

Beyond the Nordic Welfare State

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Extending Social Investments with Interventions

Edited by

Jani Erola

*Professor of Sociology, Director of INVEST Research Flagship
Centre, Department of Social Research, University of Turku,
Finland*

Pasi Moisio

*Research Professor, Finnish Institute for Health and Welfare,
Finland*

Johanna Peltoniemi

*Senior Researcher, Finnish Institute for Health and Welfare,
Finland*



Cheltenham, UK • Northampton, MA, USA

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List of contributors

Jani Erola is a Professor of Sociology, the Director of the INVEST Flagship Centre at the University of Turku and Academy Professor. He is also the director of the Finnish register data research infrastructure FIRE. His research focuses on changes in the equality of opportunity, intergenerational socioeconomic attainment, and family demography, in particular in the context of the Nordic welfare states.

Daniel Fernandes is a post-doctoral researcher at the Department of Economics in Leiden University, Netherlands. His research interests link public opinion, labour-market transformations, and social policy change. He is one of the coordinators of the Horizon Europe research project TransEuroWorkS: Transforming European Work and Social Protection.

Sanna Hannula is a psychologist, PhD researcher, trainer and supervisor specializing in crises, trauma, and multicultural issues. She's part of the Finnish Red Cross's international delegate roster and national emergency psychologist team. In Finland, she has worked at school, health care and research fields. She has worked with refugees both in national and international contexts. Currently, she holds a position as a psychologist in the Barnahus initiative focusing on multicultural issues. Also, she works as a project researcher and an occupational health psychologist nowadays. Her dissertation focuses on psychological performance, workplace tragedies, and moral stress at emergency services.

Anton Hemerijck is Professor of Political Science and Sociology at the European University Institute (EUI) in Florence. He made important contributions to the comparative study of social policy, with reference to changing (European) welfare states. In 2020, he was awarded a European Research Council Advanced Grant for the research project Wellbeing Returns on Social Investment Recalibration (WellSIRE). Over the years, he consulted several governments, EU institutions, and the OECD, on social policy and welfare state futures.

Sanna Herkama is a Senior Research Fellow at the INVEST Flagship Research Centre, University of Turku, Finland. Her research explores bullying, youth well-being, the impact of COVID-19 on children and adolescents, and the implementation of psychosocial interventions in educational and health-care settings. She has contributed to the development and implementation of nationwide interventions promoting student well-being in Finland, and has participated in pilot evaluations of the KiVa® antibullying program in several countries.

Heikki Hiilamo, PhD, works as a Research Professor at the Finnish Institute for Health and Welfare (THL) and as a Professor of Social Policy at the University of Helsinki. Previously, Hiilamo has worked as Research Professor at the Social Insurance Institution of Finland and as Visiting Professor at University of California San Francisco and VID Specialized University Oslo. Hiilamo's research interests include sustainability, poverty, inequality, comparative welfare state research, family policy, and tobacco control.

Mia Huolman is a Clinical Psychologist and a PhD student at the INVEST Flagship Centre, University of Turku, Finland; a Specialized Clinical Mental Health Psychologist and Child and Adolescent Psychologist; and she works as a Clinical Psychologist at the Barnahus project in Helsinki University Hospital. Huolman is a board member at the Finnish Psychotrauma Society and a member of the Future International Leadership Group at ESTSS. Her main interests and expertise are child trauma and dissociation, immigration and marginalization, and developing and enhancing services.

Ilari Ilmakunnas, PhD, works as a Senior Researcher at the Finnish Centre for Pensions. His current research focuses on the evaluation of pension reforms, partial retirement, the adequacy of pensions, and the measurement of poverty.

Marika Jalovaara is Professor of Sociology at the University of Turku. A demographer, she specialises in family dynamics, demographic change, and social inequalities. Much of her research focuses on partnership and fertility dynamics, as well as the intersections of demographic processes and welfare systems. She is Director of the FLUX Consortium and Research Area Director at the INVEST Flagship Research Centre.

Olli Kangas is Professor Emeritus. He has served as Director of Governmental Relations at the Social Insurance Institution of Finland. He has held the position of Olof Palme Professor at Uppsala University, H. C. Andersen Professor at the University of Southern Denmark, Professor at the Danish National

Centre for Social Research, and Professor of Social Policy at the University of Turku. His research interests centre on political economy and the comparative macro-history of the welfare state.

Aleksi Karhula is a Senior Research Fellow at the INVEST Flagship Centre at the University of Turku and a Visiting Researcher at the Finnish Institute for Health and Welfare (THL). He has extensive expertise in research using register data in the study of various forms of societal inequality, including housing issues, residential segregation, life course approaches, and intergenerational inequalities.

Sakari Karvonen (Doc. Soc. Sc.) is Research Professor at the Finnish Institute for Health and Welfare and Adjunct Professor of Medical Sociology at the University of Helsinki. His research concentrates on the intersections of social inequalities, welfare, and health. Recently, he has also studied the role of environmental factors in social determinants of health.

Malin Kinnunen is a Development Manager at the Research Centre for Child Psychiatry, University of Turku. She has extensive experience in promoting child and family well-being, digital interventions, implementation, and research in child mental health. She is a qualified family therapist and Master of Health Care with focus on development and leadership in her work. Her career is dedicated to developing mental health services through evidence-based practices and innovative approaches, ensuring better outcomes and well-being for children and families.

Marjo Kurki, PhD, is a Senior Researcher at the Research Centre for Child Psychiatry, University of Turku. She is a part-time Program Director of the Children and Young People – Healthy, Thriving and Capable Makers of the Future (YOUNG) program funded by the Strategic Research Council (SRC). She leads a team that promotes the evaluation, adaptation, and implementation of evidence-based psychosocial interventions for children and adolescents as the Director of Development at Iitla Children's Foundation. Her expertise areas relate to intervention and implementation research, and children and young people's mental health issues and the service system.

Johanna Lammi-Taskula is Research Manager at the Finnish Institute for Health and Welfare. She is a sociologist with a special research interest in family policies and gender equality. Her research focuses on work-family reconciliation, particularly parental leave policies and the factors influencing and

resulting from leave use. She is a member of the coordination team of the International Leave Policy and Research Network.

Marie-Pier Larose is a Senior Research Fellow at the INVEST Flagship Research Center, the Turku Institute for Advanced Studies, as well as a Visiting Post-doctoral Researcher at the Erasmus Medical Center. Her research takes a bio-psycho-social approach and focuses on how genetics contribute to academic achievement and mental health symptoms over time. She has participated in the evaluation of preventive and health promotive programmes in schools and childcare settings in Canada.

Elisabetta Leni is a Researcher at the Y-Foundation in Finland, where she has worked since 2021. After working several years in the non-profit sector in Italy, she earned her PhD in Economics from the University of Essex in the UK. At the Y-Foundation, Finland's largest provider of state-subsidized housing and a leading advocate of the Finnish Housing First model, Elisabetta focuses her research on homelessness, the Housing First model, and sustainability in social housing.

Pasi Moisio is a Research Professor at the Finnish Institute for Health and Welfare (THL). He leads the THL contribution to the INVEST Research Flagship. His research interests centre on welfare state institutions and reforms, policy impact assessment, and social security systems. Moisio has extensive experience as a social policy expert for the Finnish Government and the European Union. He is currently serving as the Chair of the Parliamentary Social Security Committee.

Anu Muuri (Doc. Soc. Sc.) is a Development Director at the Finnish Institute for Health and Welfare, Adjunct Professor of Social Work at the University of Helsinki, and Adjunct Professor of Information Management in Social Welfare at the University of Eastern Finland. Her research focuses on social welfare services, with a particular emphasis on the attitudes of the population and service users towards these services.

Mikko Niemelä is a Professor of Sociology and the Executive Director of the INVEST Research Flagship Centre at the University of Turku. He is also a Research Professor at the Social Insurance Institution of Finland. His current research focuses on economic inequality, poverty, public welfare attitudes, and the mechanisms of the institutional change in welfare states.

Veera Niemi is a PhD candidate of social work at the University of Turku. Her research focuses on the register-based analysis of the housing and life histories of people experiencing homelessness, as well as their use of social and health services. With years of experience in frontline social work and management, she is committed to bridging the gap between research and practice.

Jessica Nisén is a University Research Fellow at the University of Turku, Finland. She is a family demographer and quantitative sociologist. Her research focuses on the patterns, determinants, and consequences of childbearing, particularly in low-fertility settings in Europe. Her work often builds on register data and considers individual life courses, gender, and social inequalities.

Joonas Ollonqvist is a Senior Researcher at the Finnish Institute for Health and Welfare (THL) with a doctoral degree in Social Sciences (Economics) from the University of Turku. His work includes both academic research and applied policy analysis, focusing on topics related to social security and the evaluation of policy reforms. He frequently employs microsimulation methods in his research.

Kirsi Peltonen is a Clinical Psychologist and a Professor of Psychology at INVEST Research Flagship Centre, University of Turku, Finland. Her research has focused on the impact of war and violence on child and adolescent development. Her main interest is on the effectiveness of interventions supporting mental health and treating trauma symptoms. Implementing research within society has been an important part of her work. She has trained professionals in multiple fields to support traumatized children and she holds several positions of trust in the field of mental health both nationally and internationally.

Johanna Peltoniemi (Doc. Soc. Sc.) is a Senior Researcher at the Finnish Institute for Health and Welfare and Adjunct Professor of Social and Public Policy at the University of Helsinki. Her current research focuses on welfare state renewal, political institutions and elections, with particular interest in the ideological and institutional foundations of social policy. Her work has been published in top-tier journals, such as *Political Behavior*, *Journal of Ethnic and Migration Studies*, *Electoral Studies*, and *Journal of Common Market Studies*.

Terja Ristkari, MNSc, is a PhD student and is working as a Development Manager at the Research Centre for Child Psychiatry, University of Turku. Her research interests are in intervention development and intervention studies. Her research topics are mostly on psychosocial digital preventive interventions and their implementation. She has conducted several RCT studies in intervention

research, and she has a strong psychotherapeutic background as family and CBT therapist. She has published several articles in the child psychiatric field.

Juho Saari is a Professor in Social and Health Policy at the University of Tampere, Finland. His main research interests include the institutional frameworks of social and health policy, the politics of public debt and deficit, the dynamics and resilience of successful societies, differences and divisions in the quality of life and health, status differences, the disadvantaged groups, and the social and health policy dimensions of the European Union.

Paula Saikkonen is a Doctor of Social Sciences and works as a Research Manager at the Finnish Institute for Health and Welfare (THL). She specialises in research on social welfare, well-being, and the ecosocial welfare state. Her current interests are related to social security, sustainable welfare, ecological and social sustainability, and welfare policies in sustainability transformation.

Christina Salmivalli is a Professor of Psychology and the Deputy Head of the INVEST Flagship Research Centre. She has published widely on children's peer relations and bullying, and her team developed the KiVa® antibullying program, implemented in Finland and in 25 other countries. Her work has been awarded nationally and internationally, and in 2020, she was a recipient of the European Research Council's (ERC) Advanced Grant to study the most challenging cases of bullying.

Henri Salokangas, PhD, is a Senior Researcher at the Finnish Institute for Health and Welfare (THL) and Visiting Researcher at the University of Turku and Statistics Finland. He holds a Doctor of Social Sciences degree in Economics from the University of Turku. His research focuses on health economics, causal inference, and the socioeconomic impacts of health and social policies. He is Vice President of the Finnish Society for Health Economics and Chair of the Finnish Health Economics Seminar Series.

Outi Sirniö, PhD, is Research Manager at the Finnish Institute for Health and Welfare (THL) and Docent in Sociology at the University of Turku. Her research focuses on social inequality, intergenerational mobility, youth transitions, and mental health. She leads projects examining the long-term impacts of socioeconomic disadvantage and has extensive experience in register-based research on population health and welfare.

Tiina Turunen is a Senior Research Fellow at the INVEST Flagship Research Centre at the University of Turku, Finland. Her research interests include

antecedents and consequences of bullying perpetration, evaluation and implementation of anti-bullying interventions, bullying among students with learning difficulties, as well as psychosocial well-being of children and adolescents. In 2024, she received the European Research Council's (ERC) Starting Grant to study heterogeneity in bullying perpetration and its longitudinal effects on adjustment and well-being.

Minna van Gerven is Professor of Social Policy at the University of Helsinki. Her research focuses on comparative social policy, welfare state reform, and the role of digitalisation and algorithmic governance in social protection. She has led several international research projects on welfare transformations and labour market inequality. Her work has been published in leading journals such as *Journal of European Social Policy*, *Social Policy & Administration*, and *Policy & Society*.

Wim Van Lancker is an Associate Professor of Social Work and Social Policy at KU Leuven, affiliated with the Research Group on Social Policy, Social Work, Public Opinion and Population Dynamics. He directs national and European research on social and family policies across welfare states and their outcomes in terms of poverty, inequality, employment, and well-being. His work has appeared in top-tier journals such as the *American Sociological Review*, *The Lancet: Public Health*, *Socio-Economic Review*, and *Journal of European Social Policy*.

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1. Social investments with interventions

Jani Erola, Pasi Moisio and Johanna Peltoniemi

The Nordic welfare states are known for their welfare model, which combines social protection with economic growth, emphasizing universalism, strong public services, and inclusive social policies. Over the past few decades, the social investment paradigm has become a dominant approach in European welfare policy, shifting the focus from passive income transfers to fostering human capital and positive life transitions. Nordic countries have been the forerunners of implementing social investment thinking in their welfare policies. However, as societies face increasing complexity due to demographic shifts, economic pressures, and technological transformations, it has become evident that the social investment framework requires revision and concrete extensions to address old and emerging challenges and expectations.

This book introduces a new and more comprehensive approach for advancing welfare state research and policymaking by extending the social investment framework with interventions. The approach not only expands the perspective of social investment but also emphasizes the importance of interventions and their impact assessment. Without clear effectiveness criteria, the efficiency of policy measures remains uncertain, and resources may be allocated inefficiently. Therefore, the interventions presented in this book are evidence-based and designed to produce measurable, long-term benefits for individuals and society. This book handles theoretical insights on how this new approach can strengthen welfare state policies and presents empirical case studies on how the effective interventions are implemented in Finland.

This book provides researchers, policymakers, and welfare service developers with a new approach that extends the social investment framework with targeted, effective interventions. The new approach offers concrete practical tools for targeted universalism, aligning with the long-standing debates on universalism and selectivity in welfare state policy, and of course, for the broader challenge of reforming the modern welfare state.

The book is structured into four main parts. Part I introduces the theoretical framework that expands the social investment framework with interventions

into a new welfare policy approach. In Chapter 2, Jani Erola, Pasi Moisio, and Johanna Peltoniemi provide an overarching introduction to this new approach of including interventions in the social investment framework. In Chapter 3, Anton Hemerijck and Daniel Fernandes examine the latest evolution of social investment policies, their performance, and the political and institutional mechanisms that shape their effectiveness. In Chapter 4, Johanna Peltoniemi, Sanna Herkama, Sakari Karvonen, and Anu Muuri then explore how interventions function in the welfare state context, demonstrating the role of intervention in complementing traditional social investment strategies.

Part II of the book critically examines the limitations of the social investment framework in tackling contemporary and future challenges. In Chapter 5, Pasi Moisio and Johanna Peltoniemi argue that the expansion of social investment principles has led to a shift toward a technocratic welfare model, eroding solidarity and civic virtue. In Chapter 6, Juho Saari examines the financial sustainability crisis of the Nordic welfare states, questioning whether they can continue to deliver on their promises under growing fiscal constraints. In Chapter 7, Olli Kangas and Mikko Niemelä analyze the Finnish exceptionalism in the adaptation of the social investment framework in comparison with other Nordic countries. In Chapter 8, Marika Jalovaara, Jessica Nisén, and Johanna Lammi-Taskula analyze the demographic transformations reshaping Nordic welfare states, particularly Finland's sharp fertility decline and aging population. In Chapter 9, Minna van Gerven and Wim Van Lancker explore how artificial intelligence and automation are redefining welfare deservingness, challenging traditional models of social investment. Finally, Heikki Hiilamo advocates for integrating well-being economy principles into welfare policy to ensure long-term sustainability in Chapter 10.

Part III of the book presents empirical case studies of interventions successfully implemented in Finland, demonstrating how interventions can complement the social investment framework. The Housing First program, analyzed by Alekski Karhula, Elisabetta Leni, Pasi Moisio, Veera Niemi, and Joonas Ollonqvist in Chapter 11, provides immediate, unconditional housing to homeless individuals, combined with tailored support services, significantly reducing homelessness and improving well-being. In Chapter 12, Sanna Herkama, Marie-Pier Larose, Tiina Turunen, and Christina Salmivalli examine the KiVa bullying prevention program as an intervention, which has effectively reduced bullying and improved mental health outcomes in Finnish schools. In Chapter 13, Kirsi Peltonen, Mia Huolman, and Sanna Hannula explore interventions for supporting refugee children's mental health and learning, integrating education and healthcare services to enhance resilience and facilitate integration. In Chapter 14, Terja Ristkari, Malin Kinnunen, and Marjo Kurki present the digital parent training program *Voimaperheet*, which combines digital interventions with coaching to support parents of children with behavioral issues,

showing strong results in reducing disruptive behavior. In Chapter 15, Ilari Ilmakunnas, Joonas Ollonqvist, and Pasi Moisio investigate how Finland's pension reforms have incorporated elements of both social investment and intervention, challenging the traditional boundaries of these concepts. Finally, in Chapter 16, Henri Salokangas, Outi Sirniö, Pasi Moisio, and Heikki Hiilamo reflect on Finland's Basic Income Experiment, which demonstrates how large-scale societal randomized controlled trials (RCTs) can generate crucial insights for policymaking.

In Part IV, the editors, together with Paula Saikkonen, conclude the book in Chapter 17 with a reflection on the critiques of the social investment framework and the question of whether the extension of interventions can address these critiques.

PART I

Extending social investments with interventions

2. The investment-intervention approach for welfare states

Jani Erola, Pasi Moisio and Johanna Peltoniemi

1. INTRODUCTION

This chapter introduces a new normative model for organising welfare state services, institutions, and policies: the welfare state model of interventions and investments. This emerging paradigm is already being implemented in multiple policy areas in the Nordic countries, jointly leading to a more effective, equitable, and economically sustainable welfare system. By integrating investment and intervention approaches with traditionally compensatory welfare policies, welfare states can address social risks proactively and support individuals, families, and communities in achieving better outcomes.

Over two decades ago, welfare state researchers noted that in some societies, particularly in the Nordic countries, the focus of welfare policies was shifting from a social insurance model to a social investment paradigm (Esping-Andersen et al. 2002). In practice, policies increasingly focused on preventing social risks by enabling and supporting people to seek better life opportunities. With a growing emphasis on investment, the temporal scope of policies shifted, as these investments encompassed services and income transfers aimed at addressing potential social risks before they arose. The scholars argued that this provided a new model for European welfare states. For instance, instead of merely compensating families for income losses due to unemployment, it was posited that societies should be encouraged to invest in the skills of the workforce through lifelong learning and by implementing activation policies to increase the chances of re-employment (Hemerijck 2002).

It can be argued that the investment paradigm became dominant in Europe over the following decades (Hemerijck 2019; Kersbergen & Hemerijck 2012; Morel, Palier, & Palme 2011). At the same time, the paradigm's limits have become better understood. From the outset, some scholars have questioned whether social investment strategies yield more equitable or effective

outcomes than traditional passive policies. One significant concern relates to the Matthew effect: social investment policies often benefit those already in strong positions to capitalise on them, thus reinforcing rather than mitigating inequality (Hemerijck & Fernandes 2026, Chapter 3, this volume). Others have highlighted how the model increasingly promotes an individualised view of risk and responsibility, potentially weakening the solidarity ethos of universal welfare (Moisio & Peltoniemi 2026, Chapter 5, this volume).

Moreover, the social investment model has faced criticism for its *abstract nature*. While it offers a compelling framework for transforming the welfare state, it frequently lacks concrete tools and operational clarity. Many social investment goals, such as positive life-course transitions, remain at a general level, offering limited guidance on how to translate them into actionable interventions or measurable outcomes.

However, two limitations of the social investment model are particularly important. By definition, many *social risks are unpredictable*, making it challenging, if not entirely impossible, to prepare for them adequately in advance. For instance, the COVID-19 pandemic serves as a prime example. While public health specialists and other prominent authorities had already issued alerts about the insufficient preparedness of healthcare systems for such a crisis (e.g., Gates 2018; Kavanagh et al. 2019), no one could anticipate when the actual pandemic would begin. Societies were even less prepared for the social risks that arose as a consequence of the pandemic.

Additionally, some negative outcomes are rooted in *causes that are not universally deemed undesirable*, complicating efforts to mitigate risks through investments alone. For instance, the association between parental separation and child poverty is well-established (Brady, Finnigan, & Hübgen 2017; Hogendoorn, Leopold, & Bol 2020; Zagel, Hübgen, & Nieuwenhuis 2022). However, very few would be willing to restrict the right to divorce to effectively reduce the risk of child poverty. Instead, suggestions for addressing the issue focus on ways to influence the consequences of parental separation. Simultaneously, the political and normative boundaries of public responsibility have expanded. Many risks once considered personal or family matters, such as school bullying or social isolation, are now viewed as issues warranting public intervention. This broadening of the welfare state's scope underscores the necessity for a more agile and diversified policy toolkit. Thus, in this chapter, we introduce a new tool to tackle these issues.

Interventions, on the other hand, are particularly appropriate in situations where investments alone are insufficient to achieve desired policy outcomes. Interventions have the potential to directly address existing disadvantages and undesirable processes, thereby mitigating or cancelling their effects (Rychetnik et al. 2002; Hawe & Potvin 2009; Melnyk & Morrison-Beedy 2023; Aggarwal & Ranganathan 2019).

A great example of such an intervention is an anti-bullying programme described by Herkama et al. (2026, Chapter 12, this volume). The effectiveness of the intervention is determined by its ability to reduce bullying, rather than by its capacity to eliminate the initial conditions that led to bullying. Thus, the goal of interventions is to directly address the consequences. Another illustrative case is the Housing First programme (Karhula et al. 2026, Chapter 11, this volume), which provides stable housing without preconditions as a first step in tackling chronic homelessness. Rather than requiring treatment or rehabilitation beforehand, this intervention demonstrates how satisfying immediate needs can lay the foundation for longer-term inclusion and recovery.

Such interventions are actively designed, studied, and implemented in various welfare state policies, including healthcare, education, and social work. While these interventions are, by design, targeted and limited in scope, the intervention approach can also be applied to larger-scale policies, such as those related to public health or social policy (Hawe & Potvin 2009; Bovaird 2014).

In a sense, intervention-aiming policies have a long tradition; for instance, sick pay, work accident compensation, and disability benefits were initially introduced to compensate for income loss, allowing families to maintain financial stability during non-employment spells and reduce the risk of extreme poverty. Thus, the primary objective was to effectively eliminate absolute income poverty during times of earnings loss. The scope of these policies was nearly always limited to specific target groups and specific causes. However, as social insurance schemes expanded and began to address a broader range of social risks, such as unemployment, the original model of cause-based entitlement was increasingly complemented by a growing emphasis on eligibility. The mere occurrence of a recognised social risk was no longer sufficient to receive benefits; instead, the reasons behind an individual's situation became more pertinent. For example, regarding unemployment benefits, eligibility often required that job loss occurred due to circumstances beyond the individual's control, and that the person actively complied with other conditions, such as job search obligations or participation in activation measures (cf. Esping-Andersen 1990; Barr 2001). Voluntarily leaving employment to pursue studies, for instance, has generally not been regarded as a legitimate basis for entitlement to unemployment benefits.

However, eligibility based on the causes leading to the need is not typically a concern for interventions. Instead, priority is given to *evidence-based effectiveness*, both in terms of reducing disadvantageous outcomes and the cost-effectiveness of the intervention when implemented. These aspects are expected to be demonstrated in the research, often in its initial stages, using randomised controlled trials (RCTs) and quasi or natural experiments (Melnik & Morrison-Beedy 2023).

Interventions have well-known limitations: their scope is, by design, short-term, which makes predicting their long-term or unintended consequences difficult. Their effectiveness is often context-specific (Chelimsky & Shadish 1997; Pritchett & Sandefur 2015). However, the investment paradigm excels in both areas. Investments are future-oriented, aiming for long-term benefits and risk prevention, while interventions address current issues, seeking immediate results.

Due to the orthogonal strengths and limitations of investment and intervention approaches, the most effective welfare policy paradigm would integrate both. This dual strategy ensures that while immediate issues are addressed through interventions, investments create a foundation for long-term stability and growth. By doing so, we can achieve a welfare state that is both reactive and proactive, capable of preventing future risks and fostering sustainable development.

And this is what the combined investment-intervention approach achieves: it provides a comprehensive framework for welfare policies, addressing both immediate and long-term challenges. This model aims to create a dynamic, inclusive, and resilient welfare state by prioritising effectiveness, affordability, and evidence-based practices. This novel, integrated approach has already begun to transform the Nordic model for welfare states, with evidence presented throughout this book. Examples range from anti-bullying programmes to digital health services and basic income experiments, showcasing the potential for these strategies to be scaled and adapted across various contexts.

2. THE INVESTMENT-INTERVENTION APPROACH EXPLAINED

The investment-intervention approach to welfare state policies aims to mitigate existing social disadvantages and prevent harmful processes from emerging in the future. This dual strategy combines *proactive prevention* of negative outcomes through long-term investments with the *immediate rectification* of current problems via targeted interventions. It enhances the welfare policy framework's flexibility and responsiveness by enabling theory- and knowledge-driven planning alongside empirically validated, context-sensitive measures.

This approach builds upon the architecture of the social investment model. Scholars such as Hemerijck and Ronchi (2021) have described the model as comprising three interrelated functions:

1. *Stocks*: Long-term investments in human capital, such as early childhood education and lifelong learning.

