of the unemployed and administer means-tested social assistance as the person does not qualify for unemployment insurance of the UI funds anymore. (Hendeliowitz 2008) To encourage municipalities and the Jobcentres to provide early activation services effectively, 80 percent of the costs of municipalities is reimbursed by the state per person who has been in the system for maximum four weeks, 40 percent for those who have been unemployed for 5-26 weeks, 30 percent fork 27-52 weeks and for those in the system for more than a year only 20 percent is reimbursed (Back 2016).

In 2002, in order to encourage development of a service market, the Jobcentres were required to outsource their activities such as vocational guidance and placement activities, in terms of minimum 15 percent of insured jobseekers and while the role of private enterprises was greatly reduced again through the 2007 administrative reform, some firms still prefer to outsource early-intervention re-employment services in cases of large dismissals (Back 2016).

3.1.4. Social Partners and collective bargaining

The cooperation between trade unions and employers' organisations and the state has had a central role in developing a system where focus is on agreement rather than regulation. In Denmark, collective agreements cover issues that would come under some type of legislation in many other countries. The rules concerning industrial disputes and dismissals are often

decided in general agreement between the Social Partners but the working conditions and wages are decided through industry-level collective agreements that allow some further negotiation at the level of firms. The trade Unions also play a central role in defining employment protection for displaced workers. (Back 2016) The state does not interfere as long as the pay and working conditions are effectively regulated and existing problems solved by the social partners. Drafting a new legislation related to labour market involves consultation of the social partners and they are also represented in central and local councils (Hendeliowitz 2008).

3.1.5. Health Care System

Like the labour market policy, the Danish health care system is also organised in three levels. The Ministry of Health works at the national level and has mainly supervisory role as well as responsibility for enacting legislation governing the health care provision and tasks of authorities at lower levels. The five administrative regions are mainly responsible for hospital and psychiatric care, services provided by general practitioners and specialists, and emergency care. They have enough powers to organise the services in a way that reflects the needs of the region for example through adjusting number of staff and services within the financial and regulatory limits. The municipalities take care of provision of most primary care and elderly care services. Health and social care services may be provided through public or private sector, and the patient has in some occasions the right to choose which one he or she provides. (Healthcare 2017)

3.2. Flexicurity in Finland

The discussion of flexicurity is hardly new in Finland. The support for Danish flexicurity model reached its climax in 2006 when Tarja Filatov, then Finnish Minister of Labour, openly called for Danish model to be adopted in Finland immediately. However, the idea was dismissed as many were quick to point out that the Danish model cannot be suitable for Finland, citing reasons such as high costs, geographical and institutional differences, different structure of livelihood and the existence of more small and medium-sized enterprises in Denmark. (Jokivuori 2006).

In 2016, Antti Palola, chairman of Finnish Confederation of Professionals

(STTK), repeated the criticism, pointing out that Danish unemployment security system is still approximately three times more expensive than Finnish one and financed fully by the state (Palola 2016). This scepticism may have had a solid basis in 2006 as statistical comparison of OECD data shows that in 2006 Denmark had higher public social spending in general (24.95 percent) as well as higher public spending on labour market (3.26 percent) including public employment services, training, hiring subsidies, direct job creation in the public sector and unemployment benefits, in comparison to Finnish public social spending (23.75 percent) and public spending on labour market (2.5 percent). However, unlike a decade ago, in the recent years this claim has not translated into actual figures on social spending. The public spending on labour market remained slightly higher in Denmark (3.33 percent) than in Finland (2.89 percent) in 2014 but the overall social spending in Denmark (28.8 percent) was lower than in Finland (30.6 percent) in 2016, suggesting that currently the Danish model is actually more cost-effective in total than Finnish model. The claim about too large difference in number of small and medium size enterprises seems to be outdated as well. According to Statistics Finland, in 2015 more than 90 percent of Finnish enterprises were small or medium size (SME) and accounted for around 66 per cent of employed personnel. (Enterprises 2015) In addition, also the institutional structure seems to have slowly started to become similar as well.

Still, it seems that if Finland wants to adopt a similar flexicurity model as in Denmark, it also has to go through the gradual process of political struggle and compromises that the Danish claim to have resulted in their successful model. In fact, there are some indications that a state-directed struggle has already began, even though adoption of Danish model is not publicly stated as the goal of government actions.

