



ESPN Thematic Report on In-Work Poverty in Europe

Finland

2018-2019

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December 2018



EUROPEAN COMMISSION

Directorate-General for Employment, Social Affairs and Inclusion
Directorate C — Social Affairs
Unit C.2 — Modernisation of social protection systems

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European Social Policy Network (ESPN)

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Quoting this report: Kangas, Olli and Kallioma-Puha, Laura (2019). ESPN Thematic Report on In-work poverty – Finland, European Social Policy Network (ESPN), Brussels: European Commission.

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Summary

Since the international 2008 economic crisis, inequality and poverty in Finland have been in decline. The same goes for in-work poverty (IWP), which in Finland is comparatively low. The Finnish IWP rate was 3.8% in 2012, and 2.7% in 2017. The corresponding figures for the whole EU were 8.9% and 9.6%, respectively. Interestingly enough, there seems to be some divergence between the Finnish and the EU IWP trends. Whereas the EU IWP rates for most population groups seem to have increased slightly, there are downward trends in the Finnish IWP rates measured by gender, age, different household types, intensity of work, employment status and country of origin. This said, it is important to emphasise that the most vulnerable groups exposed to IWP are the same as in the other EU countries: immigrants from non-EU28 or other foreign countries have a larger IWP risk than other groups; the self-employed are more exposed than employees; and low work-intensity households (single mothers, in particular) have higher risks. Therefore, all those policies that directly or indirectly fortify the adult earner model – the model that facilitates both genders in all family situations to fully participate in paid work – are of great importance in reducing IWP.

The low IWP rates in Finland are a result of several underlying factors that are interlinked. First, employees are highly unionised and they can promote their interests via comprehensive collective agreements. The comprehensive social security system increases threshold wages and there are also in-work benefits that mitigate low income caused by low work intensity/low pay. One crucial factor for the low IWP rates has been the prevailing dual-breadwinner and full-time employment model. The full-time employment pattern also effectively prevents IWP. Finally, the share of immigrants (usually employed in low-paid jobs) has been low in Finland.

However, there are several challenges that may change the situation.

- New forms of contract work and increasing immigration may raise the IWP rates.
- There are strong demands to diversify wage setting and allow employers to make employment contracts more freely, and to agree upon wages without the interference of the trade unions.
- On the political agenda there are also voices demanding that the overall role of trade unions must be radically reduced.
- One big theme on the political agenda is “making work pay”, i.e. eliminating work disincentives, which include, among other policy measures, cutting down social security and making eligibility to benefits more conditional, as well as compelling claimants to accept any jobs, be they short term, part time or low paid. If low incomes from employment are no longer compensated for by social transfers, the IWP rates will inevitably increase.
- Increasing single parenthood may raise the IWP risk.
- Maintaining a low degree of IWP requires flexible and diversified income transfers and a wide range of childcare and other family-related services to allow employment and parenthood to be combined.

Our general recommendations are that:

- When seeking flexibility in the labour market, it is important to have a coordinated bargaining system guaranteeing decent wage levels.
- Universal care services guarantee the continuation of the defamilised adult earner model, which gives everyone the possibility to fully participate in paid work and effectively prevents in-work poverty.
- Specific inclusive programmes targeted at vulnerable groups should be maintained and improved, in order to enhance higher employment rates also in these groups.

1 Analysis of the country's population at risk of in-work poverty

In this first section we start with two historical analyses (sections 1.1 and 1.2) describing the mechanisms that have led to the internationally very low in-work poverty (IWP) rates in Finland (see Figure 1). These two introductory sections provide a comparative and historical perspective on the changes in IWP in Finland and in some other countries. The rationale for such a cursory historical scrutiny is the fact that the foundations of the low IWP rates were already laid during the formative period of the Finnish welfare state and labour market institutions, from 1960 to 1990. These sections provide preliminary explanations for the low Finnish IWP figures: structural changes and changes in the welfare state programmes explain fluctuations in IWP and the population composition of IWP. Whereas in these two sections we rely on previous Finnish studies, in the later sections, in order to ensure comparability (in terms of concept and data sources), analyses are primarily based on the statistical annex provided by the ESPN Network Core Team (see Annex A in Peña-Casas, Ghailani, Spasova and Vanhercke 2019).

In Finland, there is a strong belief that employment is the best way to combat poverty. Indeed, much in this belief seems to be true. In-work poverty in Finland (2.7% in 2017) is a much smaller problem than in many other EU countries (the EU average is 9.6%). In this Thematic Report we use the IWP definition agreed on by the EU in which: "a person is at risk of in-work poverty if he/she is in employment and lives in a household that is at risk of poverty. A person is in employment when he/she worked for more than half of the income reference year. Employed individuals can be salaried employees or self-employed. The income reference year is the calendar year prior to the survey. A household is at risk of poverty (or 'income poor') if its equivalised disposable income is below 60% of the national equivalised disposable household median income. The population covered are 18-64 years old." (Eurostat, 2005).

1.1 From a high-IWP country to the lowest-IWP country: comparative development 1970-1990

In the early 1970s, the Finnish IWP rates were higher than in Sweden, Germany or the UK, but lower than in the US or Canada (Table 1). However, 20 years later the Finnish IWP was the lowest of all the countries compared in Table 1. There are structural, institutional and policy-related factors explaining the positive Finnish development. First, in the early 1970s the share of the agricultural population was still relatively high in Finland. Since the self-employed (to say nothing of "unpaid family workers" in agriculture) tend to have higher income poverty rates than employees, the structure of the Finnish labour force kept the IWP rates high (Kangas and Ritakallio, 1998). Second, the development of the major Finnish welfare state institutions, be they income transfer schemes or social services, took place between the 1960s and the 1980s. Third, the 1960s and 1970s were decades when unionisation rapidly increased among employees (there were 430,000 union members in 1960 but as many as 1,642,000 in 1980 (Alestalo and Uusitalo, 1986:182)), and consequently centralised wage agreements came to cover some 90% of all employees. The joint effect of these structural, institutional and social policy-related developments pushed the IWP rates down. In fact, the very same factors explain why the rates are still the lowest in the EU.