2. *Flows*: Support for life transitions, such as measures to ease entry or re-entry into the labour market.
3. *Buffers*: Income security mechanisms that protect against temporary shocks and setbacks.

These elements define a future-oriented strategy to enhance both individual and collective resilience. However, although this framework is conceptually robust, it has frequently lacked systematic operationalisation. The investment-intervention model expands it by introducing intervention tools that can operationalise policy action, measure outcomes rigorously, and provide immediate relief or course correction when investment outcomes fall short or fail to reach all individuals.

The three main characteristics of the investment-intervention approach can be outlined as follows:

1. *Prioritises effectiveness and affordability*: Welfare policy should be both efficient and effective. By emphasising evidence-based and cost-effective policies, the investment-intervention approach ensures that public resources are channelled towards actions with the greatest social return. While this may sound self-evident, it introduces significant tensions: policymakers often face trade-offs between short-term, visible results achieved through interventions and long-term, uncertain payoffs realised through investments. Unlike traditional models that may prioritise formal eligibility or universalism as a core principle, this approach focuses on measurable outcomes: Does the programme work? At what cost? For whom? This results-oriented perspective enables more pragmatic decisions, particularly in budget-constrained contexts.
2. *Focuses on changing outcomes rather than causes*: Social policies have traditionally focused on the structural causes of inequality and disadvantage. While this continues to be important, the investment-intervention approach places greater emphasis on altering the outcomes of these causes, particularly when structural change is slow or politically unfeasible. In this regard, interventions can potentially provide quick solutions for complex issues that might otherwise remain unresolved for extended periods until the core cause has been addressed. This does not imply abandoning causality. On the contrary, intervention is itself a causal concept: it is designed to interrupt or redirect a causal process to produce a different outcome (Hitchcock 2024). Consequently, the approach remains theoretically coherent while facilitating incremental, targeted improvements even when systemic issues persist.

3. *Embeds positive goals in services and transfers:* A core tenet of the social investment framework is that welfare should not only compensate but also enable. Services and income transfers must be framed as opportunities to foster capability and facilitate positive life-course transitions. This assumption is grounded in *prospect theory*, which argues that people evaluate gains and losses not in absolute terms but relative to expected outcomes, often under conditions of uncertainty (Kahneman and Tversky 1979). Therefore, every policy, whether redistributive or developmental, should aim to generate net-positive long-term effects.

The distinction between investments and interventions should not be overstated. Some interventions, such as early health screening or targeted school programmes, yield long-term benefits that qualify them as investments. Conversely, many social investments also produce immediate benefits: a housing subsidy can stabilise a family's finances overnight while promoting long-term well-being. For instance, both health promotion and preventive public health interventions (like smoking cessation or mental health outreach) are cost-saving over time and reduce pressure on other parts of the welfare system (Hawe & Potvin 2009). Thus, what distinguishes the two is less their domain than their temporal scope and logic of action: investments assume long-term gains while interventions aim for direct problem resolution. It is also important to note that while many social security schemes superficially appear as interventions, they cannot necessarily be classified as such. For instance, basic income should not be regarded as an intervention, as by definition basic income is universal, unconditional on the outcome, and deliberately neutral by purpose. Indeed, it explicitly avoids any targeting, which fundamentally distinguishes it from interventions. An intervention inherently involves selective action aimed specifically at correcting, alleviating, or compensating for the disparities or vulnerabilities identified in outcomes. In contrast, schemes embodying universalist principles, such as basic income, intentionally refrain from such explicit targeting.

More generally, it can be argued that purely universal interventions do not exist. Instead, potential interventions may include targeted measures such as means-tested social assistance, conditional cash transfers, or tailored social services specifically designed to alleviate identified vulnerabilities or disparities. These types of intervention policies can be seen as examples of the Nordic operationalisation of *targeted universalism*. According to this policy logic, universal goals, such as educational equity or economic participation, are pursued through differentiated, context-sensitive strategies, adapted to the varying needs of population groups and individuals (cf. Carey & Crammond 2017). In some other welfare state contexts, similar policy emphases have led to a

greater application of individual-level behavioural interventions (e.g., emphasis on ‘nudging’ in the UK, e.g., Halpern & Sanders 2016). Such policies have also played a role in the Nordic context, for instance, as part of active labour market policies (Jørgensen & Klindt, 2024), but have always been just one component of the policy toolbox that is being applied.

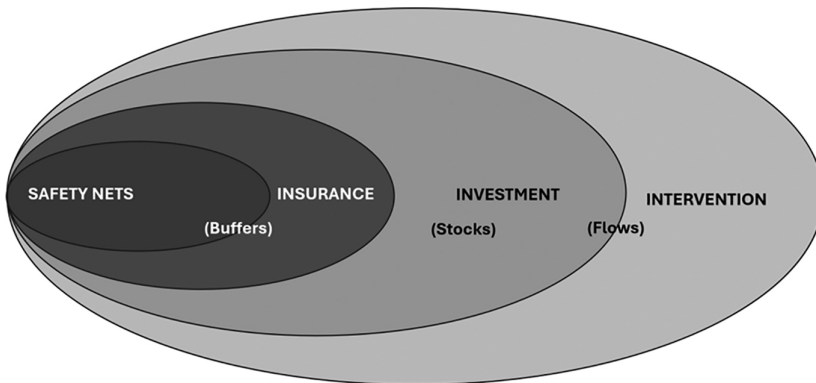
To conclude, integrating investments and interventions offers a strategic response to the complexity of contemporary welfare challenges. It acknowledges that long-term structural change and immediate need are not competing objectives but rather parallel imperatives. A welfare state that combines the two becomes more:

Resilient in the face of shocks;

Inclusive in reaching vulnerable populations often left out of long-horizon strategies;

Adaptive in using empirical evidence to fine-tune or even replace ineffective policies.

For example, income protection for the unemployed (a buffer) can be paired with training programmes (a stock-building investment) and motivational coaching (a targeted behavioural intervention). Each component addresses different aspects of the welfare challenge, and together, they form a more robust policy design. Perhaps the best way to understand the intervention-investment approach is to view it, as illustrated in Figure 2.1, as a new ‘layer’ added on top



Source: Authors' own.

Figure 2.1 Evolving welfare state policy approaches

of the traditional elements of buffering, stocks, and flows. This layer complements and expands the social investment framework within welfare policy, much like the social investment framework itself once extended the older model of passive, income-transfer-based welfare state policies.

3. THE INTERVENTION-INVESTMENT APPROACH BRIDGES DIFFERENT DISCIPLINES

The investment-intervention model is not merely a new policy mix; it is also an interdisciplinary framework that connects previously separate strands of welfare state research and practice. While traditional analyses often remained isolated by discipline, this approach brings together multiple fields, such as sociology, health sciences, and educational research, into a cohesive model for understanding and designing welfare policies.

In *social sciences*, the social investment approach has emerged as the dominant framework for explaining how modern welfare states seek to achieve both equity and efficiency (Hemerijck & Ronchi 2021). It highlights the importance of strengthening human capital, institutional capacity, and social infrastructure to promote long-term well-being. Key to this model are the already mentioned concepts of stocks, flows, and buffers. These concepts serve as the foundation for a proactive welfare state that not only protects against risks but also prepares individuals and societies to meet future challenges. However, the sociological literature has focused far more on the investment side of the equation and less on the role of targeted, empirical interventions.

In contrast, *health sciences* have established a long-standing and rigorous tradition of policy intervention research. Public health frameworks assess the effectiveness of specific programmes, such as vaccination campaigns, smoking cessation efforts, mental health outreach, and prenatal care. These studies are typically based on randomised controlled trials (RCTs) or natural experiments and provide strong causal evidence regarding what works, for whom, and under what conditions. Furthermore, health sciences adopt a population-level orientation to interventions. Even relatively modest changes in average health outcomes can yield significant benefits when scaled. However, as the scope of policy expands, the challenge of demonstrating effectiveness increases; a problem sometimes referred to as the ‘scaling paradox’. Despite this, the principle of evidence-based policymaking remains a central pillar of health sector reforms and offers valuable methodological tools to broader welfare state planning (Hawe & Potvin 2009).

Educational sciences provide another vital perspective, concentrating on how formal education and training systems enhance opportunities, reduce inequality, and support economic and civic participation. Researchers examine the impacts of early childhood education, comprehensive schooling, vocational

training, and adult education – each representing a different life-stage intervention. Similar to health, the field of educational sciences also depends on empirical evaluation. Programme success is often measured in terms of learning outcomes, employment rates, or long-term income effects. Educational research has also pioneered the conceptualisation of lifelong learning as an adaptive strategy in ageing societies and flexible labour markets – a cornerstone of the investment logic. However, unlike health sciences, education research has typically focused on domain-specific interventions. Its insights have not always been scaled up or applied systematically to general welfare policy planning.

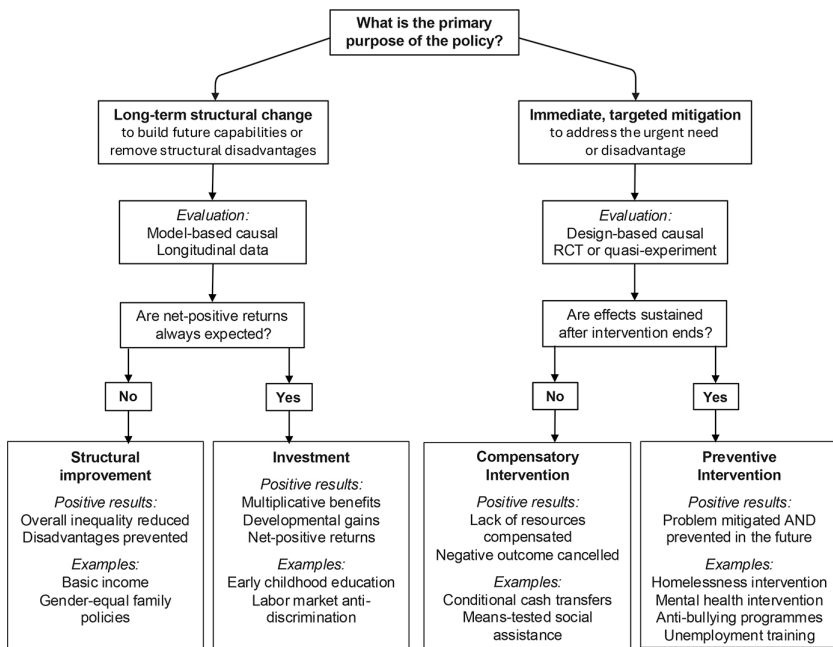
The strength of the investment-intervention model lies in its ability to integrate these disciplinary perspectives into a cohesive strategy for welfare policy and reform, drawing on sociology's institutional and normative thinking, health sciences' outcome-based empirical evidence, and educational research's life-course adaptability. This synthesis facilitates a welfare policy paradigm that is both theoretically sound and practically applicable. It offers not merely an explanation of how welfare states function but also a guide on improving them. For example, an anti-bullying programme in schools may be justified by sociological theories of social inclusion and equal opportunity; it can be assessed using RCT methodology from public health and incorporated into a broader educational strategy that promotes resilience and life skills. Similarly, a mental health intervention in schools or workplaces may simultaneously contribute to productivity, social cohesion, and personal well-being, aligning the interests of multiple sectors and policy logics.

By integrating insights from multiple disciplines, the investment-intervention model transcends isolated sectoral solutions. This approach facilitates a more comprehensive response to social risks, which are often interconnected and tend to accumulate over an individual's life course. Improved health enhances learning outcomes. Increased education boosts health. Stable housing reinforces employment. Recognising these positive feedback loops, as well as the undesirable spillovers across life domains, is crucial for designing resilient and effective welfare policies. It also enables policymakers to justify spending more effectively, viewing it not merely as a cost, but as an investment with demonstrable returns across multiple domains. The focus is shifting from questioning which policy sector is responsible for a particular outcome to constructing coordinated interventions and investments that traverse administrative boundaries and support individuals throughout their life course.

4. ASSESSING POLICY EFFECTIVENESS THROUGH THE INVESTMENT-INTERVENTION APPROACH

While distinguishing between investment- and intervention-based policies can be beneficial for academic purposes, why should policymakers care? The most significant practical advantage is that the policy outcomes vary according to these two dimensions. Therefore, the effectiveness of the policies should also be assessed differently, depending on which dimension is emphasised more.

This differentiation can be exemplified by the decision tree shown in Figure 2.2. The first aspect to consider is whether the policy aims for long-term structural changes or if its purpose is to address an urgent need or disadvantage immediately. If long-term change is the primary goal, the second aspect to examine is whether net-positive results can realistically be expected. While the investment approach would prefer such returns by default, assuming an impact from a structural change can sometimes be unrealistic. For instance, we would



Source: Authors' own.

Figure 2.2 A decision tree for assessing the effectiveness of investment- and intervention-based policies

consider gender-equal family policies successful if they make parental leave usage more gender-equal, even if we did not see that effectively changing anything else. On the other hand, sometimes the analysis of a policy's effects may indicate that such net-positive effects have simply not materialised. For example, in the studies conducted on the impact of the Finnish Basic Income Experiment, the researchers found only a few indications of such net-positive effects, despite many basic income scholars having expected them (see Kangas et al. 2021).

In the case of policies aimed at immediate, targeted mitigation of a problem, the second aspect to consider when assessing the evidence on the effectiveness of such interventive policies is whether the effects are expected to be persistent. Traditional social security interventions, such as means-tested social assistance and conditional cash transfers, have not anticipated such impacts. However, nearly all 'modern' intervention programmes, including those described in this book, seek such persistent influences.

In the case of policies aimed at structural changes, these can only be evaluated after sufficient time has elapsed for their effects to be demonstrated using longitudinal data, regardless of whether they should be considered investments. Ideally, these policies ought to be assessed using the *model-based causal framework* (cf. Morgan & Winship 2014). These approaches include structural causal models assisted by directed acyclic graphs or DAGs (Pearl, 2009), Rubin's potential outcomes approach (Imbens, 2020), and behavioural structural models (Heckman et al. 2018).

In the case of policies aimed at the immediate, targeted mitigation of a problem, a policy should primarily be assessed using a *design-based causal framework*, which includes RCTs and quasi-experimental approaches (Morgan & Winship 2014; Angrist & Pischke 2009; Deaton & Cartwright, 2018). While RCTs are often regarded as the gold standard for such analyses, they are typically conducted on limited populations under specific conditions. However, evidence of the policy's reach and cost-effectiveness should also be provided when implemented in practice, particularly when persistent effects are targeted. When this is the case, the evidence for effectiveness will require long-term longitudinal data, akin to that of structural improvements or investment policies.

While it is beyond the scope of this chapter to discuss the differences between model- and design-based approaches in detail, it is essential to note that even their subtypes have somewhat distinct goals and data requirements. Effective planning and execution of a proper assessment of policies require a thorough understanding of these differences. At present, there are few authoritative texts that extensively cover and discuss the differences between all outlined approaches (however, see Michie et al. 2014; Morgan & Winship 2014; Imbens, 2020).

5. CONCLUSION

Over recent decades, the *social investment approach* has become a dominant framework for explaining and guiding welfare state development and policies, emphasising proactive capability-building, early intervention, and human capital formation. Social investment has reshaped thinking in both academic and policy communities; however, the model's limitations have also become increasingly apparent.

The social investment paradigm often struggles to respond effectively to *acute or emergent risks*. It tends to focus on long-term returns and assumes individuals are equally capable of converting opportunities into improved outcomes. Yet in reality, life-course disruptions, unequal starting points, and unpredictable shocks, such as the COVID-19 pandemic, expose gaps in the preventive logic of investment-based systems. Furthermore, the abstract nature of the investment discourse means that concrete, implementable tools are frequently absent from its policy repertoire.

By extending the investment model to include *interventions*, we address many of these limitations. Interventions provide practical mechanisms for responding to immediate needs, mitigating disadvantages, and generating evidence about what works. They can be tested, refined, and scaled. They enable welfare systems that are not only future-oriented but also *resilient and responsive* in the present. The resulting *investment-intervention approach* transforms welfare policy into a dual strategy that combines the long-term goals of inclusion, equity, and sustainability already emphasised in the social investment model with a sufficient focus on *pragmatic action* grounded in empirical evidence as well as the realities and concrete limitations of policy implementation.

The investment-intervention approach is more than the sum of its parts. It translates broad social investment objectives into *actionable tools*. It recognises the importance of structural support while responding flexibly to emerging needs. It develops policy designs that are both *theoretically coherent* and *practically adaptable*. In this way, the model also reflects the shifting nature of welfare state challenges. Ageing populations, fragmented labour markets, climate instability, and mental health crises all demand *more responsive, data-informed governance*. The investment-intervention approach provides the intellectual and practical resources to meet these challenges.

Throughout this book, we have observed how Nordic countries are already pioneering this combined approach. From *Housing First programmes* and *digital healthcare platforms* to *school-based anti-bullying interventions* and *basic income experiments*, welfare innovations increasingly integrate long-term investments with short-term interventions. They aim not only to protect but also to empower, not only to prepare but also to repair. By synthesising

insights from various fields, such as *sociology*, *health sciences*, and *educational research*, the investment-intervention framework supports a more *inter-disciplinary and operational model* of welfare state governance. It ensures that policies are not only ambitious in design but also effective in practice – maximising outcomes, minimising unintended harms, and maintaining political legitimacy through evidence and accountability.

There are clearly several open issues hindering the broader adoption of the investment-intervention framework. For instance, many examples of this approach have emerged from a bottom-up process intended to address urgent social problems that traditional policy methods were unable to manage effectively. However, it remains unclear how the dual approach should be institutionally structured within a governance system that also necessitates a top-down approach. Nevertheless, as our decision tree example illustrates (see Figure 2.2), such a structure should enable decision-makers to choose whether to pursue more investment- or intervention-based policies, and to design their evaluation approaches accordingly.

Prioritising effectiveness and affordability also leads to its own issues. One of these is that it can result in politically unpopular choices that are unfeasible to implement or maintain, especially if major voter groups feel the policy change threatens their already acquired benefits. Several examples of education and pension policies illustrate such issues. Another concern is that the principles of effectiveness and affordability can be easily misunderstood as legitimising unfair policy solutions, such as denying relatively low-cost health-care to the elderly. As a political argument, the two principles have a solid track record of being weaponised to mask ideological choices. Some of these problems can be mitigated by greater transparency in the evaluation of effectiveness and affordability, but they can hardly be completely avoided.

Despite these challenges, the application of the investment-intervention framework appears to be expanding. Even with its limitations, it presents a beneficial approach for organising welfare state services, institutions, and policies. The investment-intervention approach offers a roadmap for evolving welfare states: one that is forward-looking, inclusive, grounded in science, and capable of addressing enduring inequalities and emerging risks. It is a model well suited to the complexity of the twenty-first century.

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3. The economic dividend of social investment

Anton Hemerijck and Daniel Fernandes

1. INTRODUCTION

Over the past four decades, European welfare states have experienced a groundswell of reform in response to intensified global competition, technological change and digitalisation, accelerating population ageing, post-industrial family change, and deepening European integration (Bonoli, 2013; Garritzmann et al., 2022; Häusermann, 2010; Hemerijck, 2013, 2017; Morel et al., 2012; Taylor-Gooby, 2004). The notion of *social investment* gained purchase as an integrated approach to these structural changes, centred on inclusive social protection, gender-balanced labour-market transitions, and lifelong learning. In the wake of the Great Recession and the debt crisis (2007–2014), the more active and inclusive welfare states of the Nordic countries, oriented to social investment, evidently bounced back most promptly in terms of employment (Van Kersbergen et al., 2014; Hemerijck and Matsaganis, 2024). Building on the post-2009 success of short-time work schemes, countries strengthened their safety nets bolstered by European Union (EU) fiscal solidarity through the NextGenerationEU Recovery and Resilience Facility (RRF). Over the past decade, more and more EU policy documents highlight the importance of social investment welfare reform for knowledge economies and ageing societies (European Commission, 2013; 2023). This chapter explores this quiet social investment revolution of the past decades from its humble beginnings, exemplified by the notion of ‘social policy as a productive factor’ endorsed by the EU in the late 1990s, to the more pronounced reform compass for ‘inclusive and sustainable growth’ adopted by the EU, the OECD (2008, 2015), and the World Bank (2023).

This chapter is structured as follows. Section 2 briefly outlines the policy theory of social investment, including its normative foundation of stepping-stone solidarity. Next, section 3 compares mature EU member welfare states based on quantitative macro-level indicators from Eurostat to gain a bird’s eye

view of the impact of social investment welfare provision at the macro-level on the mature welfare states of Western Europe. Section 4 explores the political determinants of social investment reform. Finally, section 5 discusses the important role of the EU in social investment agenda-setting, diffusion, and policy learning since the turn of the millennium.

2. POST-INDUSTRIAL WELFARE PROVISION BEYOND REDISTRIBUTION

The core objective of the social investment approach (SIA) is to enhance individuals' opportunities and capacities to cope with the social risks typical of post-industrial societies. Highlighting the gendered life-course perspective and multi-dimensional nature of social risks, the SIA thus distinctively focuses on the prevention of disadvantages at crucial points of transition between life stages (Kvist, 2016, pp. 51–56). This approach is best understood as a policy response to the gradual expansion of women's employment over the final quarter of the twentieth century and increasing marital instability, calling for a more *gender-inclusive* policy provision that stresses equal access to employment as a prerequisite of female economic independence and children's well-being. While post-war social security was designed to ensure that (predominantly male) workers and their (stable) nuclear families were protected against market contingencies, the SIA takes the contemporary work-family nexus as the lynchpin of its 'capacitating' policies to build capabilities. There is a strong focus on complementing traditional social protection with capacitation via early childhood education and care (ECEC), vocational training over the life course, (capacitating) active labour-market policies (ALMP), work-life balance (WLB) policies like (paid) parental leave, lifelong learning (LLL), and long-term care (LTC). It is important to underscore here that capacitating policies go beyond, but do not replace, the compensatory logic of post-war social security, designed to ensure and protect male workers and their families against market pitfalls. In other words, the work-income-family nexus is the 'lynchpin' of the social investment paradigm.

In terms of social fairness, the SIA marks an important normative shift. Whereas the core normative objective of the post-war welfare state was 'freedom from want' (poverty), the normative orientation of the SIA is more consistent with Amartya Sen and Martha Nussbaum's emphasis on 'human flourishing' (Sen, 1999; Nussbaum & Sen, 1993). What matters is that citizens are furnished with secure 'capabilities' to participate in the economy and society to sustain the 'freedom to act', by enabling people to fulfil their aspirations across the life course. In his seminal *The Economics of the Welfare State*, the British economist Nicholas Barr (2020) distinguishes two principles of solidarity underlying the modern welfare state. On the one hand, there is what he

calls ‘Robin Hood’ solidarity – poverty relief based on redistributing income and wealth to reduce social exclusion. On the other, ‘piggy bank’ solidarity alludes to social insurance over the life course, based on contributions and earnings. Today, most European social security systems operate on a hybrid of redistribution and insurance that arguably constitutes the indispensable cement of the welfare state (Hemerijck, 2013). Against the background of the rise of post-industrial knowledge economies and ageing societies, however, social security provision has gradually revealed its limits in countering and mitigating changing social risks, including growing atypical employment, frequent and sudden career changes, in-work poverty, and/or the predicament of family care obligations curtailing employment opportunities. Acknowledging this new reality, it is imperative to complement Barr’s ‘Robin Hood’ and ‘piggy bank’ solidarities with a third metaphorical type – ‘stepping-stone’. Stepping-stone solidarity can be understood as the normative foundation of the SIA, oriented to breaking up the clustering of disadvantages through specific interventions that help capacitate individuals and families to respond to the changing nature of social risks, thus securing over time their well-being and equal social standing. Stepping-stone solidarity refers to interventions that give individuals and families the capabilities to navigate potentially critical transitions in their lives, from early childhood through to old age, against the background of volatile labour markets and fluid family structures, aiming to enhance capabilities across life-course transitions by easing potential bottlenecks and preventing the snowballing of disadvantage. The stepping-stone metaphor works on two dimensions. Horizontally, one thinks of stones needed to navigate a stream, which are representative of social investment policies directed at easing life-course and labour-market transitions. Vertically, one imagines steps on an upward slope; in other words, means and instruments to facilitate improvement of one’s material conditions (Bagadirov et al., 2025).

The agenda-setting volume *Why We Need a New Welfare State* by Gøsta Esping-Andersen, Duncan Gallie, Anton Hemerijck, and John Myles (2002) can be viewed as the foundational social investment publication, calling for welfare state renewal aimed at fostering resilience over the family life course, with the eradication of child poverty taking pride of place (Esping-Andersen et al., 2002). More flexible labour markets and skill-biased technological change, but also higher divorce rates and lone parenthood, make equal access to employment for women a prerequisite for economic independence. In the absence of external support for child and elderly care (e.g., hired help, extended family networks), rising numbers of female workers face ‘broken careers’ and postponed motherhood, resulting in lower fertility, thereby intensifying the ageing burden in pensions and healthcare (Esping-Andersen, 2009).

Taking cue from *Why We Need a New Welfare State*, Anton Hemerijck has elaborated a conceptual heuristic of social investment policy around three key

welfare functions: (1) fostering lifelong human capital ‘stock’ development; (2) easing the ‘flow’ of family life-course and labour-market transitions; and (3) upholding inclusive social protection ‘buffers’ in times of need (Hemerijck, 2017). In an ideal-typical fashion, lifelong human capital ‘stocks’, work-life balanced ‘flows’, and inclusive income ‘buffers’, operate as institutional complementarities, cumulatively fostering positive life-course synergies both at the micro-individual level of individuals and households, and at the macro-level of the aggregate economy in terms of employment, productivity, and fiscal balance. Based on the available literature on life-course sociology, it is possible to conjecture a social investment ‘life-course multiplier’ cycle, whereby social investment returns reaped over the life course generate a positive cycle of positive well-being returns. These returns include employment opportunities and gender equity, with positive results on intra- and inter-generational poverty mitigation (Hemerijck, 2017; Hemerijck et al., 2023).