The current government's desire to organise the public governance into national, regional and local levels bears obvious similarities to the way the public governance is organised in Denmark. Some similarities to the Danish system can be found also within the SOTE reform that Prime Minister Sipilä has poised as the most important of the current reforms. The five cooperative regions formed by the autonomous counties in Finland seem to correspond to some extent to the five administrative regions in Denmark. In both countries, these regions will be responsible for specialised services and at least the main hospitals. Difference is that while the municipalities assume the main responsibility for provision of primary health care as well as employment services in Denmark, in Finland there has been special emphasis on reducing the responsibilities of the municipalities and thus the responsibility for the primary

care and employment services will be shouldered by the counties instead of municipalities.

However, some room for manoeuvre has been left in the government's reform plan which states that in the future some municipalities may gain back the responsibility for services now transferred to counties, if they are deemed able to handle them. Another similarity with Danish health care system is that autonomous regions will be allowed to employ private sector health care providers if they wish to and the patients will be given more choice on deciding which sector health care provider he or she would prefer to use (Tulevaisuuden 2017).

However, the true key to Danish success is not its way of organising the health care services but the labour market policy and flexicurity. To some extent, the current government seems to be moving the Finnish welfare state towards Danish flexicurity model in terms of the active labour market policy as well. Similar to Denmark, obligation for the unemployed people to participate in activation programmes offered by TE-offices, which correspond to Danish Jobcentres, has been traditionally an important part of Finnish labour market policy. However, as figures show, they have failed to improve the unemployment situation in Finland. The labour administration reform, mentioned in the government programme's implementation plan, is designed to make the activation programmes more effective partly by following the Danish example on tightening the obligation of the unemployed people to participate in the activation programmes and meet the representatives of TE-offices regularly (Työllisyyspaketti 2016). Nonetheless, opposition politicians as well as representatives of employee and employer unions have criticized the government for not providing enough funding to actually enforce the changes as well as for measures that even have a negative effect on efficiency of the employment service provision, such as reduction personnel in the TE-offices. (Juuti 2016; Tuutti 2015)

In the Danish system, the social partners, including national labour and employer confederations, have a significant role in development of the flexible bargaining system, protection of the unemployed and improvement of the activation measures. They are involved in all three levels of governance. While in Finland the presence of the social partners is not as wide spread as in Denmark, collective bargaining concerning working conditions, which the social partners are mainly responsible for, has long roots also in Finland. Thus, it came as a shock when the Finnish government announced in 2016 that it would ignore the social partners, enact cuts in employment protection, and terms and conditions of employment, and increase the role of local bargaining through mandatory legislation if the Social Partners themselves did

not manage to reach a settlement on improvement of competitiveness (Finnish 2016). The legislation would have had its strongest effect on the many women working in the public health and social care sector (Vesivalo 2016). This would seems as a clear move away from adaption of a Danish model where negotiations instead of legislation are considered essential as well as a hit on equality of Finnish society. The threat created ill-will and distrust towards the government within the confederations and the potentially affected employees, who also organised protests in Helsinki (Vesivalo 2016).

However, the threat of mandatory legislation seemed to have provided a strong incentive for the social partners to come into settlement and agree on the Competitiveness Pact, which may have been the key aim of the government's threats from the beginning. Even though the trade unions are not totally content with the Pact, from their point of view it is still better than the mandatory legislation (Vesivalo 2016). It includes measures such as temporary reduction of public sector holiday bonuses, transferring some employer contributions to the responsibility of employee, 24 hour increase in annual working time but also some initial measures to improve local bargaining and labour and employer's confederations' pledge to negotiate improvement of local collective bargaining conditions further (The Competitiveness 2016). Consequently, the government managed to usher the social partners towards negotiating and approving measures that could improve competitiveness and flexibility, even though it was through a negatively portrayed struggle.

