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Kananen, J.

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Johannes Kananen¹

ORCID: 0000-0001-6111-7243

Department of Social Research, University of Turku, Finland

The economisation of social policy and the rise of a crisis-prone culture

Abstract

The economisation of social policy implied the emergence of neoclassical economics as a contestant for the foundation of social policy in theory and practice. A crucial phase in this process is the emergence of the international competition state paradigm, which urges governments to cut taxes, reduce generosity and tighten eligibility criteria for social security benefits. The adoption of the competition state paradigm reversed social policy in advanced welfare states, which used to balance the injustices of capitalism through an expansion of social citizenship rights. In Nordic welfare states, such as Denmark and Finland the advance of the competition state paradigm resulted in a clash with the constitution, which seeks to guarantee a minimum standard of living for all citizens. The economisation and subsequent reversal of the purpose of social policy was followed by increasing social inequality and a more general development characterised by a series of crises in the areas of economy, health, politics, environment, security, and global mobility. A seed of this development is endogenous, or internal, in other words, and lies in the representation of the human being associated with neoclassical economics and the competition state paradigm, according to which the pleasure-seeking human being is a potential free-rider and lazy idler in need of subordination and control. The article

¹ *Corresponding author:* Johannes Kananen, Department of Social Research, University of Turku, Assistentinkatu 7, 20014, Turku, Finland; email: johannes.kananen@utu.fi.

distinguishes between exogenous (or external) and endogenous (or internal) aspects of welfare state change and highlights our role as citizens and academics in both creating and resolving challenges related to societal development.

Keywords: crises, Nordic countries, social policy, economisation, labour markets

Introduction

Economisation is the process whereby the logic of economics stretches wider and penetrates deeper into society, gradually encompassing realms previously outside the economy, such as the state and cultural life. A corresponding process or phenomenon is medicalisation, whereby scientific medicine occupies territories previously outside the medical, such as ageing or substance abuse (Conrad, 2007; Clarke et al., 2010). Both phenomena are symptomatic of modern epistemology, which separates strictly between the knowing subject and the object of knowledge. While successful in developing techniques to utilise natural resources, modern science proved incapable of resolving the tensions leading to recurrent crises in our contemporary societies – crises in areas such as health, economy, security, politics, and global mobility.

Modern epistemology and the evolution of modern science was scrutinised with great insight by Michel Foucault, who outlined both processes of economisation and medicalisation (see: Foucault, 2010). Foucault showed how delineating and defining the object of knowledge depends on the language we use while doing so. Claiming universal validity of defining an object of knowledge is a linguistic act, and simultaneously, an act of power. Hence, power and knowledge are deeply intertwined in modern societies. Economisation is associated with the evolution and hegemony of neoliberal reason which creates the framework and grammar for our shared understanding of issues, such as “unemployment” and “productivity”. Associated with the evolution of neoliberal reason in general and neoclassical economics, in particular, is a de-politicisation of the state, whereby matters concerning values, virtue, purpose, and morality are turned into technocratic and quantifiable questions of governance with associated expert knowledge (see also: Ylöstalo & Adkins, 2020).

Related to the more general process of economisation, political scientists, such as Mark Blyth and Bob Jessop, outlined the transformation of the modern welfare state and the curtailment of social citizenship. This transformation was associated with the rise of neoclassical theory as the dominant economic doctrine and the demise of Keynesian economic reasoning around state redistribution of material resources and promotion of full employment (Jessop, 2002; Blyth, 2002). Looking at the social sciences, in particular, scholars identified “economics imperialism” as a key development, whereby the methods and theoretical assumptions of mainstream neoclassical economics are extended to other social sciences (Fine & Milonakis, 2009; Mäki et al., 2017). In this process, neoclassical economics challenged past academic understandings of the purpose of social policy.

Economisation is a wide and versatile phenomenon, and in this article, I will limit the discussion to the ways in which social policy, and particularly labour market policy

is informed and directed by neoclassical economic ideas in the Nordic countries. I will argue – in line with the existing research on political economy – that the neoclassical economic doctrine has been translated into a “competition state paradigm”, which informs current labour market policy. At the same time, traditional social policy, which used to balance the injustices of the capitalist market economy quite successfully in the Nordic countries, has been reversed into its opposite. As a consequence, labour market policy is now centred upon the idea of workfare, which is a policy with origins in the neoclassical idea of unemployment as a choice and ideas of moral paternalism of an imagined “underclass”. Penalising the unemployed for deviant behaviour, workfare creates and maintains hierarchies in the labour market, contributes to deteriorating terms and conditions of work and paves ways for cuts in taxes and social benefits (see: Wacquant, 2009; Peck, 2001).

Instead of scrutinising these ideas on an abstract or semantic level, I will show how economisation has occurred in practice and in political reasoning about social policy. In order to do so, I will draw on the cases of Denmark and Finland – two Nordic countries where the reversal of social policy has been the most obvious and striking. Having pursued distinctively egalitarian Nordic welfare policies for decades after World War II (Esping-Andersen, 1990), these countries – along with the rest of the Nordic countries – began to reform social policy in accordance with the imperatives of the competition state paradigm, as envisioned by international organisations such as the OECD, the World Bank, and the EU in the 1990s.