Table 1. In-work poverty (%) in Finland and some other OECD countries 1970-2000.

YEAR	FINLAND	SWEDEN	GERMANY	UK	CANADA	USA
1970	9.9	8.9	4.8	9.0	10.8	13.0
1980	6.1	5.8	7.2	5.1	15.9	13.2
1990	1.9	4.4	4.8	6.3	14.1	8.8

Source: Airio (2008:71).

According to Airio¹ (2008:75), not only did the IWP rate go down (from 9.9% in 1970 to 1.9% in 1990), but also the composition of the IWP population changed. Whereas in 1970 the most vulnerable group was dual-earner families with children (comprising 60% of all IWP family groups), in 1990 the group most exposed to IWP was single adults (58%).

1.2 Not so much the depression of the 1990s, but rather the rapid economic recovery increased the IWP risk: development 1990-2010

In the early 1990s, Finland experienced the deepest economic recession in its independent history. Interestingly enough, the IWP rates went down from 1990 to 1995, just as unemployment skyrocketed from 3.5% to 16.0% (Palviainen, 2014:16; Kangas, 2019:156). The explanation is that, in the wake of rising unemployment, the median income decreased and, consequently, the poverty threshold tied to the median went down and more people, who prior to the depression had incomes below the poverty threshold, qualified in the deepest recession as “non-poor”. At the same time, in order to combat accelerating public debt, the government carried out cuts in social security spending. The general idea was not to change the basic structure of the Finnish welfare state, but just to make it leaner. However, the welfare state also became meaner towards the lower-income groups (Kangas, 2019). This said, the “leaner and meaner” Finnish transfer system reduced IWP rates by 66% (Penttilä, 2005).

The recovery from the depression was rapid. The ICT-based Nokia economy created an economic boost and, in the latter part of the 1990s, annual GDP growth was 4.9%; but the economic tide did not benefit everyone equally, and income inequality grew rapidly. Thus, at the same time, there was an increase in income inequality and a decrease in the redistributive effects of the transfer and tax systems (Tuomala, 2017). Also, self-employment increased from 182,000 in 1993 to 212,000 in 2000 (Kangas and Kalliomaa-Puha, 2017). As a consequence of these simultaneous developments, the IWP rate increased to 3.5% in 2000 and further to 5.5% in 2010 (Palviainen, 2014:16). To sum up: the observations from the period 1990 to 2010 fortify the results presented in section 1.1. The size of the vulnerable population and the effectiveness of the welfare state in reducing poverty rates are crucial when trying to understand fluctuations in the Finnish IWP rates.

There is some criticism of the use of the relative at-risk-of-poverty measure, because it does not take into account the increases or decreases in the poverty threshold caused by changes in the national mean incomes. Horemans et al. (2016) found that when the poverty threshold is kept at a pre-crisis level, an increase in in-work poverty in the EU can be observed. Finland does not fit into this EU picture. If the poverty threshold is fixed at the 2000 level, the IWP rate was the highest (close to 6%) in 1996, decreased to 2% in 2008, and further to 1.5% in 2010 (Palviainen, 2014:22).

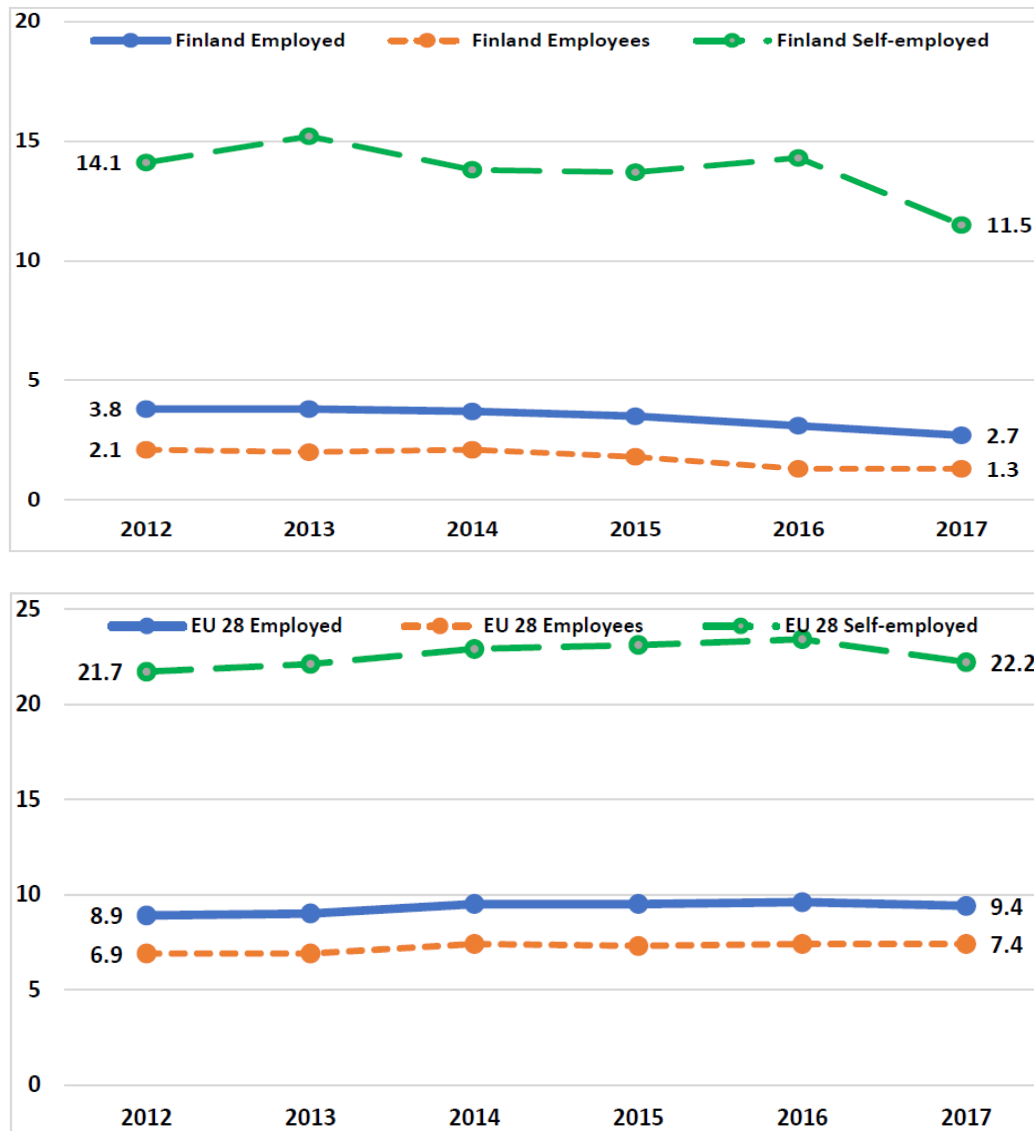
1.3 Back to low IWP rates: the post-2008 recession developments