Finally, while the government seems to be ushering in some reforms that would take Finland towards Danish model, it might not be putting too much attention to the reform concerning provision of services, rather than in the actual quality of services. Active labour policy is one of the main pillars of flexicurity, and if the Finnish government is not willing to allocate enough resources to its effective enforcement, it is unlikely that its potentially vast benefits will be realised. The government actions are also stretching the level of acceptability in terms of the mandatory legislation to improve flexibility. Its aggressive stance may make the social partners and employees increasing suspicious and distrustful of the future proposals of the government, thus potentially hindering the successful adaption of possible other changes in the future. Consequently, it would be essential for the government to encourage greater involvement and cooperation of the social partners in designing the future improvements to the Finnish welfare state in order to advance mutual understanding.

CONCLUSION

This paper has challenged the notion that Nordic welfare states do not need reforms to remain efficient and equitable, focusing especially on the case of Finland. In fact, the Finnish current government has proposed more reforms than any other government since the economic downturn became visible in Finland in 2009. Although, all of the Prime Ministers have avoided direct criticism of the Finnish welfare state in their Prime Ministers' speeches, the analysis of Prime Ministers' speeches since 2009 indicates that over time the Finnish governments have grown more and more critical of the Finnish welfare state. The earlier governments often referred to the economic crisis and population ageing as the main reason for sustainability problems but the more recent governments have emphasised structural problems and lack of economic competitiveness that can be traced back to organisation of the welfare state. The position of the current government becomes especially clear when looking at the government programme's implementation plan that includes many measures designed to improve the welfare state.

The necessity of reform is also supported by statistical comparison of Finland with other countries that have a Nordic model and with the EU average, and implied to some extent also by the computation on position of different EU countries in terms of their welfare models. Both indicate that Finland fares worst among the countries with Nordic welfare model in terms of efficiency, reflected by employment rate, and the statistical comparison shows that Finland lags behind other also in terms multiple other economic indicators. Both also suggest that in comparison with the EU, Finland fares still somewhat above average. However, ranking barely above average in EU level is not enough to sustain a complex and expensive Nordic welfare state model for which especially high employment rates, which Finland has failed to deliver, are essential. Consequently, perhaps one of the greatest weaknesses of Sapir's work on welfare states is basing the determination of efficiency on comparison with the EU average. Indeed, it is not only Finland that has considered reforms necessary. Even highly successful Denmark went through reforms already in 2007.

The search for alternative models and most appropriate ways to reform Finland begins with the inspection of East Asian productivity-oriented welfare states. The East Asian economic tigers Japan, South Korea, Taiwan, Hong Kong and Singapore have experienced unprecedentedly rapid economic development and improvement of living standards inspiring increasing interest in studies of their economic success followed by studies of their way of ensuring welfare of their citizens. The main characteristic of their welfare state is overarching focus on economic objectives and state support for activities that are believed to support productivity and economic growth. The attractiveness of productivity-oriented welfare states as a possible model for Finland lies in the small or medium social expenditure, small fiscal deficits and flexible labour markets, which are seen as major goals by the current Finnish government. However, in total the model is deemed politically unacceptable for Finland because of stark difference in values such as economic position of women. The productivity-oriented welfare states rely heavily on family, and mainly women in the family, to provide the welfare services. As the empowerment and economic independence of women is considered essential in Finland, it would likely be impossible to implement a family-oriented model in Finland. In addition, attempts to implement it might even lead to worsening welfare state crisis in terms of decreasing fertility rate and increasing dependency ratio. The productivity-oriented welfare states themselves are already experiencing these negative effects of a welfare system that hinders combining career with family-life and childbearing at the time when women increasing prefer the former if forced to choose between the two.

Attention is then turned to Danish welfare model, which is culturally much closer to Finland and manages to deliver the flexible labour markets, economic competitiveness and high employment rates that the Finnish government strongly desires to achieve. The discussion of application of Danish model in Finland dates back to 2006 when the Finnish Minister of Employment openly called it to be applied in Finland. However, at the time it was dismissed by opposition and social partners such as the labour and employer confederations who claimed its high costs, geographical and institutional differences between Finland and Denmark and the difference in number of small and medium sized enterprises as some of the main reasons for why it would not be suitable for Finland.