The virtuous cycle starts off with investments in high-quality ECEC, which then leverages educational attainment improvement, which, together with vocational training support, spills over onto higher and more productive employment later in life. When employment participation is sustained by work-life balance provisions, including adequately funded and generally available childcare, higher levels of (female) employment and lower gender gaps can be anticipated. Better opportunities for women and men to combine parenting with paid labour could also dampen the ‘fertility gap’, i.e., the difference between the desired number of children (aspirational fertility) and the actual fertility rate. A final return pertains to longer careers and a higher effective retirement age, supported by active ageing and lifelong learning policies along with portable and flexible pensions.

In practice, ‘stock’, ‘flow’, and ‘buffer’ policies are never perfectly aligned. There can be incongruities; for example, when ‘buffers’ generate financial disincentives in terms of the ‘flow’ of seeking employment. For instance, long maternal leave easily undermines gender equity in the labour market. Furthermore, punitive workfare requirements to accept any job on offer may frustrate satisfactory labour-market allocation and invite human capital depletion.

Social investment is not without critics. In a cited article ‘What use is “social investment”?’ (2013), Brian Nolan casts considerable doubts on the promises of social investment, especially with respect to the image of ‘active’ policies being superior to ‘passive’ social security provision. The most pernicious critique is that social investment policies are plagued by a plethora of ‘Matthew effects’, according to the Gospel of Saint Matthew, stipulating ‘To him who hath shall be given’. Bea Cantillon and Wim Van Lancker claim that social investments in the form of ECEC and ALMP disproportionately benefit middle-class households at the expense of more vulnerable social

groups (Cantillon, 2011; Cantillon and Van Lancker, 2013). However, these conclusions stem from poverty figures relative to median household income on a yearly basis. When using a fixed threshold (one that does not change over time), higher employment and reduced poverty go hand in hand (Gábos et al., 2024). These debates show that the Matthew effect conundrum is far from settled. SIA supporters, by and large, focus on employment growth and fiscal sustainability, whereas critics direct their attention mostly to (disappointing) income poverty trends. The Matthew effect predicament is fundamentally an empirical question of welfare performance, which we now turn to.

Fundamentally, this criticism is based on the idea of social investment as replacing rather than complementing other social policies. The SIA is grounded in a long-term policy strategy of aligning policy complementarities to generate positive-sum outcomes (Fernandes and Hemerijck, forthcoming). In our view, conventional social security and the new Nordic-style investment-intervention framework are part and parcel of the overarching social investment intent on fostering synergy effects by effectively combining social security buffers, work-life stocks and flows, and timely targeted interventions (see Chapter 2 and Chapter 4). Because we conceptualise multi-functional welfare provision as potentially a positive-sum arrangement, social investment does not crowd out resources. *Ex ante* long-term investment enables more people to secure better labour-market positions, thereby reducing reliance on *ex post* policies. This, *inter alia*, also secures greater tax revenue from a larger and more productive workforce. Ultimately, combining higher employment, productivity, and more robust economic growth and fiscal resources creates more room to fulfil existing policy commitments and to develop new policies and interventions to address emerging social needs.

3. THE IMPACT OF SOCIAL INVESTMENT WELFARE PROVISION AT THE MACRO-LEVEL

In the academic literature, we can roughly distinguish between two theoretical inferences about the relationship between welfare efforts, socio-economic performance, and life chances. The first lies in the idea of a negative relationship between welfare provision and economic performance.

In the mid-1970s, on the wing of the neo-classical economics critique of the interventionist welfare state, the American economist Arthur Okun formulated the intuitively appealing ‘big trade-off’ between equity and efficiency (Okun, 1975). To the extent that generous welfare states are exercised as a political strategy to reduce inequality and poverty, Okun presumed that this inevitably jeopardises economic growth as it would generate income and labour-market distortions produced by social protection, labour-market regulation, and progressive taxation. High levels of social spending thus lead to lower labour

supply, higher unemployment, less investment in training and education, and, as a result, stagnating competitiveness.

By the late 1990s, the political economists Torben Iversen and Anne Wren argued that advanced welfare states were not so much confronted with an inescapable ‘trade-off’ between equality and efficiency but rather faced with the tragedy of what they coined the ‘trilemma of the social service economy’ (Iversen and Wren, 1998). With the shift from an industrial to a service economy, it has become inherently more difficult for welfare states to attain simultaneously the triple goals of budgetary restraint, earnings equality, and job growth. Governments may pursue any two of these goals but no longer all three at the same time.

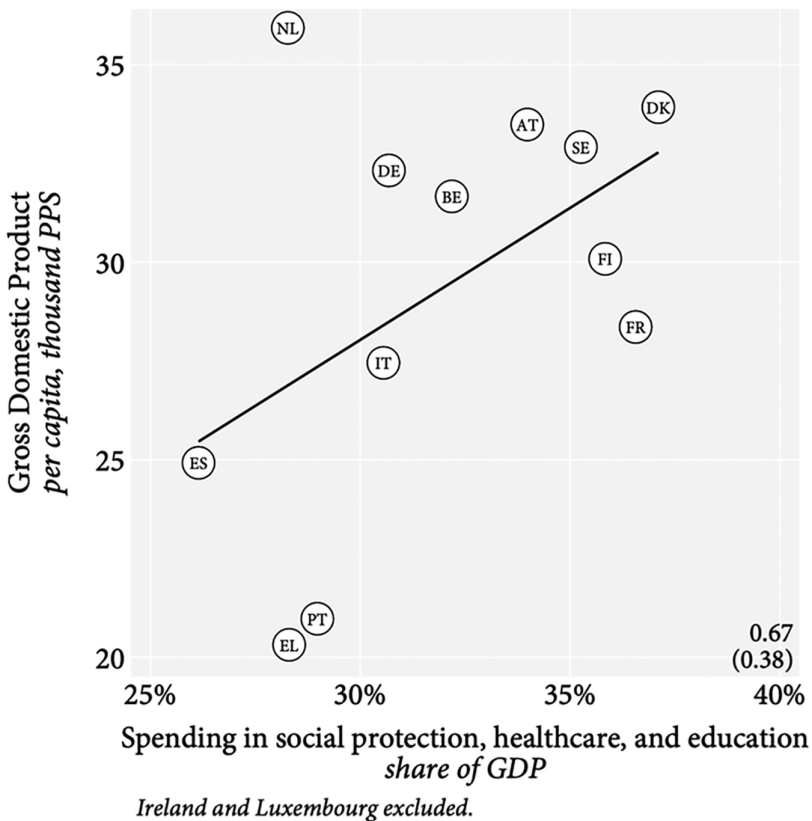
In his important work on inequality, Thomas Piketty (2014, 2020) laments the welfare state’s ignorance of property relations, and wealth in particular, resulting in perverse welfare policy misallocation, similar to the Matthew effect charge of Cantillon and Van Lancker (2013).

The second line builds on the SIA, which considers positive synergies of social policy effort and economic performance, and socio-economic outcomes (Esping-Andersen, 1999, Esping-Andersen et al., 2002; Hemerijck, 2013, 2014, 2017). According to this theoretical line of reasoning, social investment-oriented welfare states allow for more graduated in- and out-work transitions; better conditions for young people to receive education and training and start a family, supported by greater gender equity within and outside the labour market; and more opportunities for older workers to remain in the workforce. Consequently, social investment welfare provision potentially contributes to higher rates of employment, lower levels of poverty, and more balanced public budgets in ageing societies and knowledge economies. By and large, the economic sustainability of the welfare state hinges on the number and productivity of future taxpayers. From the SIA perspective, basic income guarantees are not enough to improve socio-economic outcomes (see Chapter 16, this volume). They need to be complemented with capacitating services and tailored to addressing the social needs of families across the entire life course in the context of post-industrial economies.

Over half a century of extensive comparative welfare state research by economists, sociologists, and political scientists has effectively invalidated the equity-efficiency trade-off conjecture. Across the advanced economies of the EU, high levels of social spending go hand in hand with economic prosperity, suggesting that the welfare state plays effective corrective and complementary roles in rich market economies (Lindert, 2004; Kenworthy, 1999, 2008, 2019; Hemerijck, 2013; Iversen & Soskice, 2020; Lindert, 2021; Hemerijck & Matsaganis, 2024).

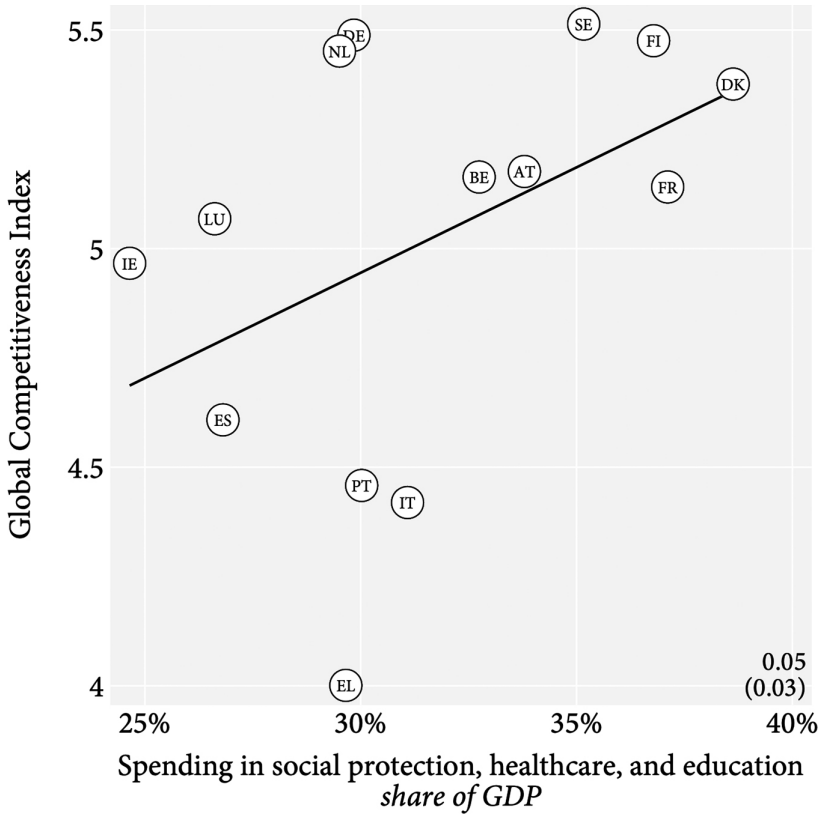
In clear defiance of Okun’s trade-off between equity and efficiency, Europe’s biggest welfare spenders of today provide proof of the contrary, as they are the

best performers in terms of GDP (gross domestic product) per capita and competitiveness. Figures 3.1 and 3.2 show that prosperity and economic growth are clearly not hampered by generous welfare provision. Instead, there is some evidence that both go hand in hand. Countries that spend a higher proportion of their budget on social security provisions are richer and more competitive. Similarly, in defiance of the Matthew effect critique of SIA, Figures 3.3 and 3.4 correlate GDP per capita and economic competitiveness with at-risk-of-poverty rates, revealing that the most competitive welfare states are best able to maintain adequate levels of equity.



Source: Eurostat, 2025 (average 2000–2023).

Figure 3.1 Correlation between social spending and GDP per capita

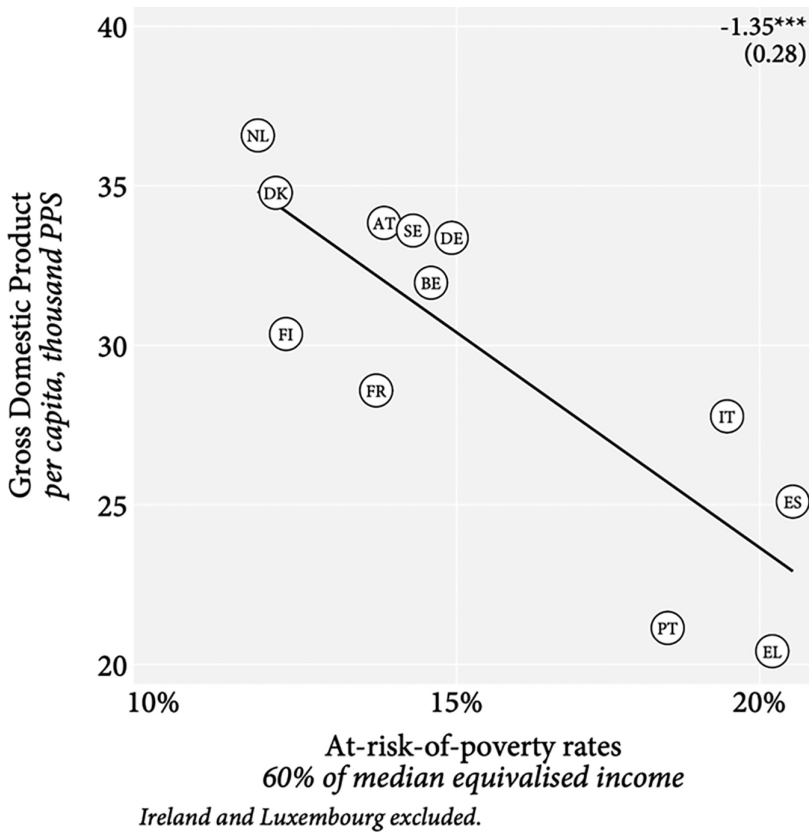


Source: Eurostat, 2025 (average 2007–2017).

Figure 3.2 Correlation between social spending and competitiveness

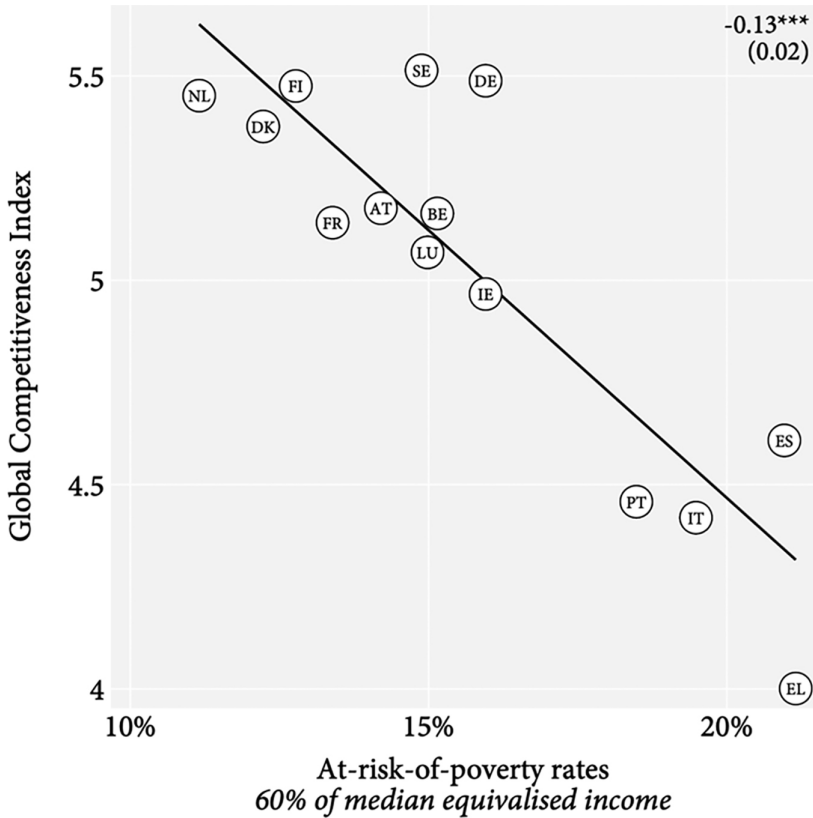
Notwithstanding, there are also high-spending EU welfare states that, despite high welfare generosity, do not achieve stable economic growth, high levels of employment, and sound public budgets. This incongruous finding requires us to take their finer details of policy design and their surrounding political support structures more seriously as intervening variables between welfare policy effort and socio-economic outcomes. For this, we hark back to the life-course multiplier logic. At the micro-level of individuals and households, the life-course multiplier suggests how social investments – from early childhood onwards – improve material household well-being (employment and income) and help mitigate social risks later in life through opportunities to gain new

skills, helping ease (gendered) labour-market transitions. At the macro-level, this life-course multiplier suggests a variety of societal benefits, ranging from improved productivity, higher employment, and reduced gender gaps to lower poverty, longer careers, and later retirement, all crucial to economic growth and the overall fiscal sustainability of the welfare state in knowledge economies and ageing societies. Now let us explore some of the positive externalities to see if social investment life-course multiplier logic holds up at the macro-level of socio-economic performance.



Source: Eurostat, 2025 (average 2000–2023).

Figure 3.3 Correlation between GDP per capita and at-risk-of-poverty rates



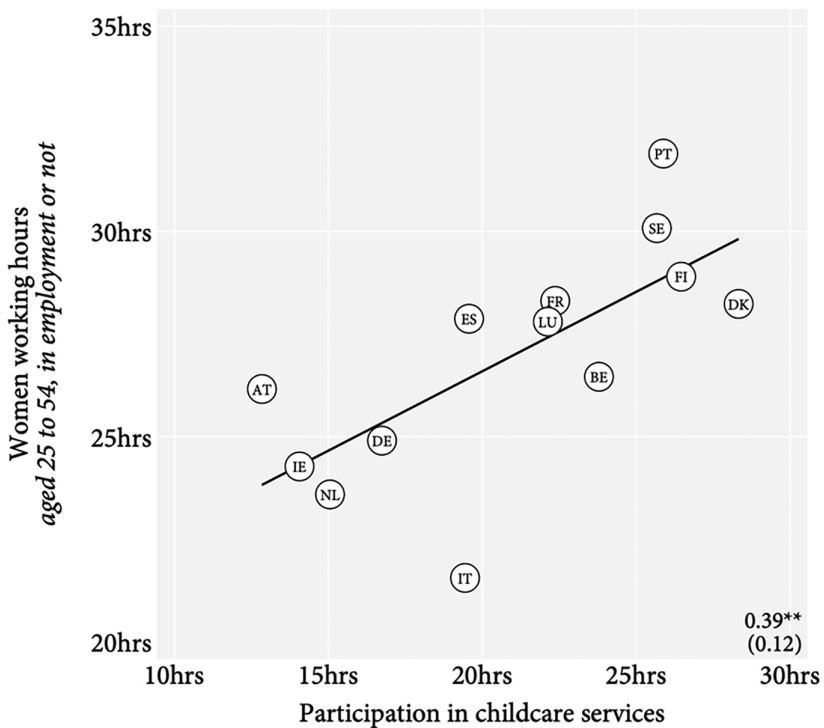
Source: Eurostat, 2025 (2007–2017).

Figure 3.4 Correlation between competitiveness and at-risk-of-poverty rates

Early Childhood Education and Care

From a social investment approach, early childhood education and care (ECEC) plays a critical role at the initial stage of the family life course. ECEC is important for three reasons. From the perspective of parents, enrolling children in affordable and good-quality childcare services improves parental employment opportunities. This allows parents to sustain employment and reduce job interruptions, reinforcing more stable, gender-balanced career progression (Bonoli, 2013; Hemerijck et al., 2016). Gender obviously plays a critical role in the early

stage of the family life course, as bearing children generally penalises women in terms of labour-market participation. Thus, women stand to gain the most from childcare services. Indeed, macro-level evidence from mature welfare states shows that there is a positive, significant correlation between participation in childcare services and women's weekly working hours (see Figure 3.5). Moreover, the expansion of childcare services over the past two decades has been accompanied by a steep increase in female employment participation (Esping-Andersen & Billari, 2015). Nevertheless, there is still a long way to go: gender differences in employment and the pay gap persist, especially after childbirth, due to longer leave spells and part-time participation in the labour market. This limits opportunities for women's career advancement (Fernandes

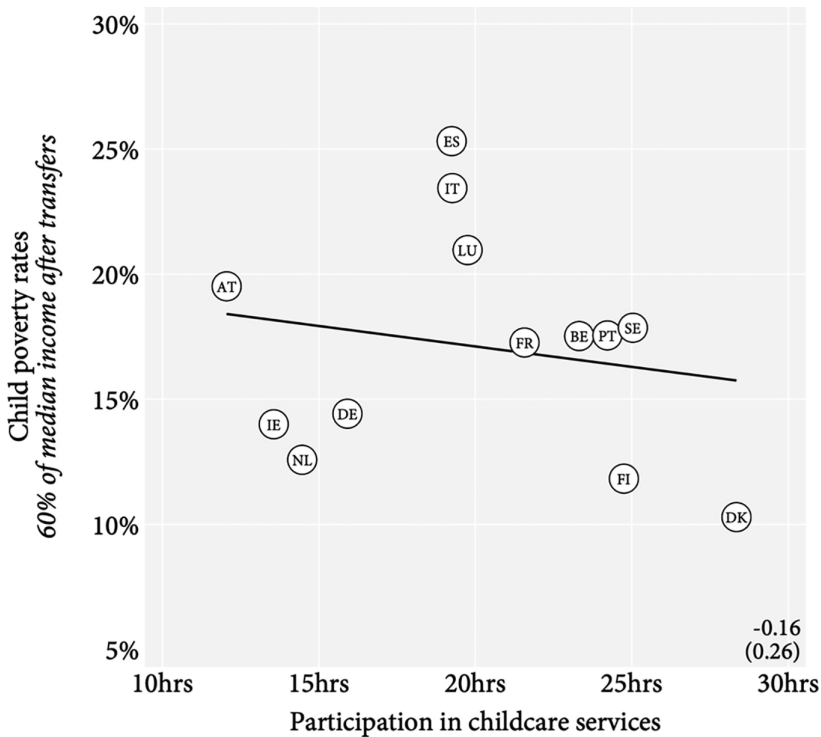


Source: Eurostat, 2025 (2008–2023).

Figure 3.5 Correlation between participation in childcare and women's working hours

and Hemerijck, forthcoming) and thus financial security, particularly in single-parent households (Esping-Andersen, 2015).

Second, from the children’s perspective, investment in childcare is likewise expected to reduce poverty rates among children (see Bonoli, 2013; Finch & Bradshaw, 2021). By enabling parents to remain in employment, childcare provision indirectly stabilises family income, thus mitigating the risk of poverty (Hufkens et al., 2020). Our evidence here is less conclusive, as we do not find a clear association between childcare participation and child poverty rates (Figure 3.6). However, this may be because we measure the direct impact without considering how ECEC interacts with other policies. Existing literature shows that reductions in poverty risks can also be accompanied by complementary policies such as parental leave provisions, home care support,



Source: Eurostat, 2025 (2005–2023).

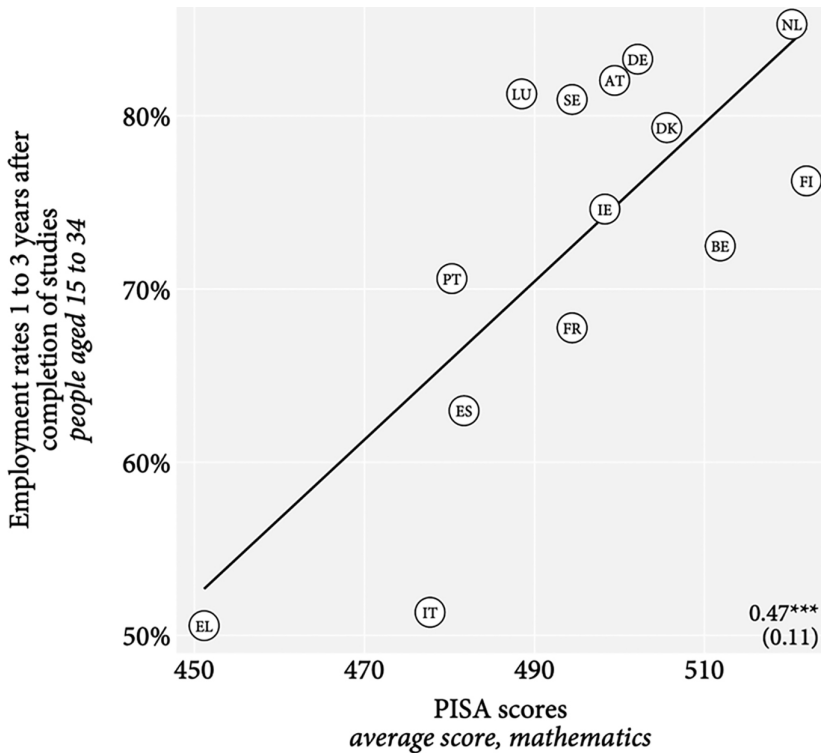
Figure 3.6 Correlation between participation in childcare and child poverty

and family income assistance (Nieuwenhuis et al., 2012; Nieuwenhuis, 2022). These passive policies paired with ECEC tend to be more effective at reducing poverty risks than on their own. This pattern holds even for more economically vulnerable groups, where generous ECEC and income support combined lead to the lowest probability of an individual falling into poverty (Hemerijck et al., 2024). From a policymaker's perspective, the priority is to balance these policies so that inclusive buffers help young adults ease transitions to parenthood without compromising their (and especially women's) long-term opportunities, for instance by avoiding prolonged labour-market absences.

In addition to these effects, in the long run, early childhood development also translates into more productive employment opportunities through human capital stock development, fostering stronger motivation and higher levels of entry-level labour-market productivity (OECD, 2023; Esping-Andersen, 2015; Nelson & Stephens, 2012). By equipping children with essential social skills, ECEC potentially reduces the need for 'buffers' later in life, as individuals are better prepared for life-course transitions. All in all, effective combinations of childcare, parental leave, and young families' income support reinforce dual-earner parental employment engagement and thus enhance gender balance in career progression (Hemerijck et al., 2016; Plavgo, 2023). James Heckman argues that the overall returns of ECEC far surpass any returns on social investment provisions later in life, both in terms of immediate female employment gains and long-term human capital gains, particularly for socio-economically disadvantaged children (Heckman, 2006; Burger, 2010; Hanushek et al., 2003).