Both in 2012 and 2017, the Finnish IWP rates were the lowest in the EU (3.8% and 2.7%, respectively). In many other countries, IWP has increased, and it ranges from the low Finnish values to the high values found in Romania (17.9%). In order to gain some comparative perspective on the magnitude and patterns of the national Finnish IWP rates, in the subsequent figures we present Finnish IWP rates and the EU average. In Figure 1, the first (upper) graph illustrates the 2012-2017 IWP development in Finland for all

¹ Airio's definition of IWP followed Eurostat's definition: A person is in employment when he/she worked at least 17 hours a week during at least seven months of the reference year. A household is income poor if its equivalised disposable income is below 60% of the national equivalised disposable household median income.

employed employees and the self-employed. The second graph presents the same information, but for the EU28 average.

Figure 1. IWP poverty rates in Finland and the EU28 average for employed, employees and the self-employed, 2012-2017



Source: Eurostat, ilc_iw01.

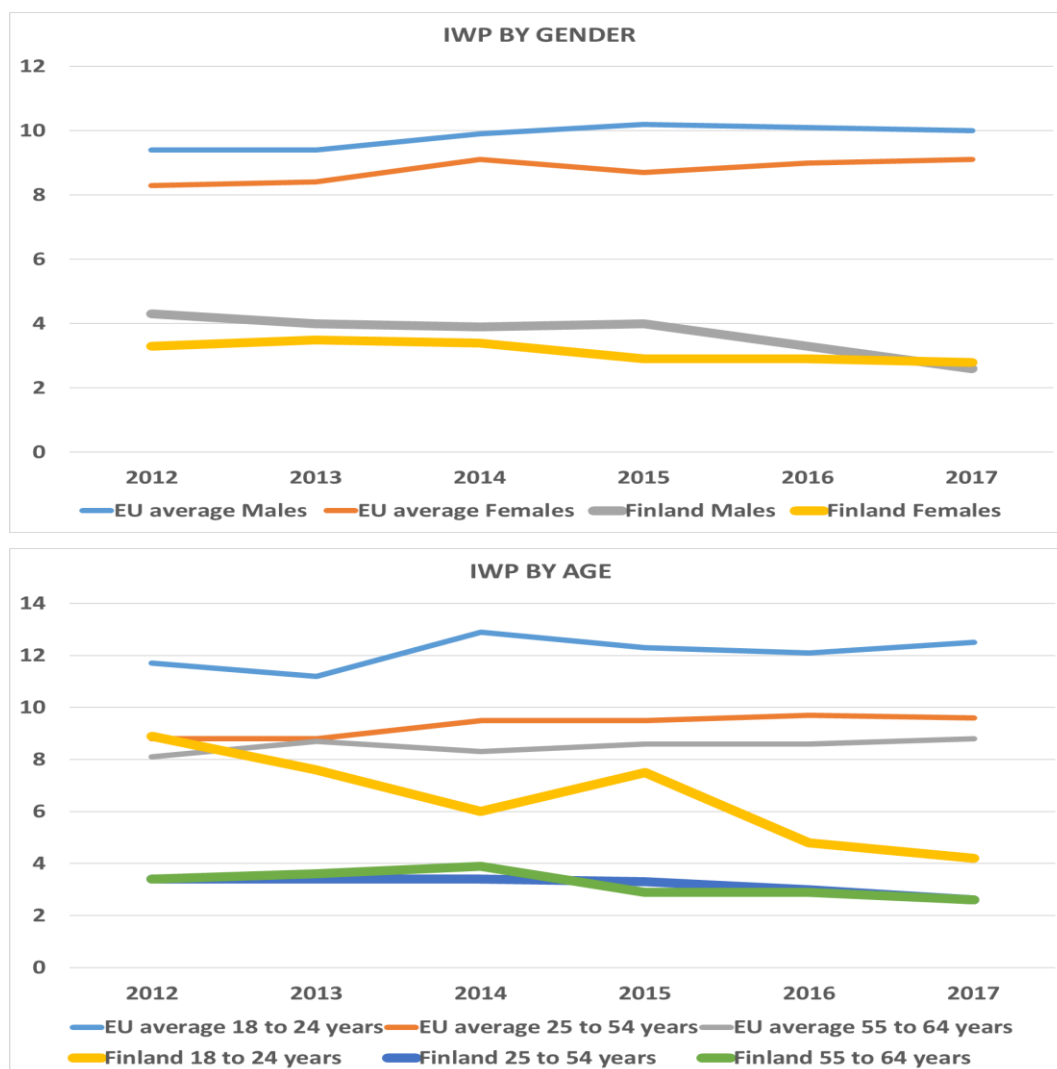
Since the international 2008 economic crisis, inequality and poverty in Finland have been in decline: the Gini-index went down from 28.4 in 2008 to 27.7 in 2017 (Findikaattori, 2019a). The corresponding numbers for poverty rates were 13.9% in 2008 and 12.1% in 2017 (Findikaattori, 2019b). The same trend is visible in the IWP rates. The risk of IWP has fallen among the self-employed, in particular (from 14.1% in 2012 to 11.5% in 2017). On average, in the EU the IWP rate for the self-employed is much higher than in Finland (22.2% in 2017). The same goes for employees (7.4% in 2017). However, in Finland the relative risk of IWP is 8.8 times greater among the self-employed than among employees. The corresponding figure is 3.0 for the EU28.