Reversed social policy, including work-for-your-welfare policies whereby disadvantaged people are penalised, contributed to and aggravated social inequalities and a widespread experience of social injustice, which fed into the rising popularity of populist, xenophobic and authoritarian parties and political leaders. The economisation of social policy is part of this development.

The external (or exogenous) aspects of our crisis-prone contemporary culture are well known: global warming, pandemics, war, and potential escalation of armed conflict, volatile and unstable financial markets, wealth inequalities and the rise of totalitarianism as well as the subsequent demise of democracy, and rational deliberation (see also: Alberola, 2024; Brysk, 2023; Craig, 2023; Dauvergne & Shipton, 2023; Greve, 2023).

In this article, I will argue that there are significant endogenous qualities in our culture that are reflected in, or give rise to, the more exogenous, external aspects of the current series of crises. These endogenous qualities are related to core beliefs and values derived from the competition state paradigm and neoclassical economics, which regard the human being as rational, utility maximising, and which regard competition as an organising principle of society and culture. The economisation of social policy consolidated utilitarianism as the dominant ethical doctrine of our time and contributed to a culture in which means become ends². Rather than being mere abstract or

² Utilitarianism is an ethical doctrine, according to which choices are ethical if they maximise pleasure and minimise pain. The doctrine may be criticised because it tends to imply that other people become means to the increase of our individual pleasure and directs our attention away from the needs and interests of other people. Utilitarianism may also exaggerate our focus on performance and production.

theoretical assumptions, the tendencies of our governing rationale are shaping social and labour market policy, and the ways in which people behave. In other words, assumptions made at the theoretical scientific level have repercussions in real life – not necessarily because these assumptions are true but because those in power act as if they were. The recurrent crises demonstrate tangibly how damaging the effects of such assumptions are and that the effects are not limited to the economic sphere but affect culture as a whole. The analysis points to our own role (as citizens) in social development – our capacity to create problems but conversely also our capacity to solve them in the future.

The article will proceed as follows. First, I will detail how neoclassical economics has turned into what I call the competition state paradigm, which is essentially a rationale indicating how the labour market works and what governments should do in order to promote employment and economic growth. This paradigm is a crucial ingredient in translating the theoretical doctrine of neoclassical economics into practical policy-making and hence, a significant aspect of the process of economisation. Second, using the cases of Denmark and Finland as examples, I will show how the competition state paradigm is associated with the reversal of the idea of social policy and how it casts the constitutions and social rights of these countries in a new light of what proponents of the paradigm regard as “economic facts”.

Obviously, it would be interesting and important to review the core ideas and actions of institutional actors, such as political parties, trade unions, government departments as well as various lobby groups, and coalitions. For example, the Finnish Ministry of Finance has been a rather powerful actor playing a key role in paradigmatic policy change. However, due to limitations in scope, this article focuses on the quality of core ideas informing policy change starting off from the observation that powerful institutional actors must adapt to these ideas if they wish to influence the policy-making process.

Finally, at the end of the article, I note that the economisation of social policy has been followed by recurrent crises and a frustration among the political electorate effectively channelled by populist parties. The analysis prompts us to rethink popular and academic notions of the Nordic model of welfare.

Neoclassical economics and the international competition state paradigm

In the area of social policy, economisation implies the gradual abandoning of notions of social justice (however defined) and rights as the basis of legislation and policy. Instead, social policy reform, besides social security benefit reform, becomes a means to faster economic growth and higher employment levels defined in terms of neoclassical economic ideas.

Neoclassical economics is a school of thought with origins in the work of the marginalists of the 1870s. A handful of economists, such as Leon Walras and Stanley Jevons, began to look for alternative approaches to Marxist economics and focused their attention on the micro-level of the economy and individual economic incentives.

Instead of reflecting on the concept of capital, alienation or the generation of surplus value, they discussed how marginal utility affects economic demand at the individual level and assumed economic actors seek to maximise utility, pleasure, and avoid pain (Syll, 2007, pp. 197–258).

After the 1960s and 70s, economists such as Milton Friedman and Edmund Phelps – now as a reaction to macro-level Keynesianism – built on the marginalists’ ideas and reflected on labour supply and demand and ways in which the labour market aspires toward equilibrium (Friedman, 1968; Phelps, 1967). When job search theory applied the concept of marginal utility in analyses of the ways in which firms hire workers (Pissarides, 1990; see also: Mortensen & Pissarides, 1999; 2006), an elaborated neoclassical framework for the understanding of labour markets was in place. Consequently, international organisations such as the OECD, the World Bank, and the EU – backed up by think tanks funded by organised business interest – could develop a policy paradigm and translated the economic ideas into the language of governance (Blyth, 2002; Jessop, 2002).

According to this paradigm – let us call it “the competition state paradigm” because it aims at securing national economic competitiveness – in order to promote employment and economic growth, governments should adhere to five imperatives (see also: Layard et al., 1991):

- Income taxes should be as low as possible;
- Social security benefit levels should be as low as possible and coverage should be minimal;
- Wage setting should occur at the individual level instead of the collective level;
- Employment protection legislation should be as relaxed as possible;
- Governments should implement administrative measures to increase the labour supply.