Investments in Education

The next phase in the life-course multiplier model focuses on the quality of education. For young adults aged 18 to 25, transitioning to adult work takes longer due to extended tertiary education and alternating between training and employment. Upon completion, they face less stability in the labour market. This is a critical moment during their lives as the early phase of working life often shapes careers down the line. In post-industrial economies, where socio-economic outcomes are increasingly linked to education and skills, having a solid education system that prepares young adults for the labour market is very important. Existing evidence suggests that inclusive high-quality education and vocational training enhance young individuals' professional competencies, facilitating a smoother transition from school to their first job (OECD, 2023). When we compare the numeracy skills of young adults – a proxy for education quality – with employment rates in the first three years after they finish their studies, we find further evidence in this regard (Figure 3.7). The



Source: Eurostat, 2025 (average 2003–2022).

Figure 3.7 Correlation between PISA scores and employment rates one to three years after completion of studies

positive correlation suggests that countries investing in high-quality education also support smoother transitions into employment for young adults.

Inclusive, high-quality education and vocational training further strengthen young individuals' skills, helping them move from school to work (OECD, 2023). This is important to avoid negative externalities of these transitions – such as job-education mismatches or youth unemployment. These issues are more pronounced in countries where investment in education lags behind and access to good education is more unequal (Plavgo, 2023). In contrast, effective systems function as a social elevator, where education is linked to higher employment rates, stronger early-career productivity, lower poverty, and less precarious labour-market transitions (see Nelson & Stephens, 2012).

Active Labour-Market Policies

Active labour-market policies (ALMPs) play a crucial role in human capital *creation* and *mobilisation* among the working-age population (Garritzmann, 2021).

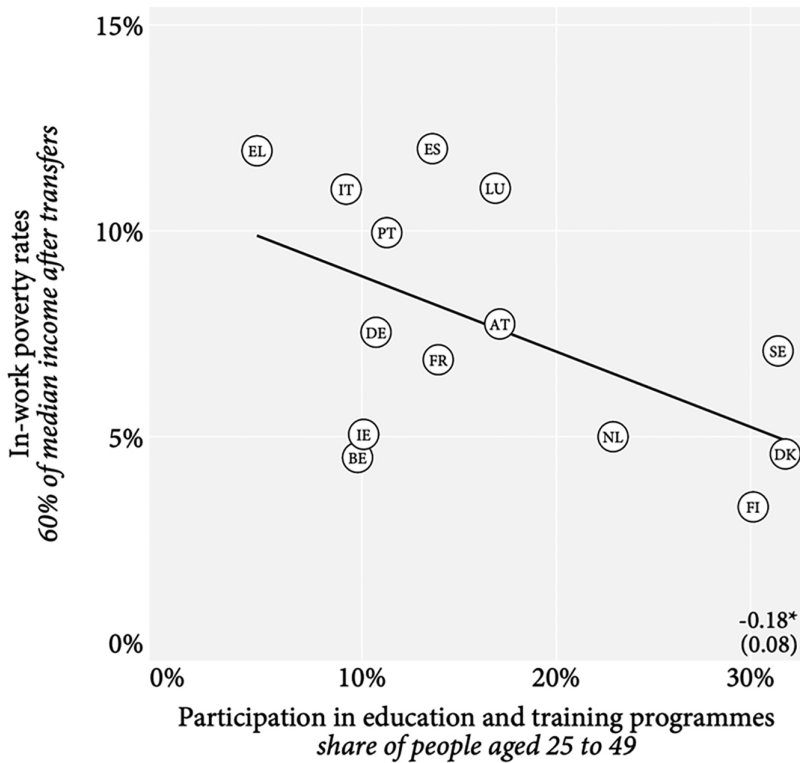
For human capital development, vocational training is the most effective measure for increasing economic participation (Kluve, 2010; Ko & Bae, 2020; Bakker & van Vliet, 2022) and reducing poverty (Taylor-Gooby et al., 2015). However, these positive effects are stronger in the medium and long term (Card et al., 2010; Vooren et al., 2019). The effectiveness of these programmes generally tends to be lower among more disadvantaged groups, a conundrum referred to in existing literature as the Matthew effect (Gal, 1998; Cantillon, 2011; Bonoli, et al., 2017). Outcomes for vulnerable populations depend heavily on policy design, implementation, and the availability of generous social protection (Bonoli, 2020). All in all, combining generous social protection with capacitating services produces better outcomes (Garritzmann, 2021).

Regarding human capital mobilisation, policy impacts are more visible in the short term. Job search assistance has positive short-term effects by helping individuals re-enter the labour market (Card et al., 2018), although it can also prolong in-work poverty (Taylor-Gooby et al., 2015). Again, policy design matters greatly. These programmes are more effective at promoting employment when combined with skills training and motivational components (Liu et al., 2014; Card et al., 2018). The findings in the existing literature are in line with the SIA approach and the investment-intervention framework. They show that complementarities between different capacitating and activating services, along with inclusive buffers, consistently produce better socio-economic outcomes. Although our analysis focuses on simple correlations and does not account for these complementarities, we still find a clear relationship between investment in education and training programmes and positive labour-market outcomes, both for reduced in-work poverty rates (Figure 3.8) and lower long-term unemployment (Figure 3.9).

These policies aid labour-market re-entry through various measures, including direct job placement, employment incentives, and the facilitation of matches between job seekers and employers. Additionally, vocational training programmes equip individuals with pertinent skills, ensuring a smoother re-entry into the workforce following job loss. These expectations are supported by Figure 3.9, which depicts a negative correlation between long-term unemployment rates and investment in ALMPs. These results are consistent both when long-term unemployment is measured in absolute terms or as a proportion of total unemployment. Countries that allocate substantial investments to these policies consistently exhibit the lowest unemployment rates across both

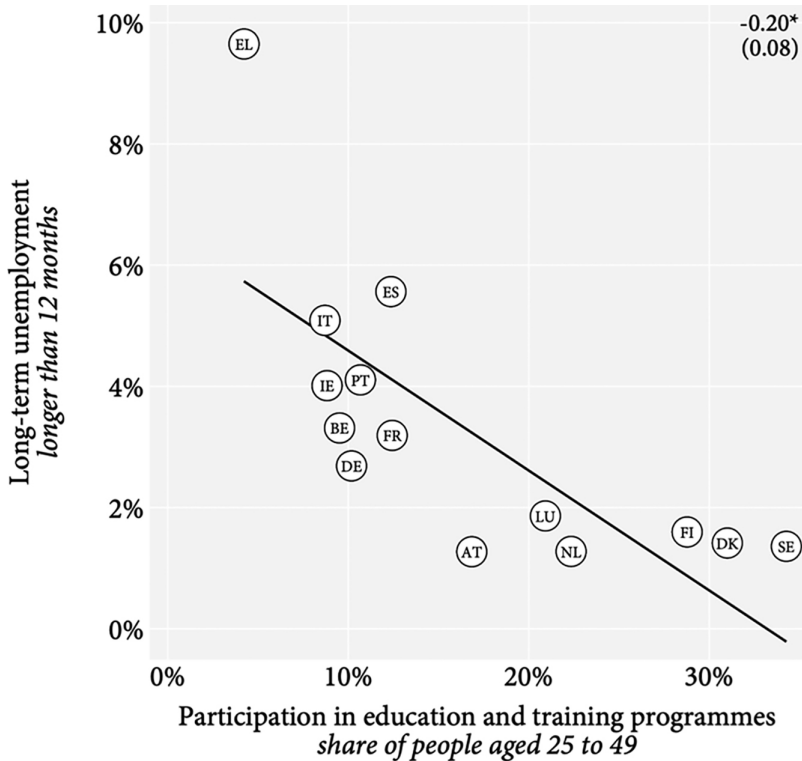
metrics. Conversely, welfare states with minimal ALMP investment experience higher levels of prolonged joblessness.

ALMPs also strengthen labour-market dynamism. While they may not directly lower unemployment levels, they ease rapid transitions back into employment. It is reasonable to argue that active labour-market policies, by emphasising lifelong learning, render the labour market more adaptable to technological advancements. From a macroeconomic perspective, this adaptability proves advantageous for labour markets experiencing swift changes in occupational structures. Such flexibility leads to enhanced labour-market participation and, consequently, increased economic productivity.



Source: Eurostat, 2025 (2003–2023).

Figure 3.8 Correlation between participation in education and training and in-work poverty during prime stages of working lives



Source: Eurostat, 2025 (2000–2023).

Figure 3.9 Correlation between participation in education and training and long-term unemployment during prime stages of working lives

Investments in Active Ageing

In the concluding stages of the life course, the policy emphasis shifts towards long-term care with the primary goal of promoting active ageing. Three specific policies are critical to achieving these aims. First, access to vocational training in later stages of an individual's working life. This policy promotes sustained employment and enhances productivity by facilitating the continuous updating of skills, ensuring that individuals remain competitive in the labour market. Second, flexible retirement options. This policy prolongs employment by offering a variety of retirement routes, allowing individuals to

tailor their transition out of the workforce according to personal and financial circumstances. Third, long-term care provisions. By providing reliable care for individuals requiring assistance due to disability or old age, this policy reduces the need for family members, predominantly women, to exit the labour force prematurely for caregiving responsibilities (Esping-Andersen, 2016).

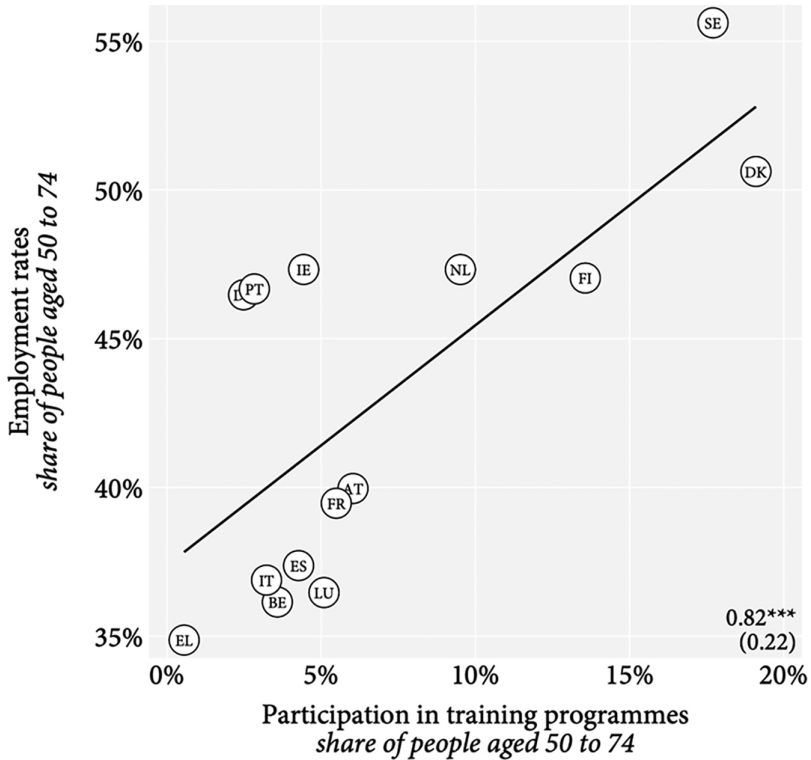
Overall, in relative terms, social investments later in life are less effective than early investments in young people's health, knowledge, and skills. Yet, incentivising delayed retirement and training opportunities in late careers reflects the active ageing ethos at the *core* of the life-course multiplier. Although empirical evidence in this domain is comparatively limited – studies often concentrate on early childhood, education, and active labour-market policies (Bakker and van Vliet, 2022) – the policies mentioned here highlight the potential for strategic interventions to increase economic participation and reduce social exclusion and poverty in later life stages.

Nevertheless, the evidence presented here concerning participation in education and training programmes aligns with these theoretical expectations. We find that countries that promote lifelong learning opportunities for individuals in the later stages of their careers also tend to have consistently higher employment rates (Figure 3.10) and lower poverty rates (Figure 3.11) among people aged 50 to 74.

These findings take us back to the final component of the life-course multiplier. By fostering economic participation, this multiplier indirectly promotes poverty reduction and inclusivity. At the individual level, investments made throughout the life course lead to improved well-being over time. Indeed, countries like the Nordics, which implement a comprehensive social investment strategy throughout the life course along with generous buffers, show low poverty rates overall and across multiple life-course stages. One question remains: how sustainable are these policies from a financial standpoint? The conventional view of social provision and economic performance suggests that these benefits might undermine the long-term viability of welfare systems. We explore this issue in the next section.

Carrying Capacity and Fiscal Sustainability

Our understanding of the macroeconomic consequences of the life-course multiplier effect is that social investment returns, cumulatively reaped over the life course of individuals and their families, bring about aggregate economic growth, ensuring welfare policy generosity in a sustainable fashion. This invokes the final step of our analysis concerning the fiscal sustainability of the welfare state. In essence, the underlying economic logic of social investment is to boost the number (quantity) and productivity (quality) of current and future employees – or 'the carrying capacity' of welfare provisions. Following the economists Musgrave and Musgrave (1989) and the sociologist John Myles

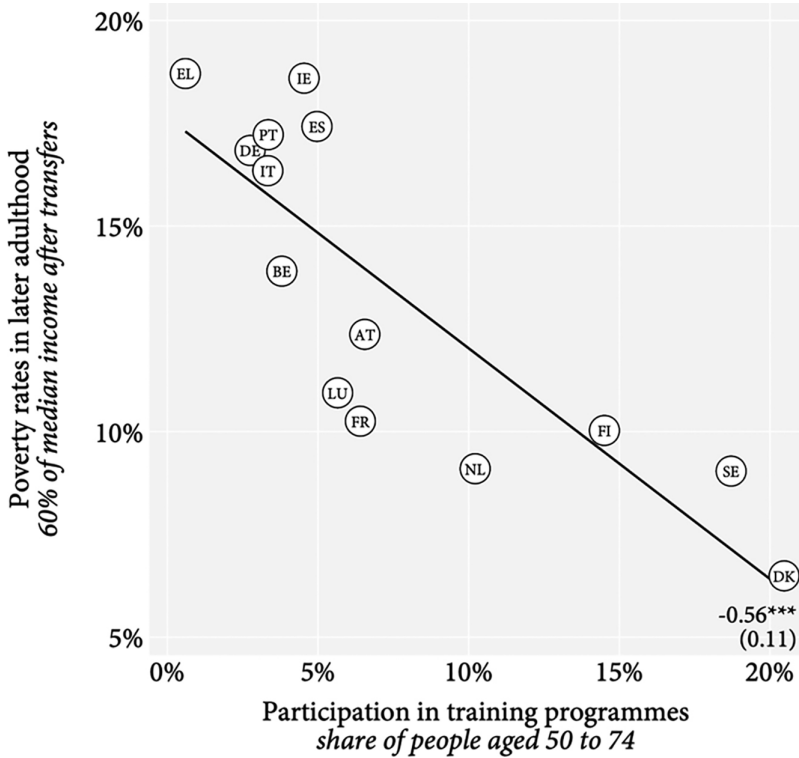


Source: Eurostat, 2025 (average 2000–2023).

Figure 3.10 Correlation between participation in education and training and employment rates during later stages of working lives and transition to retirement

(2002), we conceptualise the carrying capacity in terms of a cost-benefit equation, comprising a *numerator* of welfare state burdens in terms of levels of benefits and numbers of recipients, and a *denominator* side concerning the quality and quantity of the active workforce carrying the costs.

With welfare recipients being transitory categories, the question is how to achieve an equitable balance that supports the productive capacity of the economy and those in need of temporary or more permanent social assistance. Maintaining adequate standards puts significant weight on income taxes and social contributions from the working population, the main sources of funding for the modern welfare state. Figure 3.12 shows the position of each European

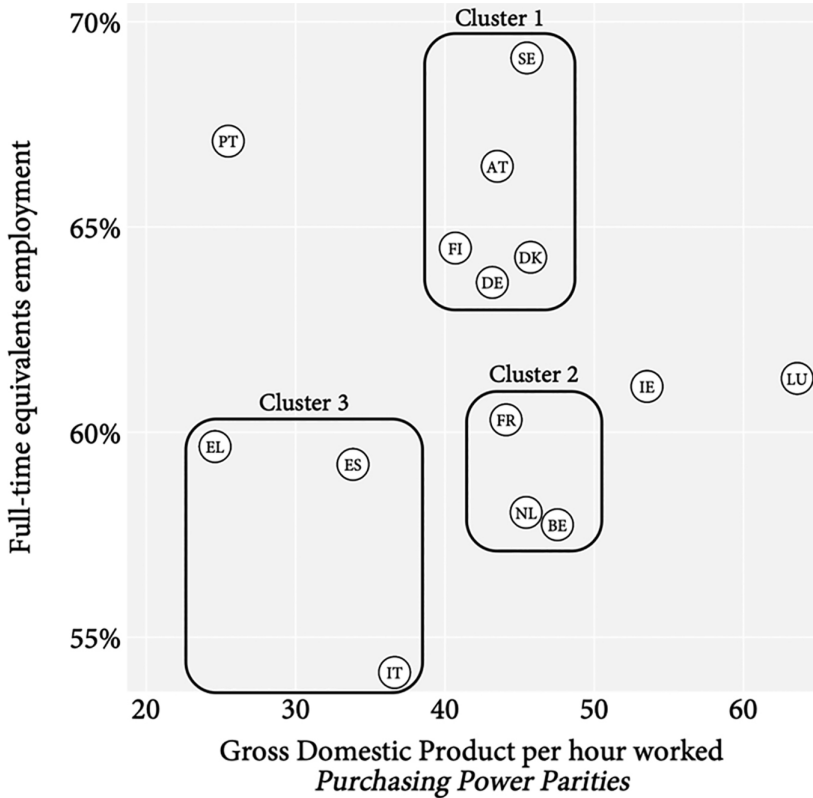


Source: Eurostat, 2025 (average 2003–2023).

Figure 3.11 Correlation between participation in education and training and poverty rates during later stages of working lives and transition to retirement

country along these two dimensions of *quantity* and *quality* of the workforce. The optimal outcome is at the upper right, indicating high employment and high productivity – a goodness of fit balance that ensures a strong carrying capacity. In contrast, the bottom left corresponds to an equilibrium of low employment and low productivity, where countries face significant challenges in financing their welfare states.

We highlight three different clusters in Western Europe. Cluster 1 comprises welfare states that have achieved a strong equilibrium of employment and productivity: the Nordic countries, along with Germany and Austria. This is unsurprising given that the Nordic welfare regimes remain frontrunners of



Source: OECD, 2024 and Eurostat, 2025 (average 2000 and 2023).

Figure 3.12 Carrying capacity

social investment (Hemerijck, 2017). Their service-oriented welfare states, with a strong emphasis on supporting dual-earner families, contribute to high levels of gender-equal employment. These countries enjoy high levels of employment and productivity, balanced between men and women, thus making substantial contributions to overall economic growth. This helps finance generous, inclusive, and activating welfare provision.

The Nordic countries have been joined by Germany and Austria on this carrying capacity map. Despite their conservative welfare state model, they have changed from a mostly passive male-breadwinner model towards a more gender-balanced, employment-oriented model during the last 20 years. This has been complemented by significant efforts to expand public childcare provision,

which distinguishes them from other continental welfare states, here shown in Cluster 2 (Seeleib-Kaiser, 2016). This process of *catching up* with the frontrunners is still not complete; however, both countries still face institutionalised trends of labour-market dualisation, and lifelong learning remains a lower priority than in the Nordic countries (Chevalier, 2016; Hemerijck, 2017).

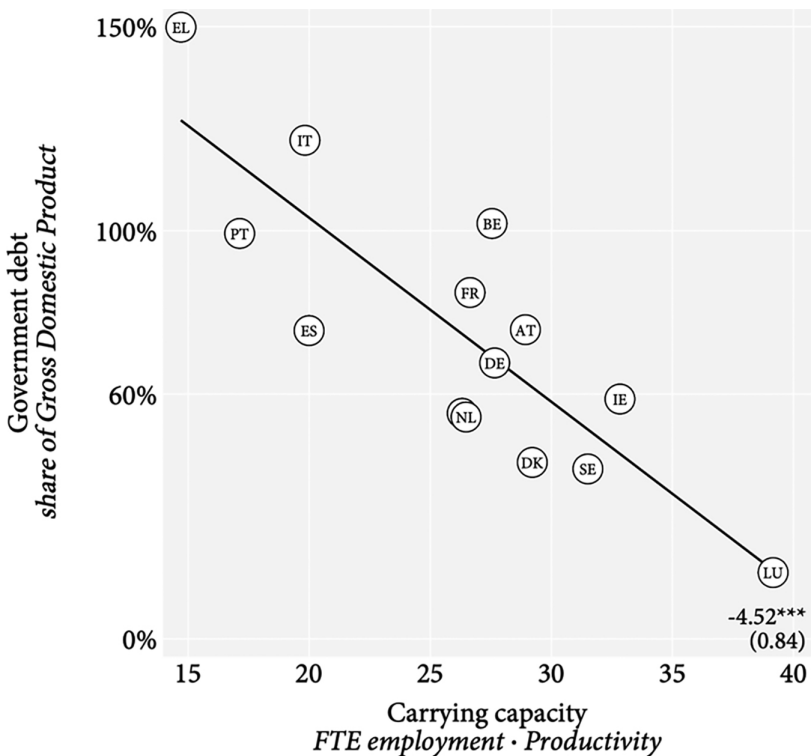
Despite having productivity levels similar to those of the social investment frontrunners, other continental welfare states such as France, Belgium, and the Netherlands register lower labour-market participation. This is Cluster 2. France and Belgium's strong institutional legacies hinder path-shifting social reforms, resulting in a high tax burden and increased reliance on debt to finance their welfare systems. By contrast, the Netherlands implemented extensive liberalising reforms, particularly in the healthcare and pension sectors, to ensure long-term sustainability. These countries also have lower female (full-time) employment rates, as they have yet to reach the Nordic full-time employment norm. Thus, they continue to face the challenge of increasing female labour-market engagement to bolster the carrying capacity of their generous welfare states in the face of rapid population ageing.

Italy, Spain, and Greece are part of Cluster 3, characterised by lower productivity levels and low economic participation compared to other welfare states. These Southern European countries have struggled to adapt to post-industrial labour-market and demographic challenges at already low levels of carrying capacity. Italy and Spain continue to depend on passive, insurance-based social transfers. Unlike their continental counterparts, these transfers are generally less generous. Large pension commitments limit the fiscal space for childcare and employment services.

Despite these constraints, Spain is progressing more rapidly than Italy in terms of gender-balanced leave and childcare policies. By expanding the duration of non-transferable paternity leave in 2016 and again in 2019, Spain aims to reduce gender disparities in family responsibilities and, indirectly, labour-market engagement. However, both Spain and Italy invest relatively little in education, training, and active labour-market policies. While Spain has begun to expand childcare and leave programmes (thus starting to narrow the gender employment gap), Italy remains a typical mature welfare state that has not pursued significant social investment. This lack of investment perpetuates low employment among women and older men, high levels of long-term and youth unemployment, sluggish growth, and low educational attainment, creating serious strains on public finances.

This fiscal constraint puts both welfare states in a bind. Inadequate childcare services increase the poverty risk for families with young children, discouraging mothers from participating in the labour market. Low employment then restricts the fiscal capacity needed to invest in the productivity of younger generations, making it hard to escape this suboptimal equilibrium.

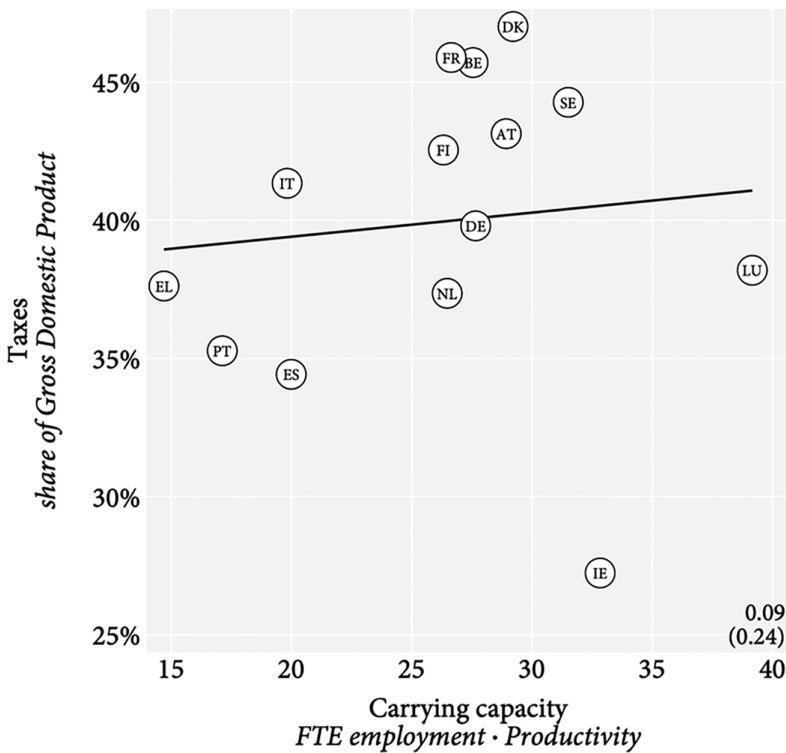
How does carrying capacity correlate with the financial sustainability of welfare states? A cursory look at the evidence suggests that the story is not primarily about taxation as tax levels remain stable across countries, despite different economic cycles and significant structural changes in European economies. Most of the variation in taxation is structural, varying from country to country, and is related to the distinct institutional make-up of their welfare states (Hemerijck, 2013). In contrast, government debt data shows a much higher degree of variation over time (Eurostat, 2025). Therefore, we can infer that in the absence of a favourable equilibrium in carrying capacity, countries tend to increase debt rather than taxes to address structural financing issues. Figures 3.13 and 3.14 support this hypothesis by showing the relationship between carrying capacity and government debt levels and taxation.