Interestingly enough, the picture is totally different if we look at the material and social deprivation rates. In Finland, these figures are 2.3% for self-employed people and 2.4%

for employees, and in the EU 12.6% and 8.6%, respectively. The discrepancy between income poverty and material deprivation is well documented in previous comparative and national studies (e.g. Kangas and Ritakallio, 1998; Airio and Niemelä, 2004; Airio, 2006, 2007, 2008; Guio and Marlier, 2017; European Commission, 2018). There are many problems with comparing income poverty and material deprivation between the self-employed and employees. In the case of the self-employed, it is difficult to separate personal income from enterprise income, and the self-employed can use their enterprises' assets (company car, TV, computers, etc.) for their own personal purposes. Neither employees nor the bogus self-employed have these coping options.

Figure 2 depicts the developmental trends in IWP by gender and age. The first panel of the graph provides separate lines for genders. There seems to be some divergence between the Finnish and the EU lines. Whereas the average EU IWP rates for both genders have increased slightly, there are downward trends in Finland. The Finnish gender-related IWP trends are in accordance with the overall decline in poverty and inequality since 2008.

Figure 2. In-work poverty (%) by gender and age in Finland and in the EU, 2012-2017².



Source: Eurostat, ilc_iw01.

² If not otherwise indicated, all the graphs are based on the statistical annex provided by the Network Core Team (see Annex A in Peña-Casas, Ghailani, Spasova and Vanhercke 2019).

The second panel shows the IWP trends by age. Both in the EU and in Finland, those in the 18-24 age bracket are the most exposed to IWP. To some extent, the result is understandable: many young people have temporary or part-time jobs when they are studying. In Finland, the incidence of IWP among young adults has substantially decreased (from 9% in 2012 to 4% in 2017). Differences between the two other age groups (24-54 and 55-64) are negligible in Finland.

As indicated in section 1.1, from 1970 to 1990 the structure of the most vulnerable IWP groups changed from dual earners to single adults. In Table 2, we present the most recent developments by household types. We can see that the rank-order of vulnerable groups in the EU and Finland follow the same order: single parents, single adults, couples with children and couples without children. The rank-order indicates that, whereas in most European welfare states the dual-earner model is an effective guarantee against in-work poverty, a single-earner household increases the risk of being poor. Also, in Finland single parents had rather high IWP rates up to the year 2014 (12.8%), but by 2017 the rate was down to 5.7%, which was lower than the IWP for any EU average group. However, the poverty risk of a single parent is three times greater than that of a couple without children (1.6%), and twice as high as a couple with children (3.0%).

Table 2. In-work poverty (%) by household type in Finland and the EU, 2012-2017

		2012	2013	2014	2015	2016	2017
EU average	Single person	12.6	13.1	13.5	13.2	13.9	13.4
	Single person with dependent children	19.8	20.2	20.0	19.9	21.6	21.4
	Two or more adults without dependent children	5.7	5.6	6.1	6.1	6.2	6.1
	Two or more adults with dependent children	10.1	10.0	10.5	10.6	10.4	10.6
Finland	Single person	7.0	7.3	5.7	4.5	4.5	3.9
	Single person with dependent children	9.5	11.6	12.8	8.1	8.0	5.7
	Two or more adults without dependent children	2.4	2.6	2.4	2.6	2.2	1.6
	Two or more adults with dependent children	3.2	2.6	3.3	3.5	2.9	3.0

Source: Eurostat, ilc_iw.0.01.

One obvious explanation for IWP is work intensity, and at first glance the explanation for the low Finnish IWP rates is that in Finland the share of part-time work is much lower than in most other countries. Finland can be characterised as a country with mostly dual-earner households and people with full-time jobs. Furthermore, the share of the self-employed (who tend to be more exposed to IWP than employees) is relatively low in Finland (OECD Stats, 2018). These three characteristics effectively combat poverty in general, and IWP in particular.