There were two key concepts crystallising the logic: structural unemployment and inflation targeting. Structural unemployment may occur if labour market structures, such as the tax-benefit system maintain the wrong incentives to take up work. Structural unemployment, also known as the Non-accelerating Inflation Rate of Unemployment (NAIRU) may not be reduced by demand management without an increase in inflation. Therefore, according to the international competition state paradigm, the only remaining measures to combat unemployment are the five imperatives listed above. Macroeconomic policy should target a certain inflation rate by managing the money supply. Usually, the desired inflation rate is considered to be around 2%.

This competition state logic typically goes hand in hand with austerity, the effort to maintain a balanced state budget regardless of economic cycles (Blyth, 2013) and New Public Management, the idea that public sector organisations should be managed like private, for-profit companies (Clarke et al., 2007). With origins in business economics, the idea of New Public Management is associated with performance indicators as well as efforts to measure and quantify output, and productivity in the public sector.

Hence, the question arises: what is the relationship between ideas of social justice and the ideas of the competition state paradigm? The imperatives listed above are matters of legislation and they are regulated by the state. What is the purpose of the state? To maintain justice or economic competitiveness?

In the history of the modern welfare state, specific legal and economic ideas accompanied political reforms. Legal ideas of equality, justice, wider citizenship, and social life were associated with policies aiming to level out opportunities to participate in economic and social life. Such ideas were compatible with economic ideas of full employment, redistribution of resources, and demand management, for instance. Full employment as an economic goal thus complemented legal ideas of social justice and social policies aiming at the redistribution of resources and equal access to public welfare services. This type of relationship between legal and economic ideas was also associated with emancipatory societal development (Kananen, 2014; Kananen, 2024), whereby prevailing hierarchies and class structures were replaced by a new social order.

From another – perhaps Marxist – perspective, legal ideas and institutions can also be seen as a counterbalance to the capitalist market economy. Classical social policy was very much about balancing the exploitative and commodifying tendencies of capitalist production, which relied on competition between producers, accumulation of capital, and the availability of a willing and able bodied work force (Polanyi, 1944; Esping-Andersen, 1990)³.

The economisation of social policy alters, however, the balance between legal and economic ideas and the former become subordinated to the latter. In order to demonstrate this in more detail, I have chosen to look at the Danish and Finnish cases because these countries have been active in carrying out practical labour market reforms since the 1990s (for a summary of labour market reform in Sweden, see: Sørensen, 2009, pp. 241–246). Denmark attracted international attention due to its “flexicurity” (a combination of flexibility and security) model and Finland is a good comparative case in relation to Denmark as it is of a similar size and shares a similar tradition of aspiring towards the egalitarian Nordic model of welfare with distinct notions of social justice as the basis of legislation.

Like in other Nordic countries, social security benefits used to be generous and comprehensive in Denmark. However, over the past decades, the criteria of unemployment insurance and income support became stricter, while the coverage weaker and sanctions tighter.

Key reforms in the Danish labour market and social policy over the recent 20 years include:

- 1997 Act on Active Social Policy;
- 1998 Revised Act on Active Labour Market Policy;
- 2003 “More People in Work” Reform;
- 2010 Unemployment Policy Reform;
- 2014 Social Assistance Reform;
- 2018 “Ghetto Package”.

The list is not exhaustive (for related reforms, see: Kvist & Harslof, 2014 and Bredgaard & Madsen, 2018), however, it suffices to show that Danish reforms have followed the five competition state imperatives listed above, distancing Danish social

³ Pauli Kettunen noted that social policy was not a counter balance to capitalist wage work but rather enforced its historical development (Kettunen, 2008).

policy from the traditional Nordic welfare model with every reform. More recently, welfare chauvinism has strengthened considerably in Denmark and immigrants have been identified as a moral underclass in need of excessive penalisation and control (Milman, 2022).

This makes Denmark an interesting case concerning the economisation of social policy and the relationship between economic and legal ideas in policy-making.

Key labour market reforms in the Finnish context include:

- 1997 Social Assistance Act;
- 2001 Act on Rehabilitative Work Activity;
- 2010 Revision of Social Assistance Act;
- 2013–2014 Reform of Unemployment Insurance;
- 2018 Reform of Unemployment Insurance (“Activation Model”);
- 2021 Reform of Unemployment Insurance (“Nordic Job Search Model”).

Like in Denmark, these reforms progressed along the path established by the competition state paradigm. They implied weaker coverage of benefits and more stringent compulsion, and conditionality. One example is what is called the “activation model” (*aktiivimalli*), a workfare policy reform which was implemented in the beginning of 2018. The reform implied a shift of administrative burden from labour market offices to the unemployed, who were given a responsibility to participate in workfare measures or in paid work for at least five days during a period of 65 days regardless of availability of work or activation measures. The responsibility was, in accordance with the principles of the competition state paradigm, backed up by sanctions. This policy was slightly modified by the centre-left government in 2021 as the number of job applications became a central criterion but the essential components of workfare remained in place. The most recent Finnish majority government since 2023 consists of a coalition between the right-wing party and the populist party with a coalition agreement influenced by the competition state paradigm stronger than ever before.