Source: Eurostat, 2025 (average 2000–2022).

Figure 3.13 Correlation between carrying capacity and debt levels

For the mature welfare states of Western Europe, there is a strong negative correlation between carrying capacity and government debt. Countries with the weakest carrying capacity, such as Italy and Spain, but also France, also have the highest debt levels. The debt crisis of the early 2010s exposed their structural challenges, highlighting welfare financing vulnerabilities. An overemphasis on consumption-focused policies, limited active employment strategies, and low wages and low productivity impede the creation of a strong revenue base to achieve fiscal balance. Faced with tough choices between cutting benefits and raising taxes, politicians do neither. Instead, they resort to increasing debt to avoid the short-term political repercussions of unpopular policies.



Source: Eurostat, 2025 (average 2000–2022).

Figure 3.14 Correlation between carrying capacity and taxation levels

By contrast, countries that achieve a favourable equilibrium with their social policy strategies enjoy better financial positions. These include Finland, Sweden, Germany, the Netherlands, and Ireland. Within this group, some countries have traditionally invested in egalitarian welfare institutions and social investment policies (the Nordic countries); others have recalibrated their welfare programmes towards the Nordic model (Germany and to a lesser degree the Netherlands); and some have focused on attracting foreign investment (the Netherlands and Ireland). While these strategies have generally been successful in terms of carrying capacity, the evidence throughout this chapter suggests that a long-term commitment to social investment reform produces the best equilibrium.

The fundamental policy lesson from our cursory macro-level survey of the correlates of the life-course multiplier logic is that social investment welfare provision potentially contributes to a social investment ‘triple’ dividend of greater and more gender-balanced employment and productivity gains, the staying power of generous social protection, and fiscal balance. However, this surely requires a farsighted reform strategy, which presses the need for a better understanding of the politics behind social investment.

4. THE POLITICS OF SOCIAL INVESTMENT REFORM AND SOCIAL LEARNING

Since the new millennium, various attempts have been made to trace and explain the politics of social investment reform across (mostly European) countries (Morel et al., 2012; Van Kersbergen and Hemerijck, 2012; Hemerijck, 2013; Kvist, 2013; Kuitto, 2016; Ronchi, 2018; Garritzmann et al., 2022). In comparative studies on the politics of social investment reform, two political science research traditions vie for causal adequacy. One research tradition is strongly rooted in partisan politics and electoral and public opinion research. The other underscores the central role of governments, based on a more interactive policy feedback dynamic between standing welfare commitments, political institutions, and novel ideas. In the partisanship tradition, a conceptual distinction prevails between two electoral constituencies, one favouring social consumption (i.e., income transfers, including unemployment benefits and pensions), and the other favouring social investment (i.e., policies capacitating people to prosper in increasingly flexible labour markets). Based on the assumption of vote-maximising political competition, democratic governments vary in their responses to constituents’ demands for social consumption and investment policies.

Although the theoretical juxtaposition of social consumption versus social investment yields interesting insights on electoral behaviour, the empirical validity of a distributive trade-off between consumption and investment public

spending is, as we have shown above, non-existent. In the aggregate, social consumption and social investment spending are positively correlated and this makes perfect sense. Countries with already high social transfer commitments are pressed to make the best of social investment provision to contain long social security outlays (Hemerijck, 2013, 2017). Unquestionably, political parties canvass for office based on voter preferences. However, there is a fundamental difference between the (re-)distributive input side of political competition and the output side of (coalition) government reforms. Concrete reforms are hardly ever unilaterally decided on electoral preferences and votes. Coalitional feasibility, social partnership consent and contestation, expert engagement, EU regulation, and the more mundane administrative capacity of relevant ministries to effectively implement reforms, alongside changing economic and demographic realities and available fiscal resources, make some reforms more likely than others (Ólafsson et. al, 2019).

Following an actor-centred policy feedback institutionalist research perspective, Anton Hemerijck and David Bokhorst (forthcoming) advance an alternative explanation for the stealthy conversion to social investment reform priorities across EU member welfare states in the first two decades of the twenty-first century. They argue that social investment reform gains sway precisely because, politically, as we have learned from Paul Pierson (1994, 1998, 2001), welfare retrenchment is so difficult to push through in Europe, where compensatory public pre-commitments, especially in pensions, but also education and training, are sizeable. If benefit retrenchment is difficult, governments are inadvertently forced to explore less travelled reform avenues. To the extent that social investment reforms can raise employment participation and labour productivity, and, if successful, do not trample standing commitments, they in effect put the carrying capacity of highly popular European welfare states on a more sustainable fiscal footing. It could thus be argued that EU Member States' comprehensive welfare commitments harbour a 'beneficial constraint', to use a term from Wolfgang Streeck (1997), triggering a quiet social investment paradigm revolution, precisely because intrusive benefit retrenchment reform is electorally extremely unpopular.

The social investment reform momentum invokes a social learning argument on the part of governments, which at first sight seems unlikely in today's polarised politics that privileges (populist) short-termism and myopia. Yet, since the new millennium, we observe growing female employment across the board in the EU, with lower gender pay gaps, more children participating in formal childcare, and lower risks of poverty and social exclusion. Although social protection expenditures have trended up as a consequence of the Great Recession and COVID-19 pandemic, more people participate in European labour markets than ever, and unemployment is at a record low. Hemerijck and Bokhorst (forthcoming) observe an important shift from (re-)distributive

welfare-equation nominator political campaigning to denominator welfare governance. There is a generalised understanding that the (incomplete) gender revolution, the rise of the digital knowledge economy, and accelerating demographic ageing require a much wider multidimensional policy repertoire covering the entire life course, beginning with children. True, electoral cycles are short. Yet, for mature welfare states, a politics of the long term is already implicated, precisely because standing collective commitments to the young (public education and training up to the university level) and the old (pensions and healthcare) are hefty and popular and, likewise, difficult to rescind. Elections matter, but parties entering governments may undergo a gestalt switch. When about a third of GDP is devoted to welfare provision and three-quarters of the public budget cater for health, education, and social protection, office-seeking campaigners, when they form governments, are incentivised to change tune from redistributive electoral responsiveness to welfare commons responsibility. Of course, elected governments are free to neglect or ignore welfare commons responsibility and singularly pamper their insider cleavages, thereby putting social investment reform progress at risk. However, this can easily engender adverse electoral consequences in competitive democracies with mature welfare states, as has been the fate of Giuseppe Conte in Italy and Liz Truss in Great Britain.

Policy learning is inherent to democratic politics. Through electoral competition, protagonists of rival policies will be self-interestedly motivated to find fault with existing policies and proposed alternatives. Especially when existing social policy repertoires fail to meet popular expectations, voter dissatisfaction can drive structural reform. It is crucial, however, that political decision-makers want to learn something they do not already know when pressed to do so. The unlearning of old beliefs is the most difficult aspect of any learning experience. Then again, short electoral time horizons, power asymmetries, and ambiguous accountability rules can stand in the way of effective policy learning. Often, the exploration of new policy ideas requires ‘electoral safety’, according to Alan Jacobs (2011). In this respect, the relatively safe political arena of the EU has been an important breeding ground for the exploration and articulation of social investment policy ideas, from the Lisbon Agenda of 2000 to the European Pillar of Social Rights of 2017, steering changing welfare outlooks across the Member States. For example, the social investment agenda-setting publication *Why We Need a New Welfare State* (Esping-Andersen et al., 2002) was commissioned by the Belgian Presidency of the EU in 2001. Many EU endorsements of the social investment perspective have followed suit, most prominent among them the Social Investment Package (SIP) documentation of 2013. However, despite how much the EU has been a social investment advocate for over two decades, during the euro crisis social investment priorities were instantly overshadowed by European Monetary Union (EMU)

fiscal austerity imperatives. However, by 2017, EU Member States adopted the European Pillar of Social Rights (EPSR), setting out 20 key principles to balance protective buffers and activate stock and flow policies for well-functioning labour markets and welfare systems. In the wake of the Great Recession and the COVID-19 pandemic, social investment evidence has become stronger, which in turn has surely reinforced its political strength. Ultimately, by 2021, the economic rebound from the COVID-19 pandemic was sealed by a key step forward in EU fiscal solidarity, in the form of the NextGenerationEU Recovery and Resilience Facility (RRF) and the Support to mitigate Unemployment Risks in an Emergency (SURE) instrument. Positive feedback from these initiatives, in terms of country-specific social investment reform action and ownership, has sparked an ongoing discussion on the accounting logic behind the EU budget and EMU fiscal governance, justifying something of a ‘golden rule’ of exempting social investments in future E(M)U fiscal governance, as suggested by the European Commission’s (2023) High-Level Group on the Future of Social Protection and the Welfare State in the EU.

5. SOCIAL INVESTMENT FUTURES

This chapter has provided a bird’s eye analysis of social investment policy ideas and twenty-first century welfare performance and reform. After having delineated the social investment policy paradigm, we analysed key trends in country-level welfare performance from a life-course perspective. Four important messages shine through the correlational material analysed for this chapter. First and foremost, capacitating social investment and compensatory social protection are fundamentally correlated. Generous social security commitments more often than not accompany high levels of social investment. The sustainability of mature welfare states in knowledge economies and ageing societies depends less on the generosity of benefit levels *per se* and more on growth and employment and how social investment policies contribute to these ends.

Second, social investment policies strengthen labour-market performance without compromising on poverty alleviation. To wit, investment in childcare strongly correlates with reduced poverty rates among younger cohorts by stabilising parental employment and, by implication, household income. By reducing women’s employment interruptions, cumulative lifetime earnings increase, implying higher lifetime taxes and contributions (Esping-Andersen and Sarasa, 2002). In short, the shift towards social investment does not adversely affect the redistributive character of the welfare state *per se*, as the Matthew effect critics presume.

Third, we suggest that social investment pays for itself as they contribute to three macro-level dividends: (1) higher levels of employment overall, (2)

increased productivity, and (3) longer careers. These dividends are associated with higher revenues and, in turn, serve to reinforce the sustainability of public finances, avoiding to the traditional trade-offs between higher public spending, economic performance, and poverty alleviation.

Fourth, European welfare states have effectively experienced a dynamic of gradual yet transformative policy convergence. While Nordic countries are increasingly extending their service-oriented welfare states by incorporating targeted interventions (see Chapter 2), other welfare states are shifting their traditionally passive approaches towards a greater focus on social investment and more inclusive social policy. Past policy legacies and developmental starting points continue to matter, but no mature EU welfare state today is truly alien to social investment, just as Nordic countries now increasingly value targeted interventions to address specific challenges. Overall, it is our contention that there is a more revealing convergence in objectives that goes beyond poverty reduction – aiming to raise employment rates, close gender gaps, lower child poverty, and ease the school-to-work transitions of young adults.

Strikingly, the fiscal side of the welfare state confirms that taxation and social contribution levels have been remarkably stable over the past 20 years. Economic growth and higher employment levels, supported by social investment policies, effectively contribute to the sustainability of the welfare state in the twenty-first century. A transformative shift in welfare policy is feasible without necessarily changing domestic financing structures. Yet, welfare states with poor economic growth records and lacking strong carrying capacities tend to have the highest levels of public debt. Then again, this indicates that welfare conflicts are not about taxation, contrary to the zero-sum trade-off arguments of the 1980s and 1990s. This has obvious implications for the *investment-intervention framework* developed in this volume. The long-term-oriented SIA offers a solid foundation to create the fiscal space necessary for the development of new policy interventions.

A final more subtle but equally important observation is that to overcome trade-offs, trilemmas, and Matthew effects, elected governments are well advised to pursue a long-term politics of social investment reform. In this respect, the relatively insulated political environment EU-level policymaking has been critical to launching the social investment agenda and to developing metrics and benchmarks in the European Semester to inspire Member State policymakers to learn from each other and insights collected by the European Commission. Eventually, the EU must rise to the challenge of creating an assertive macroeconomic ‘holding environment’ allowing national welfare states to prosper by permitting them to invest in the health and skills on which future prosperity relies, based on a widely shared commitment to stepping-stone solidarity in order to effectively cater to ageing societies and knowledge economies.

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4. How to understand interventions in welfare state policy context

Johanna Peltoniemi, Sanna Herkama, Sakari Karvonen and Anu Muuri

INTRODUCTION

The welfare state has undergone significant transformation over the past few decades, shifting from the traditional social protection welfare state to one that increasingly emphasises service provision and proactive interventions. This shift reflects broader changes in societal needs and economic conditions, such as the carrying capacity of the welfare state. For decades, welfare states have struggled to adapt to new social and economic realities. These challenges have been triggered by successive economic crises, demographic ageing, deindustrialisation, the rise of the service sector, globalisation and European Union market integration, technological change, climate change, and intensified migration (Hemerijck, 2020). Traditional welfare states, characterised by their emphasis on income support and risk mitigation, are gradually evolving into service-intensive welfare states that prioritise investments in human capital and preventive measures to enhance individual and collective well-being.

The investment-intervention approach represents a framework for understanding this transformation. In this chapter, we examine how extending the social investment framework with interventions can address the limitations of traditional welfare approaches. Central to this discussion is the recognition that mere income transfers and social investments are not enough; we also need interventions. Insights into intervention development, effectiveness, and cost-effectiveness evaluation as well as implementation demonstrate how such interventions can be converted into persistent investments.

As Erola, Moisiso, and Peltoniemi (Chapter 2) point out, the intervention framework brings together insights from sociology, health sciences, and educational research, creating a more interdisciplinary approach than what the traditional social investment framework would explicitly outline. Therefore, it is necessary to test the framework in an interdisciplinary setting. In exploring

practical implications, this chapter outlines the necessary conditions and strategies for realising the potential benefits of the new investment-intervention framework. We discuss in detail the key components of the social investment-intervention framework, such as targeted investments in human capital, proactive and preventive interventions, and comprehensive insurance mechanisms.

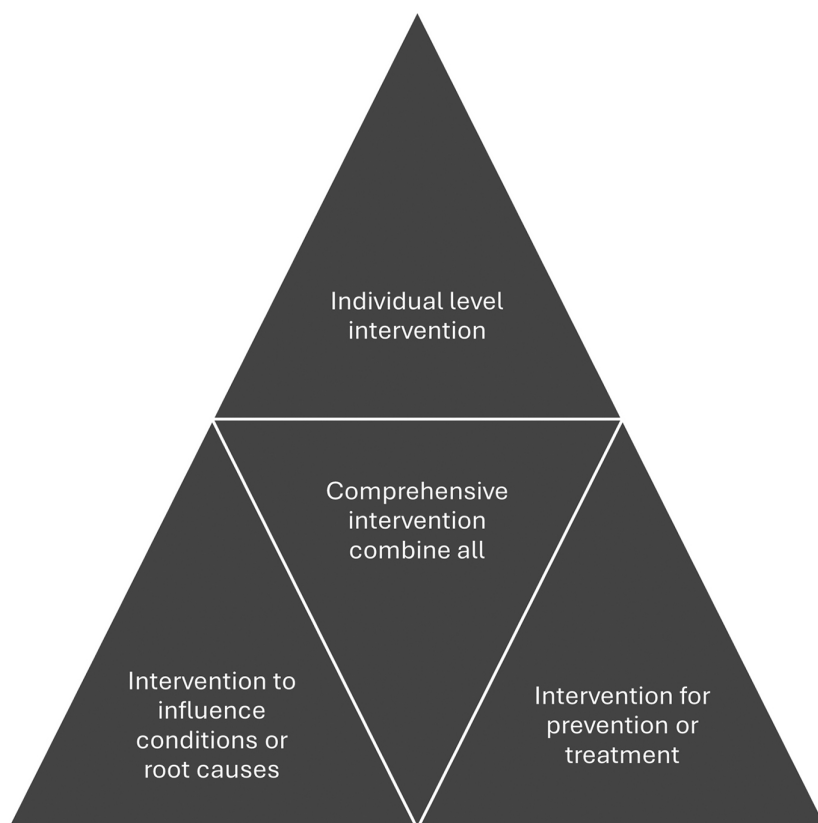
WHAT ARE INTERVENTIONS?

Understanding the various forms and purposes of interventions is central to analysing their role in welfare state transformation. Interventions – defined broadly as strategies or actions designed to address specific challenges or enhance particular outcomes – span multiple domains such as healthcare, education, and social services. These can promote well-being, prevent emerging problems, or mitigate existing risks across different stages of the life course. However, developing effective interventions is resource-intensive and might take several years.

One possible way to classify health interventions is to group them according to their target group, time when they are provided, scope, and objective. The intervention with the narrowest target group is represented by interventions directly targeting the individual, of which there are also different types. At its narrowest, the goal of an intervention may be to influence an individual's behaviour, and the form of intervention is short-term guidance or intervention. For example, the so-called mini-intervention aimed at influencing the client's use of alcohol or other intoxicants represents this type (Salaspuro et al., 1998). In this mini-intervention, the doctor simply asks the client about their substance use patterns and due to this inquiry (some) clients have been found to have changed their behaviour. Education, upbringing, and influencing the level of knowledge are also directly aimed at the individual. In this case, the intervention aims to increase the subject's knowledge and skills so that the desired goal is achieved. For example, nutritional counselling represents such a type of intervention.

The second main group of interventions consists of actions aimed at influencing conditions or root causes of health issues. These interventions can be roughly divided into two types. One focuses on the environment (physical or social) where health is constructed, while the other targets normative structures, such as laws and regulations that have either direct or indirect health effects, or policies framing them. An example of an intervention aimed at environmental impacts could be to specify traffic arrangements so that mobility is safer. Interventions targeting normative structures, on the other hand, include tightening the Tobacco Act or decreasing the availability of alcohol by changing legislation.

Another way to group health interventions is to divide them according to the stage of disease prevention or treatment. These different stages are called primary, secondary, and tertiary prevention. As shown in Figure 4.1, primary prevention is when the goal is to prevent diseases from developing in the first place. Primary prevention includes, for example, vaccinations, the promotion of healthy lifestyles, and the reduction of health risks to the environment, such as ensuring the availability of sufficient clean drinking water. Secondary prevention, on the other hand, aims at the early detection or treatment of diseases to slow down or stop their progression. Different types of screening represent secondary prevention. Strongest Families parental intervention (Chapter 14)



Source: Authors' own.

Figure 4.1 Four groups of interventions

represents this type of health intervention as well. It combines early detection of children's conduct problems through nationwide screening at maternal clinics with digitally assisted training for early treatment. Tertiary prevention aims to prevent the disease from getting worse or causing complications. For example, rehabilitation or measures aimed at improving the patient's quality of life represent tertiary prevention measures.

The most comprehensive interventions combine all elements and both types. Firstly, they cover multiple target groups, have a wide scope, and include many objectives. Secondly, they aim to tackle all three stages of disease prevention or treatment. One well-known example of such an intervention is the North Karelia Project, which was carried out from 1972 to 1995 (Puska et al., 2009). The project was initiated to address the high rates of cardiovascular disease in the North Karelia region of Finland. It utilised a socio-behavioural framework that covered community-based interventions and national-level policy changes and legislation. The project targeted lifestyle changes as a means to alleviate cardiovascular disease risk factors. The project resulted in significant reductions in serum cholesterol levels, hypertension, smoking prevalence, and cardiovascular disease mortality. The adopted lifestyle interventions continued beyond the initial five years of the project duration and then expanded to all of Finland. The North Karelia Project demonstrates that successful population-based lifestyle interventions may serve as a sustainable public health solution to the growing chronic disease burden.

Yet another way of classifying interventions is to consider whether they are targeted to the whole population or to a specified, identified risk group. Some interventions are designed to benefit all individuals within a particular population, regardless of their risk level or specific needs. These interventions aim to promote general well-being and prevent problems before they arise – similar to primary prevention. Typically, many educational interventions in early childhood education and basic education include such strategies targeted to each and every student. Schools provide a promising arena for such interventions because practically the whole population is within reach. The goals of such interventions might be to enhance socio-emotional skills, reduce bullying, or promote well-being more generally. In contrast, targeted interventions focus on individuals or groups who are identified as being at higher risk for specific issues. These interventions are tailored to address the particular needs of these at-risk populations, providing more intensive support and resources. Targeted interventions are designed for those who already show early signs of a particular condition or are identified as being in a risk group, and in this way they could be classified as secondary or tertiary prevention. For example, in the context of bullying prevention, targeted interventions come into play when a bullying incident is detected (with the student being involved either as being bullied or bullying others) and more intensive measures are needed to

resolve it. All these types of interventions may be applied separately or they might be incorporated into one intervention. For example, the KiVa antibullying program developed in Finland (see Chapter 12) includes both components targeted to each and every student (e.g., preventive curriculum, awareness raising through visible symbols) and targeted components, which refer to a series of structured discussions that take place when a bullying case occurs.

EVALUATING INTERVENTIONS: EFFECTIVENESS AND COST EVALUATIONS

To assess whether interventions truly function as effective social investments, they must be evaluated using robust and appropriate study designs. Resources are wasted if ineffective practices are being implemented or the desired improvements are not taking place. More precisely, assessing the impact of an intervention involves systematically evaluating its effectiveness and outcomes. This process typically includes various study designs such as randomised controlled trials (RCTs), which are considered the gold standard for determining intervention effects by randomly assigning participants to either the intervention or control group and by exploring the possible emerging differences between the conditions after receiving the treatment. Effectiveness assessment is crucial as it ensures that interventions achieve their intended outcomes. By systematically evaluating an intervention's impact, stakeholders can make informed decisions about continuing, modifying, or discontinuing it. This process helps allocate resources efficiently. However, RCTs are often time-consuming and running them may involve high costs. Despite these challenges, the benefits of understanding an intervention's possible impact often outweigh the shortcomings related to RCTs, leading to more effective and evidence-based practices.

Yet, RCTs may not always be the most viable option for an intervention. In real-life situations they sometimes are not feasible either, especially when randomising participants would be unethical. For example, an educational trial in which some students receive traditional teaching and others receive a new method could be ethically questionable if the new method proves to be significantly more effective. In this case, the students who received the traditional teaching may be left behind.

In situations where randomised controlled trials are not feasible for ethical, research-question, or implementation reasons, a benchmarking controlled trial (BCT; Malmivaara, 2015) or quasi-experimental design (White & Sabarwal 2014) can be used. In this case, the focus is particularly on the analysis of everyday (real-world) effectiveness in a situation where an RCT is not feasible.

In a benchmarking controlled trial, benchmarking control refers to the selection of groups to be compared in such a way that they are as comparable

as possible in terms of observable background data. When randomisation is not possible, the initial conditions of the groups can be statistically standardised. For example, Luoto et al. (2018) used a naturalistic sample of psychiatric patients to compare the effectiveness of behavioural activation treatment with the usual treatment. In this case, the patients were matched at baseline using information from the depression inventory and alcohol use disorder test scores, among others.

Adequate information on clients or patients, interventions, and treatment outcomes is a prerequisite for evaluating everyday effectiveness. BCT studies complement randomised comparative trials and can answer the key questions of effectiveness: where and by what means can the best value be added for clients and patients?

Especially in sociological studies on health, there is a well-documented so-called paradox of inequality. According to the paradox of inequality, measures aimed at everyone in general benefit the most vulnerable the least. Thus, for example, an equally accessible intervention can produce different results depending on the characteristics of the target group or their socio-economic status. Importantly, sociological analyses of interventions suggest that social status as well as social and cultural context are strongly linked to the impact of interventions. Individuals' resources, opportunities, and potential vary according to their social status and they may also depend on the context, which is also reflected in the effectiveness of interventions (Frohlich & Potvin 2008). Further, when viewing an intervention as an investment, there is a risk that those who are already vulnerable – for example, population groups that are disadvantaged due to their labour market position – will benefit less from the investment than others, which may further marginalise them. When the health of these groups is inherently worse than others, the return of the targeted health investment remains weak. When it comes to care investments, the so-called reverse care law refers to a slightly similar phenomenon: those who least need it receive the most care. This is due to the unequal practices of the health service system (Tudor Hart, 1971).

Alongside evaluating the impact of a particular intervention, its costs to society can be assessed. This provides valuable insights on how interventions might turn into investments over time. Cost-effectiveness analysis (CEA) refers to the evaluation of the economic efficiency of an intervention by comparing its costs to the magnitude of change achieved, such as the number of bullying cases prevented. It helps in determining whether the outcomes achieved justify the expenses incurred. By evaluating how cost-effective a particular intervention is, policymakers and practitioners can prioritise interventions that provide benefits at reasonable costs, ultimately leading to better health, educational, or social outcomes on a larger scale. In contrast, cost-benefit analysis (CBA) evaluates the financial costs of an intervention against the monetary value of its

benefits (see for more on CEA and CBA, Levin & McEwan, 2015). It is based on the monetisation of short- and long-term outcomes of the participants who have taken part in the intervention. For example, a cost-benefit analysis of an anti-bullying intervention could take into account the impact of the intervention on graduation rates, then on labour market participation, early parenting, mental health outcomes, etc.

IMPLEMENTING INTERVENTIONS

Although a particular intervention has been evaluated in rigorous studies with promising results, it is not guaranteed that it will ever be implemented broadly. Indeed, research knowledge does not transfer into community practices on its own; it is often a long process in which various contextual factors play a significant role (Bauer & Kirchner, 2020). Implementation research, or research on implementation, is a relatively young field of study that examines and promotes the use of research knowledge in various operational environments (Eccles & Mittman, 2006). During the past decades, the field has evolved and more attention has been paid to how evidence-based interventions, methods, and practices are implemented and sustained as part of daily practices in various sectors of society.

It has been argued that it can take nearly 20 years for a practice or an intervention found effective in evaluation studies to become embedded in routine healthcare and educational practices, and only some of these interventions ever reach widespread dissemination and benefit society at large (see for more Morris et al., 2011). Intervention development includes various steps and the process might contain several time lags. Such steps in healthcare, for example, typically include identifying known risk factors in epidemiological studies, developing and piloting an intervention, moving from efficacy trials to effectiveness studies, developing guidelines, and moving towards clinical practice. Finally, in order to evaluate the possible broader impact of a particular intervention on well-being, the uptake of effective interventions in healthcare services is also needed.