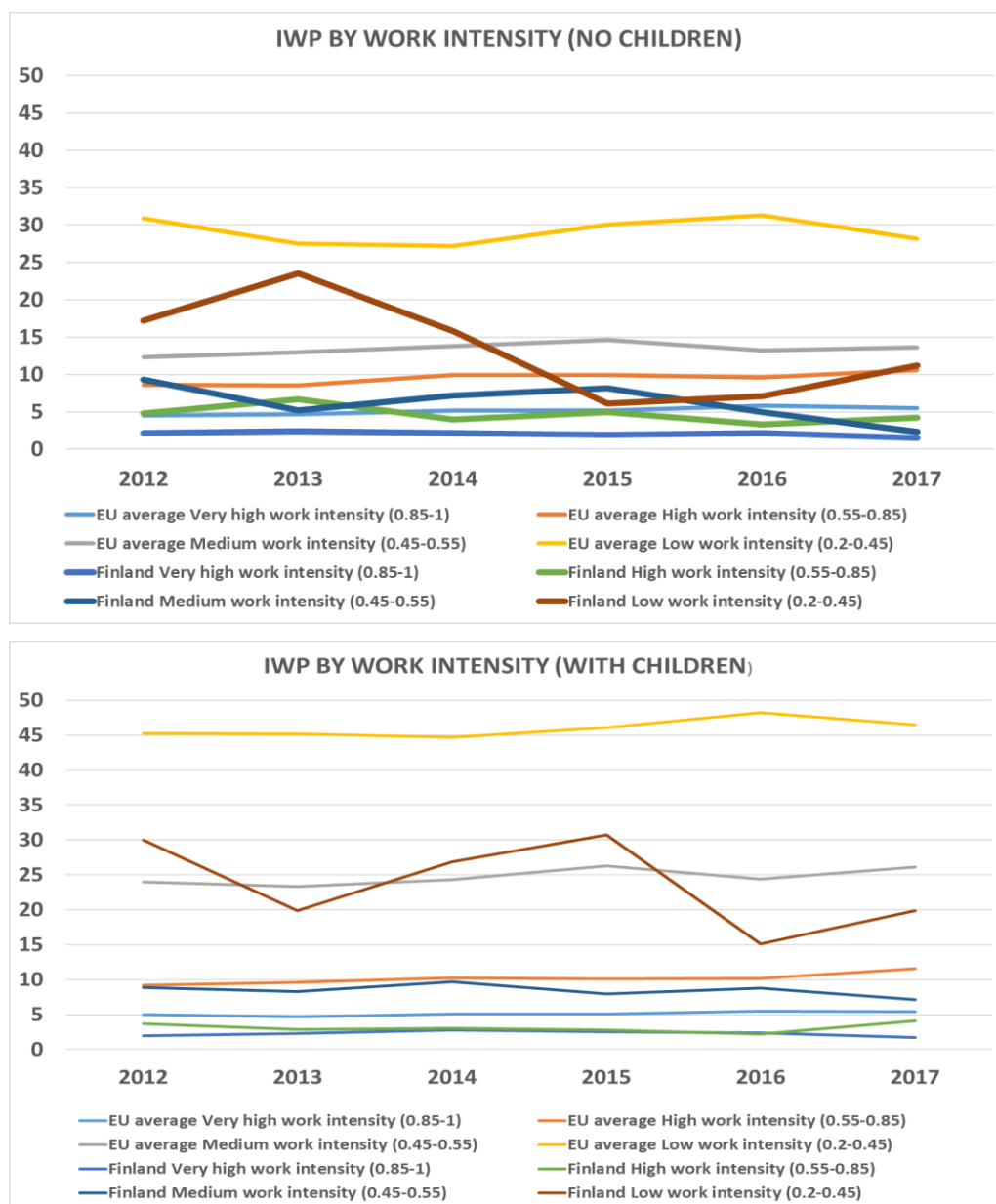
When it comes to the share of part-timers, only small changes have occurred in the 2010s. In 2010, 8.9% of males and 19.8% of females had part-time jobs. In 2017, the corresponding shares were 10.5% and 21.9%, respectively (Findikaattori, 2018). What is important is that the risk of IWP is nearly four times as high for part-timers as for full-timers (respectively, 7.5% and 2.3% in 2017).

The concept of a "part-time job" can include part-time employment in many different ways, i.e. the work intensity may vary for individuals, but also at the household level. Figure 3

depicts developmental patterns of IWP for a number of household work-intensity groups. The first graph describes the situation without children and the second one with children.

Not surprisingly, a low level of work intensity correlates with IWP. As the left-hand panel indicates, in Finland there are no significant differences between the medium and very high work-intensity groups. The low-intensity group deviates, however, and has a higher incidence of IWP, and this has increased since 2015. Including earners with children in the analysis changes the picture. The IWP rate for low work-intensity households (often single mothers) is rather high, which is a general European phenomenon (e.g. Horemans, 2018). Meanwhile there is no difference between the high and the very high work-intensity groups. However, the medium intensity group displays somewhat higher IWP risks. A worrying trend is that those earners in low work-intensity groups, both with and without children, have high poverty rates, and furthermore, IWP is increasing in this group.

Figure 3. In-work poverty (%) by work intensity; the first graph shows earners without children and the second graph presents those with children in Finland and the EU, 2012-2017



Source: Eurostat, ilc_iw01.

In many countries, immigrants are in the low work-intensity and low-paid group and are hence the most exposed to IWP. There are many reasons for this. Often immigrants end up in low-paid jobs in services (cleaning, house-keeping, restaurants), or they obtain their livelihood from self-employment. In many countries the risk of IWP is greatest in those occupations. As can be seen from Table 3, both in the EU and in Finland, immigrants from non-EU28 or other foreign countries have higher in-work poverty risks. In the EU, the poverty risk for immigrants coming from non-EU28 countries or from other foreign countries is at about the same level as the self-employed, whereas in Finland the self-employed have a higher IWP risk (11.5%) than immigrants from non-EU28 countries (7.4%).

Table 3. In-work poverty (%) by the country of origin in Finland and the EU, 2012-2017

		2012	2013	2014	2015	2016	2017
EU average	EU28 countries except reporting country	11.2	12.9	13.8	13.2	12.3	14.0
	Neither non-EU28 countries nor reporting country	18.9	19.1	20.2	21.6	21.1	23.3
	Foreign country	16.0	16.6	17.7	18.2	17.5	19.8
Finland	Reporting country	8.1	8.0	8.5	8.5	8.6	8.3
	EU28 countries except reporting country	4.8	8.5	7.5	7.8	7.3	2.6
	Neither non-EU28 countries nor reporting country	11.9	9.7	9.2	9.4	6.7	7.4
	Foreign country	8.6	9.1	8.4	8.6	7.0	5.4
	Reporting country	3.6	3.5	3.5	3.3	2.9	2.5

Source: Eurostat, ilc_iw01.

The survey above indicates that according to EU statistics, IWP is a smaller problem in Finland than elsewhere in the EU (see also Frazer et al., 2012; Eurofound, 2017; Lohmann and Marx, 2018; European Commission, 2018). However, the situation may be changing and, in some cases, there is an upward trend in the IWP rates – as shown in Figure 3 – for low work-intensity groups. In the following section, we briefly discuss the key challenges for the relatively good results achieved in Finland.

1.4 Key challenges: darker clouds in the sky?

The low IWP rates in Finland are the result of several interlinked factors. First, employees are highly unionised, and they can promote their interests via comprehensive collective agreements, often including employment-related “social packages” (agreements between social partners on holidays, educational possibilities, family-related benefits, sick pay, etc.) or some “solidarity” payments for low-paid occupations. Due to the fact that the coverage of collective agreements is about 90% of employees (in the public sector the coverage is 100%), wages are regulated. Furthermore, the comprehensive social security system inevitably increases threshold wages. Therefore, there has not been a need for a minimum legal wage in Finland. There are also some in-work benefits that mitigate low income caused by low work intensity. One crucial factor for the low IWP rates has been the prevailing two-breadwinner and full-time employment model. Finally, the share of immigrants has been low in Finland.