Legal and economic dimensions of Danish Labour Market Reform: the Constitution as a burden

Jamie Peck argued that in the Nordic countries, workfare was about “(re)investment in human capital” in a context of generous social provision and a commitment to full employment (Peck, 2001, pp. 74–75). This statement is in line with regime theory, which clearly distinguishes between the US/UK type of liberal welfare regime with a focus on social assistance and a Nordic/Social Democratic type of welfare regime with a focus on universal social provision and redistribution of income.

My impression is that there is only one kind of workfare: that which originated in the US in the 1980s (see also: Adkins, 2018, p. 186). The logic of workfare – detailed by Peck in his analysis of the US – is opposite to the logic of the traditional post-war Nordic welfare regime. Instead of adapting workfare to Social Democracy, the Nordic countries abandoned the core principles of their welfare model the more activation

and workfare reforms progressed (Kananen, 2014; see also: Torfing, 1999; Larsen & Andersen, 2009). Adopting the competition state paradigm as the framework of social and economic policy also implied giving up full employment as a political priority.

Hans E. Zeuthen was a leading intellectual with a key role in establishing the competition state paradigm in the Danish debate. Born in 1936, he chaired an influential state committee (what was called the Zeuthen Committee) in the early 1990s. Danish labour market reforms during the 1990s progressed along the ideological path established by this committee (Ministry of Finance, Denmark, 1992).

Hence, Zeuthen's ideas about labour market policy are of general significance, which underlined by the fact that the competition state paradigm was the single source of economic rationale with regard to labour market reform. Had there been multiple competing rationales, Zeuthen's ideas would obviously not be as relevant and significant as they currently are.

In terms of the relationship between the legal and the economic it is, therefore, interesting to look at the way in which Hans E. Zeuthen consolidated the rationale for labour market reform. In 2005, he stated that:

There is little doubt that long-term passive subsistence that is the payment of unemployment benefits or social assistance for a long period of time, many times will increase structural unemployment. Attained qualifications will become outdated and productivity will be reduced in many cases when one has not been on the labour market for a long period of time. Therefore, it is in the interest of both the individual and society that an individual's 'value' in the labour market is not strongly reduced. That is why it is quite logical that there are rights and obligations in this area and it is also fairly widely accepted (Zeuthen, 2005, p. 206).

Zeuthen's usage of the terms "passive subsistence" and "structural unemployment" is directly derived from the competition state paradigm. The practical argument one must infer from this reasoning is that the duration of unemployment benefit should be shorter – an argument followed through in Danish labour market policy.

Most interestingly, from the point of view of the relationship between the legal and the economic, Zeuthen subordinates changes in the balance of rights and obligations, including the introduction of sanctions for non-compliance under the economic logic ("That is why...", last sentence in the quotation above). Rights and obligations are there – not to express any sense of justice – but to retain the "value" of an individual job seeker.

On combatting "structural unemployment" Zeuthen goes on stating that: "It is difficult to deny that structural unemployment would probably be lower if wages to a larger extent, both in the shorter and the longer term, reflected existing differences between employees' qualifications and productivity" (Zeuthen, 2005, p. 209).

Demanding that wages reflect differences in personal productivity (however that is measured) is in direct conflict with the traditional rationale of the Nordic welfare state, which sought to ensure equal pay for equal work. Zeuthen suggests instead that two persons doing the same job could be paid differently if their "productivity" was different.

After a thorough presentation of the benefits of neoliberal labour market policy (Zeuthen does not use this term), Zeuthen ends his article with a powerful statement on the relationship between the legal and the economic:

Recently, there has been much debate about the forthcoming problems associated with a declining workforce as a consequence of the demographic development. [...] To do something about it is by no means easy with our demand that the paragraphs of the constitution regarding social assistance should be interpreted in a way that benefits should grant the possibility for a decent standard of living. But as there is not much indication that the development will stop by itself, something needs to be done⁴ (Zeuthen 2005, p. 215).

It is not difficult to interpret this statement assuming that Zeuthen presents and represents the competition state paradigm in the Danish context. He is referring to population ageing (“the demographic development”) and the reduction of the labour force in size. The competition state paradigm provides the rationale for solving associated challenges regarding employment and economic output, however, according to Zeuthen, the problem is the constitution that seeks to secure a decent standard of living for everyone. Zeuthen implies in a subtle way that, irrespective of the constitution, social assistance and unemployment benefit *should not* provide a standard of living that is acceptable because otherwise people would not actively look for jobs but rather stay on benefits.

The ideas of Hans Zeuthen not only reflect the influence and dominance of the competition state paradigm in Denmark but also the relationship between the legal and the economic in Danish debates. The legal dimension appears subordinated to the economic logic.

Another case in point is the discussion about “flexicurity”, a key concept used particularly in connection with Denmark. “Flexicurity” is used synonymously with the Danish unemployment policy and is often presented in a positive way: “In the mid-2000s, Danish flexicurity achieved celebrity status for combining (1) a flexible labour market with low levels of job protection, with (2) generous – in international comparison – unemployment benefits, and (3) strong activation and education policies” (Bredgaard & Madsen, 2018, p. 3).