Brownson and colleagues (2022) introduce three different types of evidence related to developing practices. The first type concerns the problem itself, its prevalence, and its effects. This involves gathering data on the prevalence of the problem, identifying the most affected populations, and understanding its short- and long-term consequences on individuals and communities. A clear picture of the problem helps develop interventions to address critical aspects of the phenomenon at hand. The second type of evidence focuses on the effectiveness and cost-effectiveness of interventions. This involves examining existing evidence on the effectiveness of interventions aimed at addressing the problem and the costs relative to the benefits achieved. The third type of evidence

focuses on the implementation of the intervention in its intended context. This includes examining how a specific intervention fits into the functioning of a particular context and how it is sustained over time. All these types of evidence are needed to make an impact when developing interventions to reduce a known risk factor and its consequences, build the capacities of future citizens, and turn intervention efforts into investments. The chapters on bullying prevention (Chapter 12), treating children's behavioral problems (Chapter 14), and providing support to refugee children (Chapter 13) provide examples of how this might look in practice.

Therefore, research is needed not only on the problem itself but also on the effectiveness and cost-effectiveness of interventions and how interventions become integrated into everyday practices and are maintained. Unfortunately, when developing, for example, psychosocial interventions targeted at children and adolescents, resources have primarily been used for developing new interventions rather than focusing on their implementation under real-life conditions.

DISCUSSION

Extending the social investment framework with the idea of intervention represents a pivotal rethinking of how socio-economic challenges can be addressed through targeted interventions and investments in human capital. This approach emphasises both proactive and preventive measures, aiming to respond to both the immediate needs of the population and to create conditions for sustainable well-being and socio-economic development over the long term. The question of what constitutes an effective implementation in a welfare state context lies at the heart of the new paradigm and involves synthesising empirical insights and theoretical frameworks to design, deliver, and sustain impactful interventions.

From a societal perspective, education, healthcare, and social welfare services clearly function as broad investments, with measurable long-term benefits such as reduced healthcare costs, increased productivity, and enhanced social cohesion. At the same time, many of the measures and services contain elements of intervention in the sense that they aim to intervene in the everyday lives of individuals and their families. Yet, whether an individual perceives a particular service as an investment or an intervention is a more complex question. For example, while unemployment services aim to enhance employability or social assistance supporting basic income, individuals may perceive them as mechanisms of control rather than empowerment. Similarly, the effectiveness of certain interventions, such as anti-bullying interventions, can be judged differently depending on perspective: while saving even one child from bullying is undeniably impactful from a human and ethical standpoint, such an outcome

may not necessarily meet cost-effectiveness criteria when viewed through the lens of societal-scale resource allocation. Bridging this perception gap requires nuanced communication and service delivery, empathetic policy design, and active engagement with both individual and collective stakeholders to ensure that interventions are not only effective but also resonate positively with those they aim to support.

Best practices in cost-effectiveness and implementation offer valuable lessons for turning interventions into persistent investments. Comprehensive cost-benefit analyses are essential for demonstrating the value of interventions, not only in terms of immediate outcomes but also through their long-term socio-economic impacts. Early childhood interventions, for instance, may require significant upfront investment but yield considerable returns over time through increased labour market participation and reduced reliance on welfare systems. In this vein, one crucial element of any intervention to be perceived as an investment concerns time: evidence of societally significant effects – or returns on the investment – takes time and often requires patience and persistence from implementation. This often goes against the grain of policy- and decision-making where short-term gains are stressed over longer-term effects. Additionally, prioritising evidence-based interventions ensures that resources are directed toward initiatives with proven efficacy, maximising their impact on target populations.

Significant challenges remain even though guidelines for best practices are widely recognised. Preventive interventions often require decades to produce measurable returns, which can make it difficult to secure funding and political support. Immediate crises frequently overshadow preventive measures in budget allocations, undermining the long-term benefits of early intervention. Furthermore, it is difficult to estimate savings through prevention, for example, as these comprise unrealised costs. Moreover, the paradox of inequality complicates measures targeted to the whole population, as these interventions may disproportionately benefit privileged groups while marginalising others. Addressing such disparities requires careful design and targeted approaches that ensure equitable access and outcomes.

Empirical findings reveal that integrating interventions into mainstream systems is essential for persistence. Programs like the North Karelia Project, which successfully addressed high rates of cardiovascular disease in Finland, exemplify the power of combining multiple strategies and integrating them comprehensively into public health systems. Similarly, the KiVa antibullying program's incorporation of universal and targeted measures highlights the importance of flexible designs that can adapt to the specific needs of youth. These examples demonstrate the potential of well-designed interventions to achieve significant societal benefits. The broader implications of the investment-intervention model extend to both individuals and the state. For

citizens, the model provides access to resources, skills, and support systems that enhance their ability to lead fulfilling and productive lives. Interventions targeting mental health, for instance, can significantly improve individual well-being while reducing the social and economic costs associated with untreated conditions. From the state's perspective, investing in human capital and preventive measures fosters socio-economic resilience, reduces long-term dependency on welfare systems, and creates conditions for sustainable growth.

A key remaining challenge in the investment-intervention approach is the significant difficulty of implementing its principles. Preventive efforts often struggle to gain traction because their success is measured by the absence of problems – a concept that can be difficult to convey to policymakers and the public. Moreover, the need to balance evidence-based practices with innovation adds complexity, as interventions must continuously evolve to address emerging societal needs.

Despite these challenges, we argue that the investment-intervention approach has the potential to reconfigure the welfare state as a dynamic, service-intensive system that aligns individual, communal, and societal goals. By treating services as interventions, this model offers a transformative approach to enhancing well-being and decreasing socio-economic disparities. While achieving this vision requires addressing significant challenges, such as resource allocation, equity, and public perception, the potential rewards are undeniable. Through evidence-based practices, long-term planning, and active engagement with various stakeholders, the new paradigm has the potential to steer modern welfare states towards fostering resilience, opportunity, and prosperity in the future.

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PART II

Why social investments alone are not enough to address future megachallenges

5. Loss of solidarity and civic virtue? Shift from the three worlds of welfare to technocratic social investment hybrid welfare states

Pasi Moisio and Johanna Peltoniemi

INTRODUCTION

This chapter contributes to the broader discussion of this book, which explores the emergence of the social investment framework and proposes a refinement to it in the form of the investment-intervention model. We examine the communal and ethical foundations of solidarity, extending the analysis by Hemerijck and Fernandes in this book (Chapter 3) on the normative foundations of the social investment approach. We also follow the lead of Bagadirov et al. (2025), who call attention to the prolonged and troubling disconnect between welfare state research and political philosophy. As European welfare states have evolved into hybrid systems combining elements of traditional protection with investment-oriented and evidence-based strategies, social policy has increasingly come to reflect technocratic rationalities. We argue that their ideological and normative implications have remained insufficiently addressed. By turning to the moral-philosophical foundations of welfare regimes and the social investment framework, this chapter critically examines how the ideals of solidarity and civic virtue have been marginalised in the ongoing transformation of welfare states.

The seminal work of Gøsta Esping-Andersen's (1990), *The Three Worlds of Welfare Capitalism*, categorised welfare states into three types according to how the responsibility of individuals' well-being and protection is weighted between the state, markets, and family. In the liberal welfare state, the role of the state is minimal, and the responsibility is weighted more towards markets. Only minimum protection is provided by the state and most of the healthcare and income protection is organised with private insurances. In the conservative welfare state, family has a substantial role in providing care and protection

and the state-provided health and social insurance schemes are linked to work history, thus preserving existing social structures. The social democratic welfare state weighs up the state's responsibility for well-being and protection, and healthcare and social protection are provided with universal services and benefits. This typology produced a rich research tradition in which countries were classified into welfare state regimes, and over time, new types were added, including the Southern and East Asian welfare models (Ferrera, 1996; Holliday, 2000).

At the turn of 2000, criticism towards Esping-Andersen's model increased. The model was criticised for seeing the welfare state institution as passive, static, and too focused on social protection, not grasping the role of services and the dynamic interlinkage between the state, markets, and family for creating well-being. Seeing the welfare state as social investment gradually became the mainstream view for analysing and understanding the contemporary, service-intensive welfare states (see Hemerijck & Ronchi, 2021). The underlying idea of social investment was that social policy should no longer focus on passively protecting people from the perils of the market by mere cash benefits, but rather empower people in order to maximally integrate them into the market (Jenson & Saint-Martin, 2003; see also Cantillon & Van Lancker, 2013). The social investment (SI) framework, in relation to the welfare state, emphasises a proactive approach to welfare state policies, with a focus on enhancing human capital and social infrastructure to improve societal well-being and economic performance.

Nordic countries, with their service-intensive welfare states, are often seen as the embodiment of social investment thinking. Compared to other European welfare states, Nordic countries emphasise human capital building and positive life transitions through universal services and income protection. However, SI has been criticised for underemphasising the importance of social protection and redistribution, focusing excessively on human capital development and labour market activation. This can exacerbate inequalities, as not all individuals are equally capable of investing in their human capital; thus, those who face structural barriers such as discrimination, disability, or chronic poverty are neglected (e.g., Cantillon, 2011; Cantillon & Van Lancker, 2013; Jenson, 2009; Morel, Palier, & Palme, 2012).

Welfare states can also be evaluated based on how they prioritise different forms of justice as societal goals in their policies and implementation. According to Michael Sandel (2010), justice can be understood in three distinct ways: utilitarianism, which maximises welfare for the greatest number; liberal/Kantian principles, which maximise individual freedom; and civic/solidarity, which promotes civic virtue and common good. Different types of welfare states not only distribute responsibility for welfare provision differently among the state, market, and family, but they also emphasise different

forms of justice in their goals. For example, in the Nordic countries, solidarity and the common good are considered important, even central, objectives of the welfare state. In contrast, the liberal welfare state model places more emphasis on maximising utility and individual rights. It can also be argued that within welfare state models, the emphasis on justice has shifted over the past 30 years and that the Kantian emphasis on socio-economic rights has strengthened, while the focus on solidarity and the common good has diminished.

In this chapter, we analyse how the three main conceptions of justice—utilitarian, liberal, and civic—are weighted in welfare state regimes and the social investment framework. To provide a comprehensive perspective, we first explore how moral philosophy and different conceptions of justice as societal goals serve as a theoretical framework for understanding welfare states. We then examine who holds the responsibility for welfare provision and assess the three societal goals central to welfare regimes. The chapter concludes with a discussion synthesising these insights and their implications for contemporary welfare state transformations.

THE MORAL PHILOSOPHY AND WELFARE STATES

The structure and objectives of welfare states are not merely technical arrangements; they reflect how distinct moral philosophies are valued and prioritised across countries. These philosophical foundations shape what is considered fair, who is responsible for welfare provision, and how justice is translated into concrete policies and institutional practices. These underpinnings are reflected in the varying emphasis placed on different types of justice, or the societal goals that the welfare state aims to achieve. These philosophical foundations shape the nature and scope of welfare policies, influencing the distribution of resources, the recognition of rights, and the level of support provided to citizens.

Early welfare state theorists such as Gunnar Myrdal (1967 [1960]), Walter Korpi (1978), and Richard Titmuss (1950) viewed welfare policy not merely as an institutional or administrative framework for labour legislation and social rights, but as a normative and moral project, a vehicle for cultivating civic responsibility, social cohesion, and shared public values. The labour movement promoted a vision of citizenship grounded in active participation, shared learning, and communal responsibility. It emphasised the formative role of work and collective engagement in developing the civic capacities necessary for sustaining a cohesive and just society.

Central to present-day discussions are the ideas of John Rawls, whose work has been pivotal in debates about redistributive justice and the role of public institutions in addressing social and economic inequalities. Rawls' seminal work, *A Theory of Justice* (1971), introduced the concept of justice as fairness,

which advocates for principles designed to secure basic rights and equitable opportunities for all individuals. Rawls' theory focuses particularly on protecting fundamental rights and ensuring equal opportunities for everyone, emphasising the conception of justice that prioritises individual freedom and autonomy.

Sen (1999) expanded on these ideas by emphasising the importance of capabilities in assessing social justice, interweaving his approach more closely with the social investment framework. Sen's capability approach argues that true justice must consider individuals' ability to achieve their full potential, thus influencing public policies aimed at enhancing educational and health opportunities. In this sense, the focus was shifted from resource distribution to capacitating individuals. Sen's capability approach emphasises individual freedom and the opportunity to pursue one's potential. However, it also incorporates elements of communitarian justice by advocating for public policies that create conditions for individuals to thrive within their communities, thus blending individual autonomy with a broader societal good.

Fraser's (2003) ideas resonate with contemporary discussions about the intersectionality of social policies and the need for a holistic approach that addresses multiple forms of oppression and inequality. Fraser (2003) challenges the limitations of purely economic approaches to justice and contends that social justice must encompass both the redistribution of resources and the recognition of diverse social identities, advocating for policies that address cultural as well as economic disparities. In turn, Nussbaum (2000) elaborates on the need for public policies that support human development and dignity, emphasising the importance of creating social conditions that allow individuals to pursue lives they value, influencing policy debates on education, gender equality, and human rights. Nussbaum's capability perspective resonates closely with Sen's capability approach on similar principles within a communitarian framework. Nussbaum (2000) emphasises the creation of societal conditions that foster individual flourishing and human dignity, aligning with Sen's ideas on justice and the role of capabilities in public policy. Both approaches advocate for a blend of individual autonomy and communal well-being, suggesting that true justice requires attention to the societal structures enabling individuals to achieve their potential while strengthening communal bonds.

Recent normative debates surrounding the social investment approach have brought this tension into focus. Busilacchi and Giovanola (2023) warn that the emphasis on activation and individual responsibility risks eroding social rights by aligning too closely with neoliberal, merit-based conditionality. Drawing on luck egalitarianism, they see the social investment turn as potentially punitive. In response, Bagadirov et al. (2025) reject this reading and develop a normative foundation rooted in the capability approach and relational egalitarianism. They propose stepping-stone solidarity—a principle aimed at

preventing cumulative disadvantage and enabling secure capabilities—as the moral anchor of social investment. Together with Robin Hood (redistributive) and piggy bank (contributory) solidarities, this forms a tripartite framework for understanding the modern welfare state. Yet while this model expands the ethical rationale for welfare, both perspectives give limited weight to the communitarian roots of welfare states. They overlook how welfare has historically functioned as a shared civic project, not merely as a means of distribution or capacitation, but as a collective moral commitment to solidarity, mutual care, and public virtue (cf. Nussbaum, 2000).

Michael Sandel's (2010) theory on three types of justice provides the most solid theoretical framework for analysing the diverse ideas of moral philosophy and goals of different welfare states. Sandel distinguishes three types of justice—maximising welfare, maximising freedom, and promoting virtue—that reflect different philosophical approaches to what constitutes a fair and just society, each with its own priorities and implications for policy and governance:

1. *Maximising welfare*: This type of justice is concerned with the overall happiness or welfare of society. It is often associated with utilitarianism, which advocates for actions that maximise the greatest good for the greatest number of people. The primary focus is on the outcomes and the aggregate well-being of the community.
2. *Maximising freedom*: This type of justice emphasises individual rights and liberties, with distinct classical liberal and social liberal interpretations. The classical liberal view focuses on protecting personal autonomy and property rights, arguing that justice is achieved when individuals can pursue their goals without government interference, as long as they do not harm others. In contrast, the social liberal perspective emphasises removing social and economic barriers that limit autonomy. It advocates for justice that includes not only protecting basic rights but also providing the necessary resources and opportunities for everyone to fully exercise their freedoms, reflecting a more egalitarian approach.
3. *Promoting civic virtues*: This type of justice involves promoting moral and civic virtues within society. It is linked to communitarian and Aristotelian perspectives, which emphasise the role of community and the development of good character. Justice, in this sense, is about creating conditions that nurture virtuous citizens who contribute to the common good.

Sandel (2005) criticises both the utilitarian and liberal theory of justice by emphasising that such an approach can undermine community solidarity. He argues that justice should be understood through communal values, meaning

that members of the community should be committed to each other's well-being and promote civic virtues and the common good. Members of the community are not merely independent individuals but are also part of a broader connection, which obligates them to act in solidarity with one another. Sandel (2012) criticises the encroachment of market values into all areas of life as they can diminish solidarity and erode communal bonds. He argues that prioritising market values weakens the community's ability to maintain justice and solidarity, as markets do not account for shared values and moral obligations.

Hence, Sandel underscores that justice is not solely about protecting individual rights or maximising well-being but also about upholding the values and norms of the community. This means that communities have a moral obligation to support each other and care for their weaker members, which embodies solidarity. Also, Sandel (2020) contends that the erosion of civic virtues and solidarity devalues the importance of work to a mere means to an economic end, rather than being recognised as a vital component of individual identity and communal life.

WHO IS RESPONSIBLE FOR WELFARE IN WELFARE STATES?

Esping-Andersen's regime theory provided a pivotal classification system yet largely neglected the moral-philosophical foundations of welfare. Esping-Andersen (1990) categorises welfare states into three typologies based on how they weight the role and responsibility of social protection and well-being between the state, market, and the family. While all types of welfare states in his typology share the fundamental aim of providing welfare to their citizens, the specific goals, methods, and philosophical underpinnings of these systems vary significantly between the three models. Each type approaches the welfare state with different priorities and solutions based on individual socio-economic ideologies and historical developments.

Liberal welfare states (e.g., the United States, Canada, United Kingdom) provide minimal state interventions and emphasise means-tested assistance and modest universal transfers. They rely heavily on the market for welfare provision. In conservative welfare states (e.g., Germany, France, Italy), welfare provision is linked closely to one's work history and earnings, and family plays a significant role in social protection. Conservative welfare states, often influenced by the Bismarckian model, emphasise the importance of family as a social structure. Social services and welfare benefits are often designed to support the family unit, and the insurance schemes often extend coverage to other family members. Thus, family acts both as a support net and as a recipient of protections provided through family members' social insurance schemes. In social democratic welfare states (e.g., Nordic countries), the system features

an extensive range of state-provided services and benefits that promote social equality through universalistic policies. Unlike in conservative welfare states, in social democratic welfare states the social insurance coverage is mostly individual, even for minor children if they live away from their parents. (Pedersen & Kuhnle, 2017.) The three types of welfare state and their goals, responsibilities, and provisions are summarised in Table 5.1.

At the turn of the 2000s, Esping-Andersen's typology of welfare states received increasing criticism for its limitations. The typology focuses on *reactive* measures that provide support only after social problems have occurred. Also, the typology did not fully account for modern challenges such as ageing populations, the rise of the knowledge economy, and increased female labour market participation. These changes demanded a welfare system that not only supports people when they are unemployed or retired but also invests in their ongoing development and adaptability throughout their lives. Additionally, the fiscal sustainability of welfare systems—as envisioned by Esping-Andersen—has come under strain due to increasing life expectancy and the higher costs of healthcare and pensions. Esping-Andersen's typology also does not adequately address the integration of marginalised groups (e.g., Arts & Gelissen, 2002).

The social investment framework gained popularity in welfare state research during the 2000s. The framework represents a shift towards a more *proactive* welfare system that prioritises investments in human capital, such as education and health, to prevent social issues before they arise. These principles are aimed at transforming welfare states to better respond to contemporary socio-economic challenges through more dynamic, pre-emptive, and integrative approaches, reflecting a significant shift from traditional welfare systems that often focus on addressing issues only after they arise.

The social investment framework emphasises the importance of supporting individuals throughout their life course with continuous access to services that enable them to contribute effectively to the economy and society. The social investment model emphasises preventive actions, such as education and health interventions, to address potential issues before they manifest, reducing long-term costs and enhancing societal well-being. The social investment framework seeks to mitigate these pressures by enhancing the human capital of the population, thus boosting productivity and economic growth, which in turn can support a more sustainable welfare system. The social investment framework sees that there are three main functions that the welfare state needs to address—*stocks*, *flows*, and *buffers*—which are presented in Table 5.2.

In essence, the social investment framework shares main principles with the Esping-Andersen (1990) social democratic model, but it extends these by advocating for a more dynamic system that not only addresses current needs but also anticipates future challenges. The social investment framework can be seen as an idealised or evolved version of the social democratic/Nordic model,

Table 5.1 *Three types of welfare state and their goals, responsibilities, and provisions*

	1. Liberal welfare states	2. Conservative welfare states	3. Social democratic welfare states
Goals	The primary goal in liberal welfare states is to provide a minimal level of protection for the poorest individuals, mainly through means-tested programmes and modest universal benefits.	Conservative welfare states aim to preserve traditional social structures and familial roles, often reflecting the values and interests of the middle class and promoting status differentiation.	Social democratic welfare states aim to promote equity among citizens and provide extensive social protection and services to all, irrespective of income or social status.
Responsibilities	These states emphasise individual responsibility and rely heavily on the market for providing welfare. The state intervenes only as a last resort, aiming to encourage self-reliance and minimise dependency on governmental support.	These states maintain that the family should be the primary caretaker, with the state providing support only when family capacity is exhausted. The welfare system in these countries is typically earnings-related and contributes to reinforcing existing social hierarchies.	These states view welfare as a right for every citizen, emphasising equality, social solidarity, and universal access to high-quality social services.
Provisions	Welfare provisions in these states are generally less generous, and there is a significant emphasis on promoting and facilitating market-based solutions to social problems.	The welfare mechanisms are often corporatist, with benefits tied to employment and contributions, supporting a stratified provision based on one's professional and economic status.	Welfare provisions are generous and comprehensive, funded by high levels of taxation that are redistributed in the form of universal services (like education, healthcare, and childcare) and benefits that support a broad definition of well-being.

Source: Authors' own.

Table 5.2 Three main functions of welfare states in the social investment framework

-	Stocks	Flows	Buffers
Goal	Enhancing human capital	Easing life transitions	Providing safety nets
Philosophy	Investing in the quality and accessibility of education and health services to build a resilient and capable society, which can sustain economic and social growth.	Facilitating smooth transitions in the labour market and throughout life stages, focusing on adapting to changes and managing risks efficiently.	Maintaining robust social protection systems that act as economic stabilisers and ensure minimum income security, thereby supporting social cohesion and economic stability.
Means	Education and health services	Social service, ALMP, and benefits	Benefits

Source: Authors' own.

suggesting a blueprint for how welfare states can adapt to the modern economic and demographic landscape. It proposes a holistic life-cycle approach to welfare that supports individuals from early childhood through to old age, integrating education, health, and social services in a way that is both economically sustainable and socially beneficial.

Table 5.3 illustrates how different welfare state models and the social investment framework assign responsibility for welfare in the case of five key actors: the individual, community, family, markets, and the state. The categories of family, markets, and state are rooted in Esping-Andersen's contributions (1990), while individual and community reflect Sandel's (2010) contributions to understanding justice through communal values and civic virtues. The liberal welfare state emphasises individual responsibility, community, and market solutions, with minimal involvement from the state or family. The conservative welfare state distributes responsibility primarily between the family, community, and markets, whereas the social democratic welfare state relies on the state to provide welfare, with some emphasis on community. The social investment framework is similar to the social democratic model, but with dividing responsibility between the state and markets, as well as relying on individual responsibility.

Table 5.3 Allocation of welfare responsibility across five key actors in different welfare regimes and the social investment framework

-	Individual	Community	Family	Markets	State
Liberal	x	x	-	x	-
Conservative	-	x	x	x	-
Social democratic	-	x	-	-	x
Social investment	x	-	-	x	x

Source: Authors' own.

THREE SOCIETAL GOALS IN WELFARE STATES

Welfare state regimes emphasise different forms of justice as societal goals in welfare state policies and implementation, as discussed earlier. Table 5.4 presents a summary of how the main types of justice (utilitarian, social liberal, and communitarian) are highlighted in different welfare state types in line with underlying philosophical commitments and policy priorities. Liberal, conservative, and social democratic models (according to Esping-Andersen, 1990) demonstrate distinct philosophical foundations of justice and fairness that influence the roles of the state, market, and family in delivering welfare. The liberal welfare state model promotes minimal redistribution, focusing on market-based solutions and minimal welfare provisions. It ensures only basic freedoms without extensive social and economic rights provisioning, emphasising individual responsibility at the cost of communal support and solidarity.

In contrast, the conservative welfare state model supports 'preservative' or 'horizontal' redistribution, with welfare benefits often tied to employment and

Table 5.4 Underlying societal goals and justice principles in welfare state regimes and the social investment framework

Societal goal	Liberal	Conservative	Social democratic	Social investment
Redistribution (utilitarianism)	Minimal	Preservative	Strong	Strong
Social rights (social liberalism)	Minimal	Moderate	Strong	Strong
Civic virtues (communitarianism)	Strong	Moderate	Strong	Minimal

Source: Authors' own.

family status, aiming to maintain existing social structures. The conservative welfare state model upholds moderate social and economic rights, and moderate emphasis on civic virtues within structured frameworks, particularly in preserving traditional family roles and community structures. The social democratic welfare state model advocates for universal/broad redistribution and extensive welfare provisions designed to ensure strong social rights. The social democratic model emphasises inclusion and solidarity; however, individual civic virtues are emphasised as the societal goal.

The social investment framework can be seen as emphasising utilitarian and social liberal societal goals, similarly to the social democratic welfare state model. However, though social democratic welfare state model is considered to be a perfection of the social investment framework (Hemerijck, 2013), the social investment framework is highly individualistic and places very limited emphasis on the common good or civic virtues. The social investment framework emphasises broad redistribution focused more on investments in human capital, such as education and health. This model provides moderate provisioning of social and economic rights, emphasising rights that facilitate personal development and economic participation. However, it features more narrow/minimal solidarity and civic virtues, focusing on individual empowerment rather than communal support compared to traditional social democratic welfare state models.