The interaction of these factors has contributed to the relatively good results. However, the tide may be turning. New forms of contract work, such as part-time and fixed-term contracts, zero-hour contracts, job hiring, various international subcontracting jobs, self-employment, freelancing, micro-entrepreneurship and increasing immigration are raising the number of groups exposed to IWP (Jakonen, 2017).

There are also demands to diversify the current wage-setting methods and allow employers to make employment contracts more freely, and to agree upon wages without the interference of the trade unions. On the political agenda, there are also voices demanding that the overall role of trade unions be radically reduced. One big theme on the political agenda is “making work pay”, i.e. eliminating work disincentives, which include, among other policy measures, cutting down social security and making eligibility to benefits more conditional, as well as compelling claimants to accept any jobs, be they short term, part time or low paid. If low incomes from employment are no longer compensated for by social transfers, the IWP rates will inevitably increase. Maintaining a low degree of IWP requires flexible and diversified income transfers (Jakonen, 2017).

2 Analysis of the policies in place

In the previous sections, we briefly examined the structural and institutional developments that have contributed to low IWP rates in Finland. The aim of the next two sections is to take a closer look at these processes and factors. Whereas the aim of section 2.1 is to discuss policies that have directly affected the outcome, the second section (2.2) analyses indirect determinants.

2.1 Policies directly influencing IWP

The main explanations for the low Finnish IWP rates are linked to labour market issues, social policies and a combination of these two. Since the IWP rates in Finland have been low and remain so, IWP has mostly been absent as an important policy item on the political agenda. Nor are there any policy programmes specifically targeted at IWP groups, be they employees working under atypical employment contracts, in non-standard occupations or the self-employed. Similarly, there are no policies aimed at tackling labour market segmentation. Rather, the recent policy discourse and the policies adopted are more concentrated on increasing the labour market participation rates and getting recipients of social benefits to work and accept any job offers. The quality of the jobs or the level of pay have not been on the governmental agenda that often. Employment is the issue.

According to Eurofound (2017:49), an adequate minimum wage is the best medicine against IWP. However, this is not the case in the Nordic countries. The Nordic countries have no instituted minimum wage. The main reason for this is the more or less universal and comprehensive income transfer system, which sets a threshold wage that the employer has to pay in order to hire an employee (see e.g. Kangas and Pulkka, 2016). Benefits are rather generous, and therefore the threshold wage is quite high, which pushes the IWP rate down, although the measures are not specifically targeted at IWP groups. In addition, many low-income earners are also entitled to housing allowances and some other in-work benefits (see section 2.2), which improve the economic situation of the lowest paid and hence combat IWP.

In the Nordic countries, various labour market programmes and institutional practices affect in-work poverty through their direct impact on wage setting and wage inequality (Seikel and Spannagel, 2018). When it comes to spending on active labour market policies, Finland fits badly into the Nordic group of countries. With its share (0.54%) of active and passive labour market measures, Finland is closer to the OECD average (0.70%) than Denmark (1.80%), Norway (1.00%) or Sweden (2.13%) (OECD Stats, 2018). However, Finland spends more than the other Nordic countries on job rotation and training (second to Denmark). The problem is that there are no reliable evaluations of how effective rotation measures have been in reducing IWP, or as spring-boards to better-paid jobs. There are

more studies on training, but they have been interested in the employment effects, rather than in IWP (e.g. Card et al., 2018). Thus, the possible effects on IWP are indirect. However, there are some Finnish studies indicating that low-paid jobs probably open up possibilities for better-paid jobs, and provide exit routes from IWP (Palviainen, 2014).

As mentioned in sections 1.1 and 1.3, the union density in Finland is high, as is the coverage of the wage bargaining system and collective agreements. The OECD (2018b: 83) classifies Finnish labour market bargaining as a predominantly centralised and coordinated collective system, with a mixture of higher- and lower-level agreements and strong coordination between sectors. Comparative results suggest that such systems are associated with better labour market and income outcomes for exposed groups and lower wage inequalities. The flip-side of the coin tends to be lower flexibility, higher levels of fixed-term employment contracts and somewhat higher structural unemployment (OECD Stats, 2018: 77-78).

2.1.1 In-work benefits

There are a number of income transfer schemes that also include employed low-income groups. Universal child allowance is paid for every child under 17 years of age. Housing allowance is available for all low-income households. The form of housing does not affect eligibility, i.e. the allowance is available for rented, as well as owner-occupied homes. The amount of the housing allowance depends on the number of adults and children in the household, the municipality of residence, and the monthly gross income. In low-income groups, the allowance replaces 80% of housing costs, and the replacement rate declines in step with income from employment. However, income up to €300 a month does not cut the benefit. When the household's gross income exceeds the maximum limit (which varies according to the municipality category), the household is no longer entitled to the allowance. For an adult living alone, the maximum income in the most expensive municipality category is €1,860, and €1,470 a month in the cheapest category. For a single parent with two children, the maximums are €3,324 and €2,619 a month, respectively (Kela, 2018a). The housing allowance is one of the most effective transfer schemes, directly improving the economic situation of low-income people, be they employed or not. The problem is that the costs of the housing benefit system have rapidly increased. Whereas in 2012 total expenditure on housing allowance was €1.3 billion, by 2016 it had increased to €1.9 billion. In the same period, the number of households receiving the allowance increased from 180,665 to 267,356 households (Kela, 2018b: 288-289). It is therefore no wonder that the government wants to introduce cost-containment policies. However, the policies may lead to an increase in IWP rates.

There are also some tax credits, which benefit employed people in low-income jobs. However, they are not significant (e.g. the maximum amount of earned income credit is €1,540 a year). Furthermore, they are general and not tailored to combat IWP (Finnish Tax Office, 2018).