From one perspective, this kind of understanding of “flexicurity” seems contradictory to the international competition state paradigm because it is associated with generous unemployment benefits. However, looking at the trend of Danish labour market policy reform, there was actually no contradiction between competition state imperatives and Danish labour market policy. Benefit generosity eroded along with every wave of reform. Therefore, the effect of the debate around “flexicurity” was such that the concept and associated debates contributed to consolidating and legitimising the economic rationale of labour market policy (for the debate on “flexicurity” see: Bredgaard & Madsen, 2015).

The concept of “flexicurity” was immensely powerful, and part of its appeal was an associated promise of compromise between neoliberalism and traditional values of the Nordic welfare state. In the early 2000s, many commentators described how “the bumblebee keeps flying” (see: Nannestad & Green-Pedersen, 2008) referring to economic success in the 1990s in spite of relatively high unemployment benefits. In

⁴ Translation from Danish to English by the author.

this metaphor, generous unemployment benefits made the bumblebee of the Danish economy fat and in theory, i.e., according to the neoclassical doctrine, it should not have grown but it did.

Eventually, the faith in the capacity of the bumblebee to keep flying was shaken and benefit eligibility criteria were tightened, and replacement rates fell. In other words, the security element of “flexicurity” eroded and ideas of flexibility have informed policy reform.

In 2010, the maximum duration of unemployment insurance was reduced from four to two years. The reform was achieved by an agreement between the minority government and the Danish People’s Party (Dansk Folkeparti) and the agreement stated that:

The maximum duration of unemployment benefit will be reduced from four to two years. Experience from similar reforms in the 1990s shows that a reduction in the duration of unemployment benefit increases job search activities and contributes to a quicker definition of preferences among the unemployed. [...] It will be implemented together with a harmonisation of criteria for renewed eligibility of unemployment benefit and a longer period according to which the rate of unemployment benefit is calculated. These proposals will result in higher employment (Ministry of Finance, 2010, p. 11).

The quote shows that the rationale for shortening the maximum duration was that it would increase employment rates. The reform would imply a change in the balance between legal rights and obligations but again, like in previous reforms, it was justified by the competition state paradigm, according to which unemployment benefits should be minimal (see list of five imperatives above). Legal arguments were not a driving force in the reform.

In 2014, the government reached an agreement over reforming the social assistance system, and reduced benefit rates particularly for young people. The government justified the reforms by arguing that they would increase incentives to take up education. In addition, it wanted to “combat the culture of passivity” (Coalition Agreement, 2013, p. 7) among social assistance users. Among the new administrative categories invented for the reform was *nytteindsats* a form of subsidised employment in the public sector which was, in line with previous workfare policies, presented to social assistance recipients as “offers they could not refuse” (Lodemel & Trickey, 2001). In other words, refusal to participate in *nytteindsats* would lead to sanctions and a withdrawal of social assistance.

Blurring the difference between unemployment and employment (Adkins, 2018) the term *nytteindsats* is interesting as it describes the rationale of workfare. *Nytte* means ‘utility’ or ‘being useful’. *Indsats* means ‘effort’. Therefore, the impression one gets from the term is that social assistance recipients need to adhere to benefit administrators’ demands in order to be active and useful members of society. The new administrative category is also a clear example of efforts to distinguish between deserving and undeserving poor (see also: Wacquant, 2009).

Anticipating a discussion on the culture of activation, Jørn Henrik Petersen described Danish politics during a time in which discipline was the main goal of social policy:

The political rhetoric has further had the side-effect that people talk without batting an eyelid about those who sponge, cheat, and abuse societal benevolence and that the needy are seen as inept and lazy idlers who are not only unable but unwilling to work, preferring to live at the hard-working taxpayers' expense. They are simply seen as a 'burden to society' whose disappearance seems to be the eventual aim of so-called welfare policies. The needy are not, as in former days, objects of pity and compassion. Rather they are turned into objects of resentment and anger. The adoption of the competition state paradigm as a belief beyond doubt means that the welfare state is on the defensive and that ethical thinking is experiencing hard times (Petersen, 2015, p. 160).

Portraying people in vulnerable life situations as responsible for their own situation and “lazy idlers” could be interpreted as a logical consequence of the reasoning embedded in the competition state paradigm. Such reasoning reverses the traditional ideas of the post-war Nordic welfare state, including efforts to widen citizenship rights.

This development took a new qualitative turn in 2018 when what was called the “Ghetto Package” was enacted. Along with this reform, immigrants and asylum seekers were singled out as the moral underclass in need of penalisation and control (Milman, 2022). In public debates, the work ethic of immigrants was questioned and they were portrayed as a financial burden on the welfare state.

Thus, we witnessed a development whereby the economisation of social policy led to the erosion of social policy, which fuelled tension and frustration articulated as xenophobia. Political elites exploited this xenophobia by deepening the hierarchies of Danish society and by creating a new underclass based on ethnicity.

Legal and economic dimensions of Finnish Labour Market Reform: “Now we must think of all our fellow human beings as free riders”

There is one Finnish policymaker, whose role in the political debate corresponds to that of Hans Zeuthen in Denmark. Before coming back to Finland in 2012, Juhana Vartiainen acted as Director of the Swedish National Institute of Economic Research (Konjunkturinstitutet). In Finland, he took an active role in the public debate – first, as Director of Finnish Institute of Economic Research (Valtion taloudellinen tutkimuskeskus), and later, as a Member of Parliament representing the right-wing National Coalition Party (Kokoomus).