Utilitarianism and social liberalism focus on maximising welfare and respecting individual freedoms, respectively, and do not prioritise setting goals for the welfare state that promote civic virtues or the common good beyond ensuring equality and the redistribution of welfare. In contrast, communitarians emphasise civic virtues to foster a sense of responsibility, participation, and a commitment to the common good. Communitarianism also emphasises the value of work as a vital component of individual identity and communal life. In this sense, civic virtues and communitarianism return to the values of the social democratic welfare state, emphasising work not just as a means for living but as a source of participation and recognition for individuals as members of the community. While utilitarian redistribution and social rights are important, they cannot replace the sense of inclusion and solidarity provided by work according to communitarians.

DISCUSSION

European welfare states have evolved into social investment hybrids (Hemerijck, 2006) and one of the reasons for their success is most likely that the social investment framework is driven by a technocratic and functionalist aim, promising efficiency and effectiveness in addressing contemporary socio-economic challenges. However, as Hartz (1955) famously noted, ‘it is

only when you take your ethics for granted that all problems emerge as problems of technique.’ This implies that policy recommendations based solely on rationality and efficiency may overlook fundamental moral principles, especially in welfare policy (Rothstein, 1998). In the Nordic welfare states, this shift has coincided with the erosion of civic virtues, which historically had their roots in the labour movement. This movement, strongly influenced by the educational ideals of the civic enlightenment movement, emphasised not only improving economic and social rights but also fostering moral and political development. It aimed to lay the foundation for citizens’ social responsibility and active participation in society. Rothstein (1998) underscores that the justice and legitimacy of welfare states depend on these moral principles, which bind individual rights to a broader sense of societal responsibility.

With the rise of the social investment framework and its recent refinements, such as the intervention investment model (see Chapter 2), an ideological shift has occurred: communitarian values are being replaced by an increasing emphasis on individualism and technocratic logic. Over time, as utilitarian goals and an emphasis on social rights have gained prominence, the focus on cultivating civic virtue has diminished, marking a significant ideological shift in the Nordic welfare model. Following Sandel (2020), we argue that this transition has also devalued work, a concerning development given the welfare state’s reliance on high employment rates for its sustainability. In parallel, as MacIntyre (1981) contends, modern individualised liberal societies have lost their moral coherence by detaching virtues from the communal practices and traditions that once gave them meaning. This loss of *telos*, or collective purpose, makes it increasingly difficult to sustain a sense of moral obligation toward others, thereby weakening the foundations of solidarity and civic responsibility upon which the welfare state ultimately depends. As these changes unfold, there is a pressing need to critically re-examine the moral foundations of the welfare state, not merely to balance individual freedom with collective responsibility, but to recover a shared ethical purpose that can sustain solidarity, civic trust, and a renewed sense of the common good.

Bagadirov et al. (2025) have advanced the normative foundation of the social investment approach by responding to the critique of its conceptual ambiguity posed by Busilacchi and Giovanola (2023). Their proposal, centred on the principle of stepping-stone solidarity, aims to build individual capabilities across the life course. While their frameworks differ, both perspectives ultimately ground the justification of social investment and the welfare state within utilitarian and liberal traditions—and, in doing so, neglect the communal origins and social embeddedness of morality.

Following the thinking of Sandel (2020) and Nussbaum (2000), civic virtues and the common good should perhaps have a more prominent role (again) in welfare states, reconnecting them with the foundational ideals of the civic

enlightenment movement that once guided the development of Nordic welfare states. The ‘traditional’ communitarian movement emphasised not only the importance of social and economic rights but also the cultivation of moral and political virtues, such as responsibility, participation, and a commitment to the common good. Integrating these civic virtues with individual rights and redistribution efforts might be needed to address the current challenges for reconstructing welfare states to sustain ageing populations, globalisation, digitalisation, and ecological limits. By revitalising the welfare state’s commitment to fostering community membership and a shared sense of purpose, it can provide the support and stability society needs in an increasingly individualistic world.

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6. Structural overstretching: how Finland can afford its welfare state

Juho Saari

INTRODUCTION

Welfare states are complex institutional frameworks aimed at governing social risks and moderating social problems by redistributing resources (transfers and services) and regulating their qualities. They are arguably among the greatest achievements of humankind and have contributed to social progress and quality of life. In most welfare states, the social expenditures of these transfers and services (and the hidden costs of regulations) have increased significantly since the early 1960s until the mid-2020s (on history, see Lindert, 2021). Besides providing coverage for certain traditional or first-wave social risks or dependencies (e.g., childhood, disabilities, long-term sickness, and old age), they have extended to cover new social risks or man-made dependencies of the second wave (e.g., reconciling family and working life, unemployment, temporary sicknesses and incapacities, and services and transfers related to education and housing). They have also expanded to cover social risks related to immigration and excessive household debt. Not surprisingly, their social expenditure/GDP ratios have increased and are currently around 25% in most advanced countries; the ratio for the EU as one entity is around 27% (Eurostat, n.d.), and if you add all transfers and services related to education and indirect subsidies for housing, immigration, and excessive debt costs not included in the ESSPROS-classifications,¹ you probably end up with a number over 30%.

¹ ESSPROS is the European system of integrated social protection statistics. In measuring social expenditure, some well-known caveats require some attention. First, as it is commonly known, gross and net social expenditure levels differ significantly, particularly in those countries where social insurance benefits are taxable income and labour-intensive social and health services have been provided by the public sector (the classic text here is Adema, 2001). Second, in many countries some elements of de facto social expenditure are classified outside of OECD's SOCX and Eurostat's (the statistical office of the European Union) ESSPROS

The question of utmost importance is, (for how long) can welfare states *afford* all these transfers, services, and regulations (or TSRs), or have they already systematically overstretched their funding/expenditure ratios, resulting in significant public deficit in at least some parts (e.g., tax-funded sectors) of the welfare state? Most welfare state studies dealing with affordability of course focus mainly on the service and transfer side of the equation and measure social expenditures, retrenchments, and recalibrations in different ways—and rightly so: it is indeed the core of the social and health policy discipline to study who gets what and how. However, arguably the matter of what we can afford to finance is quite (or more) crucial here, in particular in those welfare states that simultaneously have high social expenditure levels and excessive public deficit.

Finland stands out as an exceptional case study (Ermakoff, 2014) among welfare states due to its unique qualities in terms of social and public expenditure, public deficit and public debt, and its changing economic and fiscal fortunes since the 2010s. There has been something quite extraordinary going on in Finland compared to other Nordic countries, its traditional reference group, as the country has been moving out from the regime in terms of fiscal structures over the last 20 years or so. A justification, or explanation, for that is overstretching. The Finnish case exemplifies how the accumulation of TSRs may have led to structural overstretchedness, where the fiscal and institutional sustainability of the welfare state is increasingly under strain. In this light, the investment-intervention framework thoroughly discussed in this book offers a timely perspective on how to rebalance expansive welfare ambitions with long-term resilience.

STRUCTURAL OVERSTRETCHING

Welfare state literature focuses quite regularly on the institutional frameworks of TSRs. However, only a minor proportion of the relevant literature pays any systematic attention to their financing side. Just to illustrate the obvious imbalance, some, in many ways impressive, handbooks of welfare state studies like *Oxford Handbook of Welfare State* (Béland et al., 2021) and *Routledge Handbook of the Welfare State* (Greve 2019) have devoted close to

expenditure, including occupational pensions and non-legislative sickness insurance. Borderline cases, including student allowances and loans, active labor market policy measures, some forms of rehabilitation, and indirect housing costs, have always been quite shaky as there are many ways to organize these services and transfers with many complementarities and functional substitutes (Crouch, 2011). However, for our present purposes, the social expenditure dataset is sufficiently reliable and far better than 10 or 20 years ago.

30 or 40 chapters to transfers and services (and regulations) with single chapters on financing and expenditure (Obinger, 2021 and Morel & Palme, 2019, respectively). Most other tombstone-sized treaties like *Routledge Handbook of European Welfare Systems* (Blum et al., 2020) and *Handbook on the Political Economy of Social Policy* (Greve et al., 2024) include not a single chapter on funding.

However, without a sufficient funding base, any major welfare state reforms would have never materialised. Furthermore, the institutional and expenditure history of the fiscal foundations of the welfare state make it quite clear that while the economic and fiscal fortunes have occasionally changed, some welfare states have regularly been able to create more sustainable institutional frameworks for financing welfare than others that have seriously struggled for decades in this respect. It is also quite evident that the costs of public deficit (less so public debt/GDP ratio) are an important variable in explaining recent institutional changes in welfare states.

Reasons for the neglect of the financing side in social and health policy literature are probably too obvious to be reviewed: it has indeed been the main scientific, political, and perhaps also moral mission of social and health policy professionals to analyze different kinds of transfers, employment, social and health services, and regulations, as well as their impacts on the distribution of rights and resources and the different qualities of life (well-being and health). Consequently, it has been somebody else's business in other departments to focus on the financing side of equation.² Furthermore, in explaining differences in the institutional frameworks of welfare states and outcomes (however defined), the focus has until recently been on the relative power resources of various parties and corporatist bodies with secondary focus on demographics and economic growth. In more recent times, paradigms, agenda-setting and ideas, among others, have entered into these explanatory models of welfare state development (Béland, 2019). These approaches adequately capture differences in the institutional frameworks and changes of certain transfers and services. However, they tend to have only limited explanatory power in explaining differences in the financing structures of welfare state regimes.

² If some attention has been devoted to funding in social and health policy literature, it has mainly been under the concept of fiscal austerity during the early 2010s or the lack of sufficient funding. In these studies, it is typically claimed that affordable funding is a matter of policy choice in the sense that higher taxes and contributions are feasible ways to solve the austerity puzzle; however, less attention is devoted to those cases where both total tax revenue and social expenditure have reached exceptionally high levels but simultaneously face structural public deficit and escalating public debt.

As welfare states move closer to the 2030s, the issue of public and sustainable funding of these services, transfers, and regulations is becoming a topic that simply cannot be avoided any longer in mainstream social and health policy literature aimed at providing politically relevant inputs into political agendas. Indeed, in recent times, more attention has been devoted to the financing side in both social and health policy literature. In particular, the social investment approach, now with a well-established concept of carrying capacity (borrowed originally, I assume, from Garrett Hardin's (1995) classic works), pays systematic attention to funding as part of the equation of welfare spending (Hemerijck et al., 2023).

More generally, social investments in "stocks" and "flows" are explicitly assumed to generate fiscal sustainability by limiting the demand for the conventional "buffers" against different social risks among the working-age population; that is, for housing, reconciling work and family life, short-term sickness and incapacity, unemployment, and support for education, excessive household debts, and the integration of immigrants. Likewise, and again using the inspiring vocabulary of this collection, investments in social interventions and skills in "situations" of different kinds are assumed to be socially profitable as they promote the self-sufficiency and social resilience of societies by shortening the length of spells in transfers and services (buffers) among those of a working age.

Whether investments or buffers, however, all of them have required gradually increasing amounts of public funding to be channeled through democratic and corporatist processes into the social expenditures of welfare states. Therefore, the *channeling capacities* of welfare states have always been and will always be crucial for the development of the institutional framework for comprehensive social and health policies. As social expenditures have been escalating in absolute and relative terms (in relation to the GDP or dependency ratio) over the decades in most Member States of the European Union (EU) for a variety of reasons, their channeling capabilities have occasionally been seriously compromised. This has in some countries resulted in overstretching with significant public deficits and public debts that gradually accumulate over business cycles, changing dependency ratios, structural changes, and demographic transitions.

Here the chains of a gradually accumulated sequences of events (Pierson, 2004), combined with high social expenditure levels and rigid institutional frameworks, have resulted in steadily escalating public deficits and public debt, particularly when linked with costly socio-political structural transformations (e.g., dependency ratios, socio-economic structures, and urbanizations). This overstretching has occasionally had harmful consequences for carrying and channeling capacities of public funding in longer runs as the governments have tried to promote growth and employment by revising funding structures and

lowering social security contributions and effective tax rates. On the side of TSR (transfers, services and regulations), lagging funding behind the expenditure level has also gradually resulted in either austerity or “great experiments” (see Castles, 1996) in social expenditure and the institutional structures of social and health policies. Simultaneously, it has shifted debt and deficit controls upwards in governmental political agendas as the governments have not found fiscally and politically sustainable ways to either channel additional funding into social expenditure or lower social expenditure (stabilize their expenditure levels), either in absolute terms or in social expenditure/GDP ratio, and to make correspondent institutional changes in welfare states.

The crucial question to understanding the structural overstretching of the welfare state is, therefore, for *how long* can overstretched welfare states “afford” their overstretched expenditures? “Afford” is, of course, a controversial term with multiple meanings. Many still remember John Maynard Keynes’ (1942) puzzling insight that “anything we can do, we can afford”. This phrase has been interpreted numerous ways over the years. Fundamentally, to afford is a matter of choice, within a feasible choice set, for the welfare state. To illustrate, we cannot afford something (e.g., unemployment transfers) because we have decided to afford something else more (e.g., pensions, longer paid holidays for welfare state employees). The affordability question from the financing side is, then: how can different funding structures embedded with diverging structural interests and cognitive belief systems of different organized players (parties, interest groups, ministries) impact these institutional choices of affordability within the welfare state?

As hinted above, Finland is within the group of advanced welfare states that arguably have been facing structural overstretching since the early 2010s until at least the mid-2020s, that is, for a period of 15 years or so in a row through different economic and political cycles. Its funding has been significantly lagging behind its expenditure while the social expenditure/GDP ratio has increased and the share of social expenditure out of public expenditure has expanded. Consequently, the (costs of) public deficit has incrementally become a prioritized issue in public political agenda-setting. Hence, the social politics of the overstretched welfare state have been determined by the fiscal burden of public deficit rather than the proper structures of social risk governance in terms of TSRs. Moreover, as the running costs of public deficits have steadily escalated and other categories of public administration have made legitimate additional claims (e.g., internal and external security due to the COVID-19 pandemic and a war in Ukraine) on the public purse, deficit control has arguably gained a hegemonic role in decision-making even in social and health policy (Saari, 2024; Ministry of Finance, 2025).

FINANCING THE WELFARE STATE

The expansion of welfare states to cover the first wave of social risks with transfers and services was only made possible by the gradual expansion of wage employment (including that of women and aging workers) along with related social security contributions and modest income taxes (Kleven, 2014). Furthermore, progressive income taxation and the invention of various forms of indirect taxation of goods and services played crucial roles since the 1970s in covering the second wave of social risks. Relatively high inflation, particularly in the 1970s, made this reallocation politically more attractive as nominal increases of prices and wages created fiscal illusions and the government occasionally under-assessed inflation adjustments in different contribution tables and tax brackets, thereby automatically increasing net public income. Arguably, these changes in funding structures played a more crucial role in the welfare state expansion than power resources, different parties and organizations had.

The funding structures of the welfare state determine who will get what in which “club” or “the commons”. Clubs, e.g., social insurances and employers’ related health and social services, are usually funded through ear-market social insurance contributions which heavily regulate the consumption of these transfers and services, the number of persons entitled to them, and the lengths of the time spells (the period of use of the benefit or the service) (Buchanan, 1965). In most cases, their budget constraints are quite rigid, a sort of defined contribution type, although different kinds of mechanical buffers may occasionally ease the cost pressures during recessions. The commons, like public healthcare and social services along with flat-rate and means-tested transfers, are quite often funded through non-earmarked taxation, resulting in different dynamics in their financing. Their budget constraints are often soft and there is some tendency for “overfishing” these commons (Ostrom, 1990); that is, the use (persons and spells) of these services and transfers tends to exceed the predicted expenditure levels in the long run. Both clubs and the commons also tend to have cost-shifting and crowding-out solutions: most typically, the clubs shift excessive costs to be covered by the commons and simultaneously crowd out their funding.

Different combinations of clubs and commons may end up with high or low levels of expenditure. Consider, for instance, the Nordic model (for the debate on its existence, see Kautto, 2012; Kangas & Niemelä, 2025, Chapter 7, this volume), where the “social democratic” regime in different Nordic countries (Finland, Denmark, Norway, and Sweden) has resulted in wildly diverging funding structures regardless of similarities in power structures and in

transfers, services, and regulations.³ Denmark has relied on taxes on income, profits, and capital gains; taxes on goods and services (value-added taxes, so-called sin taxes, and some product-related taxes); and low social security contributions within the public economy (they do have modest contributions to pensions, vocational training, maternity, occupational health, etc.). Finland is clearly different, with lower employer's social security contributions (SSC) and higher employee's SSC; furthermore, taxes on income, etc. have gradually been crowded out by indirect taxes. Norway, in turn, relies extensively on taxes on income and value-added taxes, and has a low and steady share of other items and no employee SSC. Finally, Sweden has lowered taxes on income and employers' SSC, and has moved towards less movable tax bases. Significantly, it has increased a share of "other" taxes, including payroll and workforce taxes, otherwise classified to employers' SSC. Since the mid-1990s, employee SSC remains stable and has been relatively low.

To summarize, there have been numerous ways to organize funding that are roughly equal in terms of channeling and carrying capacity. However, in recent years some advanced welfare states have had mixed fortunes as the state of their public economies has rapidly evolved in different directions. Finland is among them. The turning point was the global financial crisis of 2008, after which Finland has steadily gained additional debt. Furthermore, Finland has increasingly drifted away from other Nordic countries. To add insult to injury, the public debt/GDP ratios in other Nordic countries have been steadily lowering.

FINLAND: BROKE, BUT HAPPY

The welfare state in most EU Member States comprises a statistical and political artifact that integrates different combinations of TSRs in different social risk management structures into one concept. In everyday politics and decision-making, different institutional structures have diverging financial bases and administrative practices in different social risks with strong protective moats and self-enforcing and path-dependent mechanisms against direct transfers of funding from one item, club/commons, or social risk to another. However, welfare states, in particular those in EU Member States that are within the EMU, simultaneously share governmental general responsibility to maintain a sufficiently low deficit at the level of public expenditure regardless of sector.

In Finland, which of course is a country of special interest in this collection, from a classification point of view, the fiscal and political consolidation

³ What follows is based on OECD database. Figures have been deleted due to the space limit.

of the welfare state occurred mainly in the early 1990s as the country entered first the European Union (EU, 1995) and later the European Economic and Monetary Union (EMU, 1999). Due to the requirement of a growth and stability pact,⁴ since the late 1990s, public debt has been administratively treated as a single entity regardless of its source or sector of deficit or surplus, and sectors have been consolidated into public debt and expenditure statistics. There were, and still of course, are institutional, organizational, and political moats between different ways to fund different TSRs. However, since the mid-2010s, the consecutive governments have gradually and case by case been promoted of merging different components of public economy (the state, social security funds, municipalities etc.) into the one entity to be supervised by one ministry, that is, the Ministry of Finance. More recently, the Fiscal Compact and the Budgetary Framework Directive of 2024 set some additional (allegedly soft) limits for public deficit and public debt (Ministry of Finance, 2024a; 2024b).

In this kind of institutional, organizational, and contractual environment, increases in social expenditure without corresponding increases in funding have resulted in structural overstretching combined with shared public responsibility. Shared public responsibility also implies that the political and administrative elites of the welfare state have tended to think of it as a complex institutional entity covering all social risks rather than administratively and politically differentiated and moated TSRs funded and administered separately. This is a major transformation in policymaking that, among other aspects, has strengthened the role of the Ministry of Finance as a super ministry responsible for managing that shared responsibility.

Finland has generated quite massive public debt in two phases. First, during the great recession (1991–1994), its debt/GDP ratio peaked from 14% in 1990 to 55% in 1995; it then lowered again as productivity, the economy, and employment boomed to 35% of GDP in 2008. On European scoreboards, Finland was among the most balanced countries at that time. After that, however, the second phase started after the Lehman Brothers' crisis and the public debt again escalated and reached its all-time high of 77% of GDP in 2023. The forecasts for the late 2020s indicate that it is likely to exceed 80% before the end of the decade. Simultaneously, the annual public deficit is likely to prevail at 2–3% of GDP until the end of decade (Ministry of Finance, 2024c). The European Central Bank, the Commission, the IMF, rating agencies, and of course the ministries of finance in Finland and elsewhere have been carefully

⁴ It is comprised of the Resolution of the European Council of 1997, Regulation 1466/97 regarding the preventive arm of the SGP, and Regulation 1467/97 regarding the corrective arm.

monitoring this development and have for some time been quite unhappy with the happiest country in the world (Helliwell et al., 2025).⁵

As time went by in the early 2010s, political and administrative elites started gradually to take excessive public deficit seriously as expected economic growth did not materialize and the public debt/GDP ratio started to deviate from earlier patterns (Ministry of Finance, 2015). The public deficit and accumulating public debt resulted mainly from, on the one hand, low productivity and sluggish economic growth since the early 2010s and, on the other hand, from aging population and worsening dependency ratio since the early 2000s. However, historical evidence on the chain of events in reform-making also indicates that the political parties and social partners committed themselves during the sunny times of the 2000s to levels of public expenditure that simply were not sustainable as the rainy days continued for a significant period (Saari, 2024). However, as the interest costs of the public deficit were quite limited and steadily declining regardless of the rapid increase of public debt, there was not a sense of exceptional emergency during the first half of the 2010s (Arola & Heikkinen, 2022; Saari, 2024).

This policy mood rapidly changed before the national elections in 2015, when the Ministry of Finance made it quite clear in its policy paper (roughly comparable with a white paper in some countries) that the next period of rule (2015–2019) would be focusing on the deficit (Ministry of Finance, 2015). However, as cost-smoothing reforms, both in regard to earnings-related pensions (establishing some automatic stabilizer, implemented in 2017) and social and health services (that were transferred from municipalities to so-called well-being services counties, implemented in 2023) were well on their way (and they were assumed to curb expenditure growth) and the costs of deficits were in decline, confidence and positive expectations among policymakers did start to build. Furthermore, the COVID-19 pandemic resulted in a massive increase in public expenditure aimed at limiting harms and losses. Simultaneously, however, deficits and debt increased the fiscal sensitivity of public policies on rating agencies' (Moody's, Standard & Poor's, and Fitch) assessments, IMF's Article IV consultations, and within the EU the Stability and Growth Pact's fiscal governance rules.

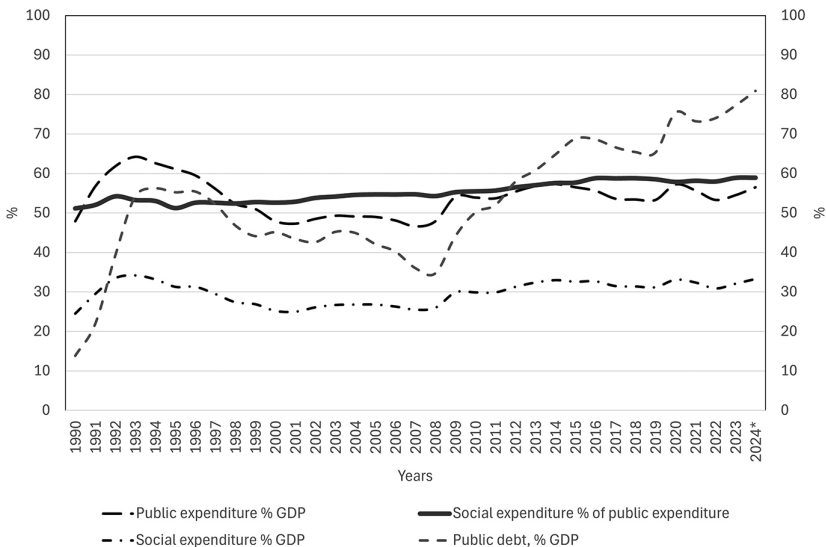
The latest wave of escalating deficit and debt resulted in a state of crisis from November 2022 onwards (Ministry of Finance, 2022) and in major retrenchment in the welfare state after the 2023 general elections, which were won by conservative and populist parties. Curbing the public deficit has been set as the primary goal of recent (2023–2027) government policies, resulting in

⁵ <https://www.imf.org/en/Countries/FIN>; https://economy-finance.ec.europa.eu/publications/2024-european-semester-country-reports_en; <https://tradingeconomics.com/finland/rating>.

major cuts in most services and transfers targeted to the working-age population (Council of the State, 2023).

The focus of the overstretched welfare state has been on recalibrations and retrenchments in different TSRs, in particular regarding those social risks (unemployment, sickness, housing, reconciling work and family life etc.) exposed by persons of working age. This has provided some short-term fiscal relief for overstretching. However, in the longer term, securing channeling capacities on the financing side is a far more important factor. Under these conditions, relieving overstretching and then bridging the gap is quite challenging, even if most shareholders (political parties and social partners) have gradually recognized that they have been on the slippery slope for quite some time.

Figure 6.1 shows the history of “the slippery slope” in terms of social expenditure, public expenditure, social expenditure/public expenditure ratio, and public debt from 1990 until 2024 (the latest year available). Notice that half of public expenditure went into social expenditure in 1990 and 60% in 2024. Otherwise, the figure is self-explanatory.

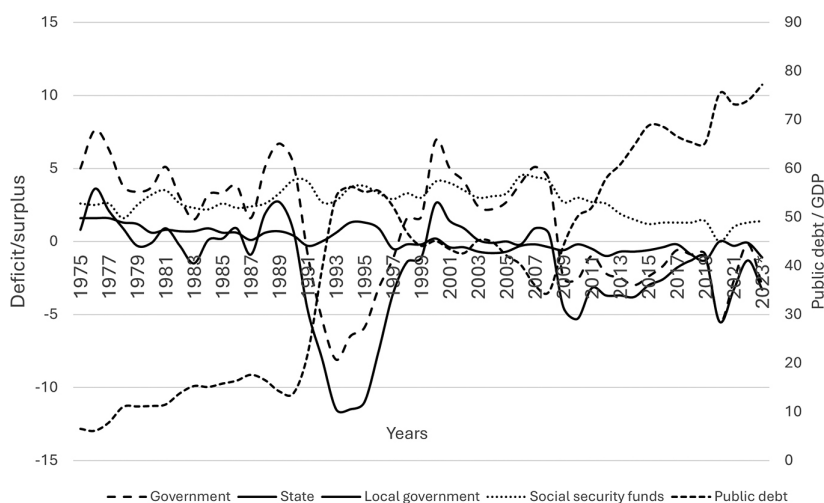


Source: Statistics Finland (2024).