At present, the main policy discussion revolves around work disincentives and how to increase labour market participation rates. A specific problem in Finland is that the effective marginal tax rates among those living on the dole, or low-income earners, are high, creating serious work disincentives. The high effective marginal tax rates are caused by a combination of income-tested social assistance and housing allowance and income-related day-care fees for children. Therefore, marginal tax rates are 60-90% – or in some cases even more (Viitamäki, 2015). According to the government, the most important task is to reform and streamline the tax-benefit system, so that work pays enough when moving from benefits to employment, and when moving from a part-time, low-paid job to a full-time job. On 28 September 2017, the prime minister nominated an expert group (TOIMI) to draw up alternatives for reforming the Finnish social security benefit system, in order to make it more employment friendly (Prime Minister's Office, 2018).

2.2 Policies indirectly influencing IWP

Whereas the list of policies directly targeted at combating IWP in Finland is short (section 2.1), the list of indirect measures is longer, including universal family policies, health care and other social services available either totally cost free, or heavily subsidised. In addition to benefits in kind, there are income transfer schemes (partially discussed in section 2.1) and various pay subsidies for employers to employ vulnerable groups on decent wages.

As discussed in the previous sections, Finland has a high union density and a high level of wage bargaining, covering wages and salaries so they are compressed; consequently, there is comparatively little work income inequality. The relatively high threshold salary and compressed wages, combined with the social benefit system, lead to low IWP rates. The drawback in such a system is that it provides opt-out possibilities from the labour market for those groups who might otherwise be poor (see e.g. Eurofound, 2017: 11).

2.2.1 Income transfers have direct and indirect impacts

In order to facilitate the labour market participation of vulnerable groups, special income transfer schemes are available. The most important of these are the partial sickness allowance, partial rehabilitation allowance, partial invalidity pension, partial pension and wage subsidies. All of these have inclusive objectives and they are designed to support vulnerable groups in employment, as well as safeguard decent levels of income for those who would otherwise fall into the IWP category.

The partial sickness allowance replaces the loss of earnings when the claimant must reduce their labour supply due to sickness. The purpose of the part-time sickness allowance is to support the claimant's (whether sick or disabled) gradual return to full-time employment. In order to receive partial sickness benefit (40-60%), claimants may work part time. The partial sickness allowance is paid for up to 120 days.

The rehabilitation allowance is available either via the income-related pension scheme or the national pension scheme (the minimum pension provided by the Social Insurance Institution of Finland). The rehabilitation allowance under the earnings-related pension system corresponds to the claimant's potential disability pension plus 33 percent. The rehabilitation allowance can also be paid partially. Kela's rehabilitation allowance is for employees or self-employed people with partial incapacity to work, but who have the aim of remaining in work or of returning to work. The purpose of the rehabilitation allowance is to provide a guarantee of economic security during the rehabilitation period. Kela's rehabilitation benefits are tailored to individual needs and situations after a vocational rehabilitation assessment. The specific rehabilitation programmes include: an allowance for education and vocational training, support for integration into work and various work try-outs.

The partial disability pension is for people whose working ability is reduced, but who are able to cope with part-time work or lighter job assignments (Kela, 2018c).

A pay subsidy is an economic benefit that an employment office may grant to the employer to cover the pay costs of unemployed jobseekers. The purpose of the pay subsidy is to enhance the claimants' attachments to the open labour market when they have shortcomings in their professional skills, or if they suffer from some form of incapacity that reduces their ability to cope at work (TE-Services, 2018).

Family-related cash benefits help to combine family responsibilities and employment. Furthermore, they supplement the income from reduced working hours due to family responsibilities. The Social Insurance Institution of Finland (Kela) pays a maternity allowance for four months. In many cases, the employers pay the full salary for the maternity leave period. After maternity leave, parental leave allowance is paid for six months. The parental leave can be shared between the mother and father, but they cannot receive it at the same time. Parents can simultaneously work part time and take partial

parental leave, with partial parental allowance. After parental leave, parents can take childcare leave until the child (or youngest child) is three years of age. A child homecare allowance is paid during that period. A part-time homecare allowance is available for those parents who have part-time employment.

A flexible care allowance can be paid to a parent caring for a child under three years of age, if the parent does not work more than 30 hours a week. These benefits, as well as child allowance, are universal. Thus, these policies are not targeted specifically at groups more exposed to IWP or anybody else (Kela, 2018d).

Carers' leave schemes support carers in employment and combat IWP, but the discretionary characteristics of the benefit causes problems. Childcare leave is available for those willing to take care of a disabled or chronically ill child at home. Parents are entitled to this until the child (or youngest child) is three years of age. The parent's job is also secured during this period. To combine work and care, even shorter periods of leave are vital. When the child is under 10 years of age and falls ill, the parents can take temporary care leave for four days in a row to stay at home and care for the child. The eligibility for temporary care leave is based on the Employment Contracts Act. Parents taking care of disabled children are relatively well-off in Finland until the child turns three. Thereafter too much depends on the goodwill of the employer, since care leave for anyone apart from the parents of children under three years of age is discretionary (for a more detailed description, see Kangas and Kallioma-Puha, 2016).

As shown above, there are some income transfer schemes that are universal and available to all (such as child allowance); there are some that are targeted at low-income groups (such as housing allowance); and there are some targeted at vulnerable groups (such as rehabilitation and partial sickness or pension schemes). All social transfers that are paid to a non-employed household member also raise the household's income and reduce in-work poverty (counted on the basis of the household's total income). Perhaps the most effective in combating IWP is the rather generous housing allowance system. The problem with the housing allowance system is that it also creates severe disincentive problems for those living on social benefits to accept a job offer (Kangas and Pulkka, 2016). Another drawback caused by generous transfer schemes is that young people move away from their childhood homes rather early, forming their own single-person households that, as a rule, have income below the poverty line. Students in temporary, part-time jobs are a big IWP category in Finland (see Figure 2).