Yet inspection of these aspects in the current years shows that Denmark and Finland have grown more similar in many ways. While geographical size remain unchangeable, most of the other aspects can be considered outdated. Although the social expenditure on labour

market policies remains slightly higher than in Finland, in total the social expenditure in Denmark is lower than in Finland, indicating that the Danish model is actually more affordable as a whole. The number of small and medium size business has also increased significantly and accounts for more than 90 percent of the Finnish firms. There remain some obvious institutional differences between Finland and Denmark, such lack of equivalent of unemployment insurance funds in Finland but it seems that the current government has began establishment of similar institutions, such as autonomous administrative regions, as in Denmark.

Indeed, it seems that the current government is already advancing many reforms ranging from the establishment of the administrative regions to introduction of specific activation measures directed at the unemployed people that have drawn inspiration from Denmark. Still, the main focus of the Finnish government seems to be the administrative reform and provision of the health care services. While the effective provision of the health care services is undoubtedly essential to successful functioning of a welfare state, if Finland wishes to replicate the success of Denmark, there needs to be equal focus also on other aspects that have made the Danish flexicurity system so successful. The main pillars of success of the flexicurity model are the three sides of the Golden Triangle: high unemployment benefits providing social security, flexible labour market achieved through low employment protection allowing ease of firing and hiring and active labour market policies that enable the unemployed people to avoid welfare traps and quickly re-enter the working life.

The government programme's implementation plan does include measures directed at improvement of these pillars in Finland. However, their process of practical application and enforcement has been a struggle for the government. The attempts to create flexibility by increasing possibilities for local bargaining seems to bring Finnish model a bit closer to Denmark. Nonetheless, the government's forceful attempts to increase local bargaining have come at the cost of cooling relations with the social partners, which may raise some problems in the future, as cooperation with the social partners in all levels of governance is considered essential for the development of the successful flexicurity system in Denmark. Thus, the government should make an effort to improve its relations with the social partners and encourage their involvement in the designing of the reforms. Difficulties have been experienced also in terms of enforcement of the active labour policy measures due to lack of resources. Indeed, there is need for the government to be careful not to emphasise flexibility of the labour market at the expense of other pillars of the flexicurity system especially in terms

of loosening the employment protection as it may not necessarily lead to the improved employment rate and economic performance desired by the Finnish government. Loosening the employment protection and risking deteriorating relations with Social Partners that are against it, might not be effective way of reaching the government's aims if taken too far as the results of regression analysis indicate that achievement of desirable employment rate through manipulating strictness of employment protection is not even nearly certain.

In conclusion, Finland seems to be slowly moving towards the Danish model already. However, even though the current Finnish government has taken significant steps that support this movement, even more needs to be done if Finland wishes to solve its problems through adoption of Danish type of welfare model. In order to replicate the success of Denmark, the Finnish government must be ready to allocate necessary resources to the areas that considered to be the main contributors to the success as well as strengthen the tripartite cooperation and greater involvement of labour and employer confederations in shaping the potential further reforms and changes.

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APPENDICES

Appendix 1. Data used on Regression Analysis

Country	Employment Rate	EPL Strictness
Australia	72.0	1.67
Austria	71.4	2.37
Belgium	61.8	1.89
Canada	72.4	0.92
Chile	62.3	2.63
Czech Republic	67.7	2.92
Denmark	72.6	2.20
Estonia	68.5	1.81
Finland	68.9	2.17
France	64.1	2.38
Germany	73.5	2.68
Greece	48.8	2.12
Hungary	58.1	1.59
Iceland	81.1	1.73
Ireland	60.5	1.40
Israel	67.1	2.04
Italy	55.5	2.68
Japan	71.8	1.37
Korea	64.4	2.37
Latvia	65.1	2.69
Luxembourg	65.7	2.25
Mexico	60.8	2.03
Netherlands	73.6	2.82
New Zealand	72.8	1.39
Norway	75.4	2.33
Poland	60.0	2.23
Portugal	60.6	3.18
Slovak Republic	59.9	1.84
Slovenia	63.3	2.60
Spain	54.8	2.05

Sweden	74.4	2.61
Switzerland	79.6	1.60
Turkey	49.5	2.31
United Kingdom	70.5	1.10
United States	67.4	0.26

Source: OECD 2013

Appendix 2. Summary of the Finnish government programme's implementation plan, with specific attention to measures related to the welfare state