Frequently cited in the media, Vartiainen has a prominent role in the Finnish public debate. He is credited for having first explicated some central premises of the Finnish competition state paradigm since coming back to Finland in 2012, particularly, the aim to increase the supply of labour. As the above list of key reforms suggests, the competition state paradigm had been pivotal to Finnish labour market policy already before, but reform had occurred by stealth, without public debate. Politicians and key

office holders had argued publicly that reforms originating in the recommendations of the competition state paradigm were “necessary to maintain the Finnish welfare state” and thus remained silent about the true rationale of policy reform. By publicly advocating the competition state paradigm, Vartiainen also explicated the practical arguments behind political reform.

Regarding cultural change Juhana Vartiainen remarked that:

Thus far social policy has been about improving benefits. When we must re-evaluate benefit levels and when we have included elements of compulsion in social policy, the political character of the welfare state changes and people will no longer feel only positively about it. This change challenges our notions about the way we are as human beings. [...] Now we must think of all of our fellow human beings as potential free riders. Perhaps this change could be compared to the well-known gangster movie scene ‘no more Mister Nice Guy’ where a previously polite villain or kidnapper suddenly starts behaving in a threatening manner. Suddenly the welfare state not only gives but also demands, and suddenly workers’ benefits are not only ‘improved’ but also tightened and made weaker (Vartiainen & Uschanow, 2017)⁵.

Here, Vartiainen is referring to the introduction of sanctions in social security policy. He explicates the representations of the human being and human relations underlying the competition state paradigm: human beings are potential free riders and we should think of our fellow human beings as being potential free riders. He thinks of the competition state paradigm as such a self-evident rationale of policy-making that he does not even need to justify it. He uses the phrase “when we must re-evaluate benefit levels”, and does not discuss whether there ever was a choice to do so. “Thus far” presumably refers to the period before the 1990s.

As in Denmark, the relationship between the competition state paradigm and the constitution became an issue. Vartiainen noted that:

[...] the constitution tends to slow down social change. This is already because the demand to act constitutionally places restrictions on possible reforms. In addition, interpretations about the constitution probably reflect interpretations made about a world at least 10 or 20 years ago (Vartiainen & Uschanow, 2017).

Much like Hans Zeuthen in Denmark, Vartiainen argues that demographic change creates a stronger pressure on state finances compared to 10 or 20 years ago. He refers to a key concept which is used in Finland to legitimate the ideas associated with the competition state paradigm, namely, “the fiscal sustainability deficit” (*kestävyyssvaje*). A frequently repeated official narrative states that demographic change and an ageing population in Finland implies that public spending must be reduced and “structural reforms” in accordance with the competition state paradigm must be carried out because of an increasing dependency ratio on the labour market (number of pensioners in proportion to working aged population). According to this narrative tax increases

⁵ Translation from Finnish by author.

are out of the question because they would reduce incentives to take up work and business profitability (cf. Sorsa, 2017).

In the quote, the phrase “social change” refers loosely to the changes framed as necessary in the narrative surrounding the “fiscal sustainability deficit”. According to Vartiainen, legal experts not quite understood the narrative as they keep on referring to the constitution and to citizenship rights.

In the Finnish constitution, there is a paragraph about the right to work and the right to choose one’s occupation. Regarding the right to work Vartiainen notes:

In a society with freedom to form contracts no one can have a ‘right to work’, simply because it needs another party who is willing to form a contract of work. Some people have such characteristics that no one wants to hire them (Vartiainen, 2016, January 7).

This nihilist representation of human beings where some people are worthy of employment while others are not, is arguably something that is built into the international competition state paradigm. While the paradigm is based on neoclassical economic theory, someone like Juhana Vartiainen, who represents the paradigm in political debate, must explicate the idea (or construct it discursively if you will) in order for it to become visible. In other words, Vartiainen does not just voicing personal preferences but manifesting the practical arguments driving policy reform in Finland, Denmark and arguably in the rest of the Western world where the competition state paradigm is influential.

A seed of contradiction exists between the competition state paradigm and the UN Declaration of Human Rights (UN, 1948) as in the Nordic countries the former implied participation in activation under the threat of sanctions. Such activation measures may include subsidised work and, one could argue, work performed under the threat of a reduction of unemployment benefit, which is not in compliance with the first paragraph of Article 23 in the UN Declaration of Human Rights granting everyone the right to work and to free choice of employment (see also: Dean, 2007).

Similarly, the competition state paradigm may be in contradiction with the second paragraph of Article 23 as proponents of the paradigm argue that pay should be determined according to the “productivity” of each individual worker. Paragraph two of Article 23 states that everyone has the right to equal pay for equal work (UN, 1948).

Illustrating and exemplifying the contradiction between the constitution and the international competition state paradigm in Finland, Jorma Ollila, ex-CEO of Nokia argued that: “Legal experts interpret any reform as being against the constitution, regardless of economic facts” (Ollila, 2016).