2.2.2 Social services: indirect impacts

Due to government care policies and other social services available to families, women face comparatively few barriers to employment (Eurofound, 2017: 11). Combining work and the care of a child is, in most cases, facilitated by municipal day care (see Lancker and Horemans, 2018). There are also special services for disabled or ill children – at least in bigger cities. The fees for using public day care depend on the family's size and income and the hours of care needed. The day care for disabled children is free of charge. Disabled children are provided with after-school services, as well as transportation services to and from school. Municipal home service and home nursing care can assist families with members who need special care. Entitlement to long-term care services in Finland is based on residence in a municipality. Services are granted on the basis of an individual needs assessment. There is a wide range of in-kind benefits, such as home care, sheltered homes, more intensive institutional care, and healthcare centres; also cash benefits, such as care allowances, tax deductions for services, and informal care support (Kallioma-Puha and Kangas, 2018). Finland, as well as the other Nordic countries, is characterised by high levels of defamilisation³, which pushes down IWP by encouraging dual-earner households.

³ Defamilisation pertains to the degree to which social care policies make it possible for people to participate in working life outside their homes and families, i.e., family obligations do not prevent participation in activities outside home.

Furthermore, as shown by Boertien and Permanye (2017), educational assortative mating, and hence income-based homogamy, is lower in Finland than in most other countries, which, in turn, equalises income distribution.

3 Policy debates, proposals and reforms concerning in-work poverty and recommendations

The low IWP rates in Finland are the result of a long historical process, as shown in sections 1.1 and 1.2. IWP has not been a major policy issue, and the “active inclusion” approach to the prevention and alleviation of IWP has been a by-product. Therefore, it is very difficult – nigh impossible – to set out one single policy programme that has led to a low level of in-work poverty. In addition, not that much has happened in the policy programme or the IWP rates. Strong unions and the coordinated wage bargaining system have kept wage dispersion down. Although Finland does not have a minimum wage, the relatively generous income transfer system sets threshold wages, keeping minimum wages at a decent level also in the secondary labour market. The low-paid and part-time employed are supported by housing allowances and income transfers, effectively combating IWP. In fact, IWP is not regarded as a social problem or a challenge to be addressed in the National Reform Programme of Finland. Nor is IWP identified in key government declarations.

However, there are some civil society organisations – most notably the European Anti-Poverty Network Finland – that have warned of rising IWP in Finland (e.g. Jakonen, 2017). Furthermore, representatives of trade unions are worried about the future of coordinated wage negotiations and the opening up of Finnish labour markets to employees from non-EEA (European Economic Area) countries. The inflow of immigrants outside the EEA area is seen as a device to push down the lowest wages and to bolster labour market segmentation.

The policy priority in the government’s agenda is to increase employment and reduce unemployment. Instead of carrots, the present government has introduced a number of sticks, trying to compel the unemployed to accept any job, be it temporary, part time or low paid. According to the “Activation model” that came into effect on 1 January 2018, the unemployed who do not fulfil their activation requirements (18 hours of employment in a three-month period) have their benefits reduced. These “activation” programmes most probably will increase the number of people in jobs with minimal working hours and with low pay. Since these people will then be classified as employed, the level of IWP may increase, unless social transfers are sufficient to cushion the impact of more conditional unemployment benefits. Thus, these people will be activated to be in-work poor (Seikel and Spannagel, 2018: 252-253).

The collective bargaining system in Finland – as in many other countries – is facing serious challenges: union density is falling; local and enterprise-level wage negotiations are on the rise; and there are signs that wage differences between employment sectors and segments are increasing. Trade unions are afraid that if their role diminishes, the quality of jobs will also diminish. The counter-argument is that if we do not make our labour market more flexible and accept enterprise-level wage setting, productivity will be harmed, economic growth will be sluggish, and structural unemployment will remain at a high level. There is certainly some truth in both lines of argumentation. On the one hand, the OECD (2018b: 75) states that: “Centralised bargaining systems tend to be associated with lower productivity growth if coverage of agreements is high.” On the other hand, the OECD also states that labour market outcomes for vulnerable groups, in particular, are better in centralised and coordinated systems. To avoid the Scylla of centralised negotiations and the Charybdis of highly decentralised negotiations, a promising possibility is to use decentralised but coordinated wage-setting processes that seem to have the positive outcomes of decentralisation, without increasing IWP and other harmful labour market

outcomes (OECD Stats, 2018: 78). This is an important recommendation also for Finland, which is seeking a new mode for its labour market bargaining process.

Cuts introduced to social benefits and reduced access to family services may make it more difficult to effectively integrate work and family life. Thus, the good results of the interaction between the labour market and social policies produced in Finland may be endangered.

In sum, our overall recommendation is that, when seeking flexibility in the labour market, it is important to have a coordinated bargaining system. Universal care services guarantee the continuation of the defamilised dual-earner model that effectively prevents in-work poverty. Specific inclusive programmes targeted at vulnerable groups should be maintained and improved, in order to enhance higher employment rates also in these groups.

4 Assessing data and indicators

The European Union Statistics on Income and Living Conditions (EU-SILC) offer a wide variety of possibilities, including both cross-sectional and longitudinal analyses of living conditions in the EU (see e.g. Atkinson, Guio and Marlier, 2017). The database opens up possibilities for comparative analyses to assess the outcomes of different national policies. It is the main tool for European-level evidence-based policy making. Simultaneously, it is an effective tool in national policy making to show what is good and functions well, and where national policies need change and improvement. Therefore, the EU-SILC and the indicators that can be derived from the data are useful for the scientific community, policy makers and various stakeholders interested in social policy and labour market issues.

For EU-SILC purposes, Statistics Finland carries out an annual Survey on income and living conditions, which contains information on Finnish household income and living conditions (Statistics Finland, 2018). Annually, about 10,000 households are interviewed for the survey by telephone. Data from various administrative registers are also linked to the survey answers. The availability of these registers greatly improves the reliability of the Finnish data sets. In sum, both the EU-SILC and the national statistics are of utmost importance for analysing living conditions, poverty, employment, health, well-being, income formation, taxes and the income distribution of the population.

That said, there are severe problems in getting data on hard-to-reach groups, which usually are the most exposed and vulnerable groups in Finnish society. People in food banks (e.g. Ohisalo, 2017), the homeless (Asunto ensin, 2018), undocumented immigrants (Jauhiainen and Gadd, 2018) and people living in institutions are often, for various reasons, excluded from registers and interviews. In order to get a fuller picture of the situation of the most exposed groups, additional data are needed.

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