Strategic Priorities	**Employment and competitiveness**	**Knowledge and education**	**Wellbeing and health**	**Bioeconomy and clean solutions**	**Digitalisation, experimentation, deregulation**	**Structural Reforms**
Key Project 1	**Competitveness up by improving business and Entrepreneurship conditions**	**New learning environments and digital materials to comprehensive schools**	**Services to be based on customer needs**	**Towards carbon-free, clean and renewable energy cost-efficiently**	**Digitalised public services**	**Social welfare and health care reform**
Measures	1. Support international expansion of Finnish companies/products Service 2. Financial position of companies to same level as in competitor countries by increased growth funding 3. Promote clean tech, make Fin 1# 4. Competition programme for home market, liberalised shop opening hours (part of deregulation),		1. Reform of operating process of social welfare and health care 2. Assess the allocation of social assistance under the residence-based social security system. 3. Basic income experiment			- Responsibility for providing social welfare and health care services transferred from local authorities to larger autonomous regions (SOTE regions) -Regions can decide wither to provide services themselves or outsource to private

	fast-track licensing procedure for large industrial projects and notification procedure for routine licence issues 5. Promote innovation, experimentation especially in anticipation of structural change in economies 6. Revise land use, housing and trasportation agreements in bigger cities					and third sector.
Key Project 2	**Remove incentive traps, reduce structural unemployment**	**Vocational upper secondary education reform**	**Health and wellbeing fostered, inequalities reduced**	**Wood on the move and new products from forests**	**Growth environment created for digital business operations**	**Cutting local government costs**
Measures	1. Unemployment security reform → eliminate incentive traps (do studies) 2. Create inclusive social security model 3. Stricter job alternation leave conditions by introducing needs based assessment and revising employment history conditions		1. Change everyday environments in workplace etc. to facilitate wellbeing			1. Remove tasks and obligations from local authorities
Key Project 3	**Promote local agreements, remove employment barriers**	**Acceleration of transition to working life**	**Programme to address child and family services**	**Breakthroug h of a circular economy, getting waters into**	**Improved legal provisions**	**Municipalit y of the future**

				good condition		
Measures	1. Projects promoting local bargaining 2. Fix term employment contracts for <12 months without cause 3. Extend probationary period 4. Relax the obligation to re-employ in case of redundancy 5. Improve change security for employees in case of mass redundancy 6. Exemption from employer's sickness leave liability and limit accumulation of annual leave days during parental leave 7. Working hours Act and Annual Leaves Act reform simplify regulation and reduce the cost of compliance and supervision for companies and administration 8. Promote work related migration		1. Implement the programme to create prevention-focused, effective, need-based services		1. Cut through red tape, deregulate where regulations are unnecessary and revise legislation as required. 2. Smoother permit and complaint process 3. Minimise nr of complaints between authorities, through advance negotiation procedure 4. Body to ensure high quality impact assessment of legislation	1. Define role, tasks and new practices of local authorities 2. Revise system of central government transfers for basic services
Key Project 4	**Labour Administration reform**	**Access to art and culture will be facilitated**	**Develop home care for elders, enhance informal care**	**Finnish food production will be profitable,**	**Introduce culture of experimentation**	**Regional administration reform**

			in all age groups	**trade balance on the rise**		
Measures	1. Improve, clarify employment services, highlight role of job seeker, enforce sanctions 2.Employment services and resources targeting least employable workers transferred to municipalities by commuting area 3. Expand private employment service role especially in terms of most employable workers		1. Home care reform 2. Diversify structure and range of services in informal and family care		1. Experimental programme	1. Simplify arrangements of public regional administration
Key Project 5	**Increase housing construction**	**Strengthen cooperation between business life and higher education → innovations to market**	**Career opportunities for people with partial work ability**	**Nature policy based on trust and fair means**	**Improve management and implementation**	**Central administration reform**
Measures	1. Government subsidised housing production targeting those in greatest need		1. Service system and workplace reforms to facilitate their employment 2. Dismantle welfare traps between disability pension and earned income		1. Of public administration through strategy-based goals	-create a central administration with a clear structure, steering and management systems with the capability for change and risk management, and with client-oriented, primarily

						electronic services.
Key Project 6		**Youth guarantee towards community guarantee**				
Measures		4. Job search activities and pay subsidies to increase incentive for employment				
Source: (Action 2016)						