The context of this statement was a negotiation between the government led by Prime Minister Juha Sipilä between 2015–2019 and the labour market parties, where the government threatened to use its legislative powers to reduce the price of labour (for an account of the negotiations, see: Adkins et al., 2017). Legal experts reacted against this threat. According to Jorma Ollila, who has a prominent position in the Finnish political debate like Juhana Vartiainen, economic facts demanded individualised wage setting and economic competitiveness – corresponding to the

imperatives of the competition state paradigm. The title of his article in the leading Finnish daily newspaper Helsingin Sanomat was “Finland is on the brink of an abyss”.

In the beginning of 2018, the Finnish government implemented a new, stricter model of workfare known in popular discourse as the “activation model” (*aktiivimalli*). In the relevant bill, the government justified the reform by stating that it will increase incentives to take up work and presented a rationale perfectly in line with the competition state paradigm (Government Bill HE 124/2017 vp). The government took for granted that the reform would increase employment by 5–12,000 persons per year and the government particularly wished to encourage the take up of temporary and part time work.

In Finland, there is a tradition of consensus-seeking and tripartite negotiations between government, trade unions, and employers concerning labour market issues. When preparing for the activation model, the government tried to negotiate with the labour market parties but could not ensure trade union support for the reform⁶. As a consequence, the trade unions, encouraged by a citizens’ initiative, organised mass protests against the activation model in early 2018 and the issue of activation was widely politicised.

On the podium, in front of a crowd demonstrating against the activation model Juhana Vartiainen stated that: “The higher the level of unemployment insurance, the more conditionality it requires. If there were no conditions in our unemployment insurance, the level would be lower than it is today” (TheBeamStar, 2018) In other words, Vartiainen tried to explain the logic of the competition state paradigm to a demonstrating crowd.

For a long time, Finns lived with the self-understanding of inhabiting a Social Democratic Nordic welfare state and the open neo-liberalism of the government led by Prime Minister Sipilä, therefore, caused confusion and bewilderment. Adkins et al. showed how the “Competitiveness Pact” designed by the government in 2015–2016 was in fact a devaluation of wages although it was publicly framed as a necessary response to increasing public debt and declining international competitiveness (Adkins et al., 2017). Adkins et al. conclude that:

[...] current reform commands Finnish citizens to give up forms of state protection (i.e., in regard to wages) and sacrifice themselves to the whole in order to maintain the productivity, growth, fiscal stability, credit rating and competitiveness of nation. Confronting the organised devaluation of the price of labour, therefore, entails coming face to face not only with the ongoing reform of the state but also with the turning inside out of the social contract (Adkins et al., 2017, p. 696).

The centre-left government led by Prime Minister Antti Rinne and Prime Minister Sanna Marin did not fundamentally deviate from the path of workfare established by previous governments. The minor reforms of 2021 changed the terms and conditions of sanctions to some extent but the logic of workfare and the underlying neoclassical economic rationale remained intact. Most recently, the current right-wing government

⁶ At the same time, the union for Finnish white-collar workers (*Toimihenkilökeskusjärjestö STTK*) was involved in designing the “activation model”.

continues along the path indicated by the competition state paradigm with aims at odds with the constitution.

Conclusion

An economic rationale, here termed the competition state paradigm has dominated social policy reform since the 1990s. Labour market reforms in advanced welfare states are justified with reference to the economic logic derived from the competition state paradigm and typically, no separate legal rationale is presented. There is seldom any reference to fundamental sense of justice in connection with labour market reform and legal arguments, for instance, concerning benefit recipients' obligations are typically derived from the logic of the competition state paradigm, which concerns economic growth and employment.

The dominance of the competition state paradigm implied an economisation of social policy, which used to be concerned about balancing the capitalist market economy through the widening of social citizenship rights. Strikingly, the paradigm gradually transformed the established welfare models, such as the Nordic welfare model, which used to be associated with ideals and goals such as solidarity, redistribution of income, generous social security benefits and progressive taxation. In the process, our perceptions about the quality and distinctiveness of the Nordic welfare model are challenged (cf. Partanen, 2017; Dorling & Koljonen, 2020)

In the past, when legal and economic ideas and arguments were more in balance, welfare states contributed to a relatively stable and balanced development associated with democratic openness. The current development is anything but stable – characterised by recurrent crisis in the areas of health, economy, environment, politics, security, global mobility, and most recently, international relations. It appears that the culture emerging after three decades of economisation is more prone to crises compared to the period of relative stability during the decades after World War II. This article has demonstrated some of the endogenous, internal aspects of this crisis prone development – aspects that are related to our choices, beliefs, values, and actions as opposed to exogenous, external circumstances beyond our immediate control.

As demonstrated in this article, the competition state paradigm clashed with the constitutions in Denmark and Finland. Leading representatives of the paradigm, Hans Zeuthen in Denmark and Juhana Vartiainen in Finland argued that the competition state paradigm should be regarded as authoritative in relation to the constitution, which in both countries seeks to guarantee minimum social protection and fundamental rights regarding employment. The competition state paradigm urges governments to cut taxes and reduce levels of social security benefits, which increases hierarchies and inequalities in the labour market. Immigrants are constructed as a new moral underclass in need of penalisation and control. At the same time, xenophobic far-right political powers gain influence.

Loic Wacquant pointed to a paradox of “small government” in the economic register (deregulation of labour markets and capital) and “big government” in the twofold frontage of workfare and criminal justice (Wacquant, 2009, p. 308). This

paradox appears to apply to the Nordic countries as well but there is one important difference between US and the Nordic countries. Whereas the US ideologues, such as Charles Murray and Lawrence Mead articulated the moral logic associated with workfare, leading intellectuals in the Nordic countries, such as Juhana Vartiainen in Finland and Hans Zeuthen in Denmark departed from an economic rationale leaving open the question of legal or moral justification. Limiting public debate to matters concerning economic rationale effectively excludes lay persons from the debate thus undermining and preventing an open and democratic discussion about the values and ideas behind economic policy.

More recently, both in Denmark and Finland, this economic logic has been complemented by paternalist and moralist voices raised particularly against immigrants and asylum seekers, perceived as a threat to social order.

In his analysis of the transformation of the Danish policy paradigm, Stahl demonstrated how macroeconomic policies changed gradually in the 1980s and 1990s following international trends. The discursive, rational, and ideological justification for the reforms only came afterwards, when the new reform path was already established (Stahl, 2022). The situation was quite similar in Finland, where reforms in the 1990s were typically justified with pragmatic arguments. External events, such as the fall of the Soviet Union in 1989 and the financial crisis of 2008 apparently deepened and intensified the transformation, the origins of which are, as demonstrated in this article, more endogenous, i.e., the result of autonomous and deliberate choices in the realms of politics and culture (particularly academia). In future research, it would be interesting to compare the historical experiences of the Nordic countries with those in South America and Central and Easter Europe, where deindustrialisation of certain sectors of the economy was followed by reforms prompted by the competition state paradigm.

The collective self-understanding in the Nordic countries is yet to grasp the transformation of the Nordic welfare state into a competition state. Inequalities and precarious conditions of work – in addition to not being able to discuss the legal or moral premises of political decision making caused frustration among Nordic citizens who experience the domination and subordination associated with the competition state paradigm without being able to express it in political debates. This frustration was channelled by right-wing populists who exploit the irrationalities associated with this aggravation (Ruzza, 2018). Population groups oppressed on the labour market as a consequence of the implementation of the competition state paradigm turn against other population groups, most notably immigrants and asylum seekers. The forces of frustration and hatred, coupled with racist nationalism have created tensions with tendencies towards violence, creating a vicious circle.

Although this article deals with labour market policies, other policy areas are likewise affected by the competition state paradigm. In education there used to be a strong orientation in the Nordic countries to the central European idea of *Bildung* (ennoblement including moral/ethical development and ethical individualism). Education was supposed to be available for all on equal terms, as famously argued by Gruntvig in Denmark and Snellman in Finland in the 19th century. The competition state paradigm strengthened a tendency to instrumentalise the value of education as a gateway to economic production thereby subordinating education to the needs of

capitalist, profit-oriented corporations.

The dominance of the competition state paradigm and the economisation of social policy raises the question how it affects culture more generally. Amadae has noted that the idea of rationality embedded in the dominant economic understanding portrays human beings in need of control and penalisation (Amadae, 2016). Quite in line with this idea, the competition state paradigm represents people as “potential free-riders and lazy idlers whose productivity must be maintained by the threat of poverty” (freely interpreted from the quotes above). Such a representation – while creating the foundation of social structures – is more likely to contribute to anomy and hostile and inflammatory social relations rather than co-operation, integration, mutual respect, and informed dialogue. The most recent militarisation of public debate and consequent increases in military spending appear as logical consequences of this development.

The economisation of social policy, associated with shifts in public management and the dominance of the competition state paradigm was accompanied by cuts in social security benefits and cuts in public budgets. This led to increasing public and private debt as those in vulnerable positions on the labour market find that social security benefits do not cover the costs of living (on the problem of over-indebtedness, see: Hiilamo, 2018). In recent years, debt has been turned into a security tradable on financial markets fueling a development which scholars call “the financialisation of the economy” (Mazzucato, 2019; Adkins, 2018). The economisation of social policy is a crucial phase in this development whereby the productive capacities of entire populations are being tied to the generation of surplus value via financial assets (Adkins, 2018).

Thus far, the recurrent crises following the economisation of social policy have not resulted in a reconsideration of the position of the competition state paradigm as the dominant rationale for economic and social policy. The latest in the series of crises is the war in Ukraine, which has tremendous consequences for international relations. Finland quickly abandoned military neutrality and joined NATO in 2023. Several European countries have significantly increased military spending. Public discourse is loaded with rhetoric and images of the enemy. There is a real danger that the seed of violence endogenous to the competition state paradigm will result in an escalation of violent conflicts.

Acknowledging the endogenous aspects of societal development allows us to recognise our own role– not only when we create problems but also when we solve them. It is also possible to envision a future development in which the relationships between the economy, culture and politics are more balanced and where the dominance of one sphere no longer causes imbalances and crises. Academic social policy could, e.g., engage in a critique of the economic rationale associated with the competition state paradigm thus paving way for a more balanced development. Such a critique would have to be founded on an alternative way of understanding the purpose and essence of the economy.

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