Figure 6.1 Social expenditure/GDP, public expenditure/GDP, social expenditure/public economy, and public debt % GDP, 1990–2024

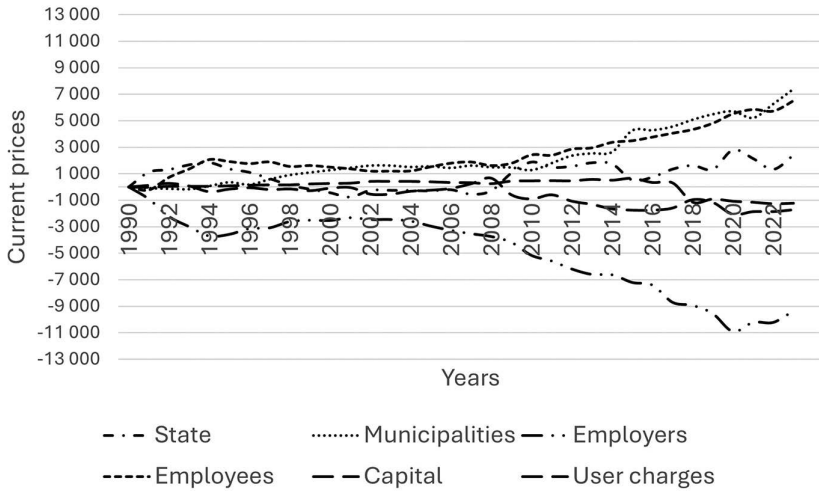
Figure 6.2, in turn, shows the sectoral distribution of deficits and surpluses from 1975–2023. First, it shows that the state has accepted deficit funding, particularly during the recessions. Social security funds have maintained their surplus, although that has been steadily decreasing. Local councils, which have a right to raise income tax, have roughly been in balance as is expected by the law. To put it another way, if there were any austerity policies in Finland in the 2010s (and in my opinion, there was not), they were not sufficient to bounce the public economy back in balance.

A third angle is provided by Figure 6.3. Data from Finland over the period 1990–2022 shows a mechanism that can be visualized by locking in the funding structure of 1990 and then evaluating the evolution of funding structures in Finland. The year 1990 also represents the last steady year after the critical junctures of the mid-1970s and before the rapid transformation in the 1990s. Funding reforms in social insurance contributions have since then been justified, either by competitiveness or funding of earnings-related pensions as a priority over items of social expenditure. In addition there have been some drastic cuts in corporate taxes (outside SSCs), again justified by competitiveness considerations.



Source: Statistics Finland (2024).

Figure 6.2 Public debt and deficit by sector in Finland 1975–2023, % of GDP



Source: Statistic Finland (2024).

Figure 6.3 Shifts in funding social expenditure in Finland, 1990–2022, millions of euros, current prices

RECENT TRICKS OF TRADE IN COPING WITH OVERSTRETCHING

Behind these historical numbers and recent situations, there have been different tricks of trade to cope with overstretching. The first coping mechanism has been conventional recalibrations and retrenchments of TSRs. In the welfare state-labor market nexus, the government expects the unemployed to find employment faster (therefore lowering earnings-related unemployment benefits), the sick to have shorter and less regular sick leaves, students to graduate faster, tenants to find cheaper apartments sooner (therefore lowering the amount of acceptable rent in housing allowance and income support), and the rehabilitated to bounce back from health-related issues (therefore shortening the spells of need for rehabilitation services and transfers) (Council of the State, 2023; Ministry of Finance, 2024a; 2024b). This kind of recalibration of the buffers is the sustainable way to cope with temporal deficits, mainly during the period of an electoral cycle. It is not a long-term solution in the case of gradually accumulating public debt as their total costs are relatively small compared to those of spending on so-called natural dependencies (the children,

the long-term sick [specialized healthcare], the disabled and the elderly) (Saari, 2024; on pensions, see, Ilmakunnas et al., 2025, Chapter 15, this volume).⁶

Secondly, there have been numerous reforms in the financing of the welfare state aimed at making the welfare state as an entity more affordable by restructuring and reallocating fiscal burdens. In 1992, the so-called Sailas agreement lowered employers' contributions and increased employees'/insurees' contributions in social insurance. Furthermore, it was agreed that from then on, any increases in social security contributions would be equally shared between the employers and employees, unless otherwise decided. The state increased its share of expenditure as the clubs closed their doors (Saari, 2001). The pattern of shifting the costs from the employers to the employees was repeated in 2017 as part of the so-called Competitiveness Pact in 2016 (abbreviated commonly as KIKY) between social partners and the state (KIKY, 2016.) Social partners have also gradually withdrawn from financing non-earnings-related transfers and non-occupation-related services (Saari, 2009).

Thirdly, the government has decided to add tax on social transfers and increase indirect taxes. The government has occasionally decided to continue to spend as it did previously but simultaneously tighten taxation of taxable transfers (social insurance) to claw some spending back. This consequently has resulted in an increasing gap between gross and net expenditure. Indirect taxes, particularly those collected from joys (sweets, etc.) and sins (tobacco, alcohol), are regularly increased. Further, the government of 2023–2027 did increase the general VAT and reclassified items from lower VAT categories into the upper ones.

Fourthly, coping mechanisms—re-shifting costs as a package—are institutionally the more interesting “tricks”. In 2024, the government decided against the uniform resistance of social partners on both sides of the table to implement the so-called channeling solution. Here, the lowering of unemployment security contributions of employers and employees due to the positive development of employment was compensated by the increase in employers' and employees' contributions to sickness insurance (in particular, to daily allowance) and the corresponding decrease of the state's contribution to that insurance (Ministry of Finance, 2024c; Ministry of Finance, 2024d). Consequently, *the state lowered* its absolute share of funding for social insurance. This was something exceptional as it went against all tradition and practice and disregarded the wishes of social partners to control these social security contributions. From a

⁶ In 2025, wellbeing services counties are fiscally in deficit and most of them will not balance their budget as required by law. This is a matter of some interest beyond the scope of the current chapter.

longer perspective, it was also part of a longer chain of events where the public economy was consolidated into one entity.

The fifth mechanism of fiscal importance occurred in April 2025 when the government of Finland decided in its General Government Fiscal Plan 2026–2029 to significantly lower both income and corporate taxes to boost economic and employment growth. This reversal of previous policies resulted in a paradigm shift in economic and fiscal thinking. It was quite controversial as it generated significant additional short-term deficits in 2026–2027 before the predicted dynamic effects, and consequently absolute increases in social security contributions and taxes would materialize in late 2020s. It also has had some exceptional impact on income distribution in favor of upper-middle classes and businesses. To bridge this gap, the government decided to reallocate resources from both government housing funds (virtually all of it) and government pension funds to the state budget for the year 2027, which happens to be an election year (Ministry of Finance, 2025).

SOCIAL INVESTMENT IN AN OVERSTRETCHED WELFARE STATE

If the mechanisms mentioned above fail to meet the objective (as seems to be the case, e.g., Ministry of Finance, 2025) of de-stretching the welfare state, the most pragmatic solution is to continue public policy as usual and also continue to generate public deficits until the European Commission starts its Growth and Stability Pact procedures or credit rating agencies lower Finland's ratings significantly.⁷ This is a long chain of events that allows the Member States involved significant time to adjust. There are many checkpoints, including Article IV reports of the IMF that provide more pressure for political agenda-setting and decision-making. As the state—in particular, the Ministry of Finance—is always the responsible partner, it consequently either cuts its own (state) expenditure or passes on the cuts to local governments or social security funds.

Another pragmatic coping mechanism is reallocating social expenditure outside the public economy. This has been done in numerous ways, most importantly through redesigning institutional foundations of occupational healthcare, sickness insurance, and occupational-/earnings-related pensions and making the costs accrued from child and old age care deductible in taxation. The most important items here are occupational pensions and some

⁷ This actually happened in June 2025 when Fitch downgraded Finland to 'AA'. <https://www.fitchratings.com/research/sovereigns/fitch-downgrades-finland-to-aa-outlook-stable-25-07-2025>.

collective forms of sickness insurance and occupational care. Disruptions in ESSPROS social expenditure time series (e.g., Netherlands, Hungary) clearly indicate such reclassifications.

A more ambitious approach to coping mechanisms relies on social investment thinking, where, as explained elsewhere in this collection, the TSRs per social risk governance structure are redesigned as a combination of short-term buffers and long-term social investments. This approach has some appeal, especially in those Member States with overstretched welfare states but who may wish to make their welfare state affordable in positive, visionary terms (see, Mulgan, 2019). In terms of agenda-setting and implementation, however, there are many practical issues of significant importance; among them, of course, the funding of these social investments. Pragmatically, in the case of overstretched welfare, they require a drastic reallocation of resources within social expenditure from consumption to investment, particularly in social risk governance among the working age population.

Consider, again Finland as an exceptional case study. Most transfers and services for persons of working age, classified as “stocks” in social investment literature, have diverging sources of funding. Some stocks have been funded by social security contributions (through the employment fund) while most of the other stocks have been co-funded through local or national taxes. The government that took office in June 2023 made drastic cuts in just these social investments. It, for instance, straightforwardly terminated adult education subsidies funded through social security contributions, claiming, partially correctly, that they were mainly used by already highly educated individuals and did not sufficiently contribute to human capital or productivity. The government also terminated all so-called bridge transfers (or protected earned income) aimed at making the transition from income support, housing allowance, and flat-rate unemployment allowances to working life smoother and financially more rewarding, arguing that these bridge transfers—typically social investments—tend to encourage part-time work arrangements and discourage seeking full-time jobs (Council of State, 2023).

These examples (and there are many others) show that the government focus on overstretching has strong incentives to target cuts on those transfers and services that are considered as stocks *regardless* of their way of funding. Furthermore, although total costs of these stocks (and flows) are quite limited (only a fraction of expenditure on children, disabled, sickness/health, and pensions), they nevertheless were easy prey for political bounty hunters that frame these transfers and services as less-than-effective items of social spending rather than social investments. Here, arguably, those responsible for designing these transfers and services in previous decades are partly to blame as there is only a limited amount of evidence on their positive (or for that matter, negative) impact on these social investments in employment and

social expenditure (Saari, 2024). Further, although these policies have created organizations producing these transfers and services (a typical “policy creates politics” mechanism), none of them were able to produce political coalitions to protect their vested interests.

Consequently, the social investment approach will hold its breath for some period in an overstretched Finland. However, more far-sighted governments with a better understanding of the shared responsibility of the welfare state entity may end up with another kind of reform list with a stronger focus on skills and social investments (see, again Mulgan, 2019 for a more comprehensive argumentation). This initiative is comparable to the government’s “Double or Nothing policy game”; decision in 2025 to lower taxes and find temporary funding from housing and pension funds to bridge the gap before the wished-for dynamic effects materialized in the late 2020s.

In terms of political agenda-setting in an overstretched welfare state, the social investment approach requires drastic cuts in the time spells (the period of use of benefit or service) of buffer transfers (and some services and regulations) in all social risk governance in the welfare state-labor market nexus and corresponding reallocation of resources towards the investment type of transfers, services or regulations (TRSs). These policies of redesign type of cuts in entitlements in the short term but may arguably generate additional resources for households over their life cycles. Obvious examples of required or potential cuts and reforms are numerous, and some of them are low-hanging fruit. Shortlisting them, however, is besides the point here.

To summarize, there are legitimate ways to make the overstretched welfare state more affordable in the longer run by redesigning social risk governance among the working-age population towards social investment. In terms of fiscal deficit, the social investment approach is not a silver bullet, as most social spending is still allocated to the first wave of social risks. However, it provides a visionary framework forward when the government has some political and fiscal space to be a little bit more forward-looking. Policy-wise, this shift from social rights to social investment is politically quite painful, as citizens tend for good reasons to resist such changes. However, it probably is the best option available in the imperfect landscape of the overstretched welfare state.

CONCLUSION

Overstretched welfare states are politically and fiscally too large to either fall or fail. Politically, they have crucial roles in providing protection against various social risks (social risk governance) and social problems (social problems governance), and such rapid rolling back policies would have devastating electoral effects on ruling parties. Fiscally, rapid cuts and structural reforms likely result in extended recessions (at least if not implemented during the

boom, which is politically unlikely due to lack of sense of emergency necessary to make such policies). Therefore, governments sometimes choose more demanding ways to institutionally cope with overstretching by implementing recalibration and retrenchment policies. These are precisely what have been implemented in Finland.

The question being investigated here was whether overstretched welfare states can afford to maintain transfers and services. Finland was used as an exceptional case study, representing a currently overstretched welfare state, with the country experiencing all common features of an overstretched welfare state. Its social expenditure/GDP ratios have gradually increased, the proportion of deficit funding has increased significantly, and the proportion of employers' contributions has steadily decreased. This trilemma makes the welfare state less affordable, resulting in retrenchments and recalibrations. So far, the government has hunted down easy prey, that is, services and transfers targeted to meet social risks of a working-age, fit-to-work population, many of which have commonly been called social investment. This is politically understandable and feasible, although not necessarily wise in a socio-political sense. Citizens have a right to expect more visionary social and health policies, and social investment approaches may play a significant role in this case.

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7. Walks the walk, but doesn't talk the talk: Finnish exceptionalism from the Nordic perspective

Olli Kangas and Mikko Niemelä

INTRODUCTION

In welfare state literature, the Scandinavian welfare state, sometimes referred to as the Nordic welfare state,¹ appears as a mythical creature. Myths are associated with the origin, driving forces, its essential constitutive parts as well as outcomes of the Nordic model. Most often, Sweden has been used as a prototype of the model. The idea of Swedish exceptionalism was launched by American journalist Marquis Childs (1936) in his book *Sweden: The Middle Way*. Gradually, after the Second World War, from which Sweden emerged undamaged, the reputation of the Swedish model began to spread worldwide.

Gradually, other Nordic countries were grouped under the Nordic umbrella. The Nordic model was characterized by its universalistic legacy, comprehensive social security, high spending that was mainly financed by taxes, a strong emphasis on social services, high employment rates in general and among women in particular, and consequently low levels of poverty and social exclusion – in other words, factors that mostly also describe the social investment paradigm. In the 1970s and 1980s, there was an avalanche of analyses on the causes of such a miraculous model that outperformed all other welfare state models. As the epithet “the Social Democratic welfare state”, oftentimes used synonymously with “the Nordic welfare state”, indicates, most explanations referred to the strong position of the Social Democratic parties as a decisive driver of the model (e.g., Korpi, 1978; Stephens, 1979; Esping-Andersen, 1985). Stephen Graubard (1987), in turn, reflected on the distinctive ethos of equality

¹ In our subsequent text, the term “Scandinavia” refers to Denmark, Norway, and Sweden (see e.g., Ringen, 2023), whereas the term “Nordic” pertains to the three Scandinavian countries plus Finland.

in the Nordic countries—a “passion for equality”—which accounts for their demands to level societal differences and their plea for fairness.

In international comparisons, Finland has often been overshadowed by Scandinavian countries. In these comparisons, Finland has frequently been considered a welfare state laggard, with central social policy programs being introduced later and at lower levels than in many other European countries, not to speak about the three Scandinavian countries (see, e.g., Alber, 1987; Esping-Andersen & Korpi, 1987). Although the development of Finnish social policy may have been delayed compared to many other countries, the ideas of universalism were strongly rooted in Finnish social policy debates, maybe even stronger than in Scandinavia. The spirit of universalism is materialized in the dual structure of the Finnish income maintenance system. On the one hand, there is the “traditional” contributory social insurance for those in employment, and on the other hand, there are universal non-contributory and residence-based minimum benefits for those who have not been employed. Thus, the Finnish peculiarity is the universal basic security (*perusturva* in Finnish) that to some extent mimics basic income (*perustulo* in Finnish). In contrast to its Western neighbor, the Finnish Social Democratic Party (SDP) never achieved such a hegemonic position. Instead, the building of the Finnish welfare state was a continuous compromise at the political level between the SDP and the agrarians and at the labor market level between social partners (Alestalo & Uusitalo, 1986).

An intriguing question is to what extent the Finnish welfare state displays the same characteristics as its Scandinavian counterparts in general and its Swedish variant in particular? Did the differing political constellation result in a significantly distinct welfare state in Finland compared to Scandinavia? Hence, the aim of this chapter is to analyze some of the main distinctive characteristics of the Nordic welfare states. We use Finland as a prism through which we examine the “Scandinavianess” of welfare arrangements and their outcomes in the five Nordic countries. These characteristics include the usual suspects: universalism, a high level of public spending on welfare in general, and on in-kind benefits (social services) in particular, and their outcomes in terms of employment, poverty, and income distribution (e.g., Greve, 2007; Kautto & Kuitto, 2021).

When examining the roots of Nordic universalism, in the next section, we rely on Émile Durkheim (1912). In his *Les formes élémentaires de la vie religieuse*, Durkheim sought to unravel the origin and core elements of religion. Durkheim (1912) argued that in order to understand and explain a social phenomenon, we must study the most elementary or primitive forms of that phenomenon. Thus, if we want to understand the origin and elementary forms of the Nordic welfare model, we should concentrate on the historical development of Finnish social policy, known as the most elementary variant among

the Nordic welfare states. This historical scrutiny will be focused on in the first section. This section focuses on “talks”, i.e., the main political discourses and policies created, arguing that the “talks” in Finland were different to in Scandinavia. For example, “the talks” on social investment did not achieve a foothold in the Finnish scientific or political debates. The subsequent three sections delve into “walks”, i.e., institutions and their outcomes in terms of employment, inequality, and poverty (second and third sections). Regarding outcomes of the “walks”, in the penultimate section we show that despite its different solutions from the rest of the Nordic welfare family, Finland performs exceptionally well in the European and even in the Nordic comparison. Our conclusions show that while Finland did not “talk the talks” the Finnish welfare state satisfactorily “walked the walks”—in fact, in some cases even better than its Scandinavian counterparts.

FINLAND DOES NOT TALK THE TALK: DIFFERENT POLITICAL DISCOURSE

Perhaps the most well-known explanations of the roots of Nordic universal social policy are given by Gøsta Esping-Andersen and Walter Korpi (Esping-Andersen, 1985, 1990; Esping-Andersen & Korpi, 1987). According to them, Nordic universalism stems from the social democratic ideas of solidarity. However, this emphasis on social democratic hegemony has been questioned. For Francis Castles (1978), the explanation lies in the political structure of Nordic societies. Instead of having one powerful bourgeois party, the political spectrum to the right of the Social Democrats consisted of a number of smaller parties, and due to the fissures on the political right, the Social Democrats were able to push through their ideas on social policy. Peter Baldwin (1990) goes further and argues that the special characteristics of the Nordic welfare states originated not from lofty social democratic ideals but from the self-interests of the agrarian classes, who did not want to be excluded from social protection. There are also a number of studies emphasizing the important role played by employers in the creation of the Nordic welfare states (e.g., Swenson, 2002; Kangas, 2006).

In contrast to sociological power resources and class-interest-based analyses (e.g., Korpi, 1978), many political scientists focus their explanations on political institutions and the state’s capacity to carry out reforms. Civil servants in the central government were able to initiate, draft, and push through social policy initiatives (e.g., Immergut, 1990, Hecló, 2010). Thus, for example, in the Swedish case, instead of left-wing politics, we have to thank Gustav Vasa (1496–1560), who carried out reform, fortified the power of the central state, and effectivized taxation to finance public expenditures.

Undeniably, we can identify many common historical roots that Finland shares with its Scandinavian neighbours (Kautto & Kuitto, 2021). Furthermore, diffusion of policy ideas, mostly from Sweden, inspired the Finnish civil servants responsible for social policy planning (Karvonen, 1981; Kettunen & Petersen, 2021). However, there are important differences in the significance of these common roots when explaining the specific characteristics of the Finnish welfare state. First, the expansion of industrialization was delayed in Finland, and consequently, employment in agriculture persisted much longer than in Scandinavia. For example, in 1930, the share of agriculture in the sectoral distribution of the labor force was 71% in Finland compared to 40% in the Scandinavian countries (Statista, 1999). Even in 1960, the difference was still clear: whereas in Finland nearly 40% of the labor force was in agriculture, the share was less than half of that in the Scandinavian countries (Alestalo & Kuhnle, 1987; Alestalo, 2000).

In principle, Finland shared the tripartite Scandinavian class formation based on the traditional means of production: labor, land, and capital. Compared with countries outside the Northern hemisphere, the distinctive feature in the North was the class of independent peasants with their family farms as the nucleus of farming. Traditionally, the independent peasantry was represented in the House of Estates. Later, after the breakthrough of democracy and parliamentarism, peasants had their own agrarian party in the parliament (Alestalo, 2000). The formation of the agrarian party in the middle of the political spectrum split the political right as Castles (1978) argued. Consequently, for example, in Sweden, the Social Democrats had continuous governmental power from 1932 to 1973.

Finnish Exceptionalism

In 1906, Finland established universal suffrage—the first country in the world to do so. However, the SDP did not achieve as strong a position as its Nordic sister parties did. On one hand, there was a strong agrarian party (the Agrarian Union, AU; since 1965, the Centre Party, CP), representing the vast rural population. Furthermore, the SDP was challenged not only from the center but also from the left by the Finnish People's Democratic League (FPDL), a cooperative organization of left-wing socialists and communists. Occasionally, both the AU and FPDL were bigger than the SDP, and they often unified against social policy proposals initiated by the SDP (Kangas, 2006).

As in the other Nordic countries, the SDP was often the initiator in socio-political discussions (Kangas, 1991; Nygård, 2003; Kettunen, 2019). However, in their party programs and election manifestos, they spoke much less about social policy or the welfare state than their Scandinavian sister parties. During the period from 1945 to 2023, clearly less than 10% of statements dealt with the

welfare state, whereas in Denmark and Norway, the corresponding share was about 10%, and in Sweden close to 20% (Marpor data, 2024). Furthermore, as shown by Pauli Kettunen (2019), while the Swedish Social Democrats adopted the concept of *welfare politics* as the underpinning motivation for their claims on reform policies, the Finnish conceptual counterpart was the demand for *welfare for all*, pertaining to outcomes. Thus, whereas in the Swedish discourse politics was a *means* to guarantee the well-being of people—politics of policies—the Finnish discourse was more *outcomes-oriented*. However, the concepts of the welfare state or welfare politics never played such a future-oriented role as it did in Sweden (Kettunen, 2019). This may have something to do with the agrarian cultural legacy. Rooted in agrarian experiences, the proverb “Mouth according to the sack”, meaning that people should always live within their means and not spend more than they can afford, reflected the importance of present-day financial prudence. This wisdom was, and still is, generalized to apply to the national economy as well. Consequently, Finnish economic policy has been more pro-cyclical than counter-cyclical (Pekkarinen & Vartiainen, 1993). Furthermore, the economic policy discussion has been a discourse without alternatives: “a man must do what a man must do” (Nyroos, 2024).

Additionally, up to 1992 there was one Finnish parliamentary peculiarity that had significant ramifications for policymaking. The parliamentary reform in 1906 introduced the most extensive universal suffrage at the time. The 1906 reform implemented strong minority protection clauses to prevent social reforms deemed “too radical”. One third of the parliament could vote to make a governmental bill “dormant” until after the next election. As a rule, such “dormant” bills were never promulgated. Thus, the one-third minority rule offered an effective veto point for parties that could not accept the governmental bills. This specific regulation compelled political parties to form “oversized” governments to prevent bills from failing, which in turn led to consensual policymaking.

Politics of Social Policies: Some Examples

In Finland, early efforts to develop social security programs were often initiated by civil servants who drew their inspiration from recommendations of the International Labour Organization (Kuusi, 1931; Mannio, 1967). Thus, as Hecló (2010 [1974]) argued, civil servants in Finland were active in social policy issues. However, the AU supported by the FPDŁ rejected these early initiatives as “insane ideas from abroad”, and as insufficient for the Finnish context. The simple reason was that early attempts by the social bureaucracy followed the Central European ideas of workers’ insurance. Such a model was unacceptable to the AU and FPDŁ, who drew their political support mainly

from rural areas. Their universalistic social policy slogan was “little but everybody”, meaning that only a universal scheme would be acceptable (Kangas, 2006). The minority protection clauses prevented the introduction, for example, of pension and sickness insurance schemes limited to employees only. The clauses required the parties to seek consensus, delaying the introduction of social policy programs and resulting in the two-tier income maintenance system (basic security and income security benefits) that remains in place in Finland.

The same political logic as in the cases on sickness insurance underpinned many other policy reforms, for example, in the making of the Finnish family policy, introduction of child allowance, and the daycare system—all of the central elements in the social investment approach. The initial trials of child allowance were based on the Central European male breadwinner model: benefits were paid to (male) employees with dependent children (Kangas, 2006, pp. 290–312; Bergholm, 2015, pp. 77–107). The AU demanded that child allowance also be paid to children living in rural areas, not only to children of employees. The child allowance implemented in 1948 made benefits unconditionally available for every child under 17 years of age. Pekka Kuusi (1968, p. 180) aptly summarizes the outcome: “The child benefit reform was experienced by families with children as an improvement in their lives, especially in Northern and North-Eastern Finland, where there was still a lack of everything except children. In those regions, the child benefit fell like manna from heaven to a land of scarcity.”

The specific interests of the agrarian population are also visible in the Finnish child daycare system, which deviates from its Scandinavian counterparts. The left-wing parties insisted on universal municipal daycare, whereas the Centre Party (CP, formerly AP) and the Conservatives demanded a home care allowance (HCA), a cash-for-care scheme. In 1985, as a political compromise, the Child Care Act guaranteed a universal right to daycare for all children under three years old and HCA for all families who wanted to use it instead of municipal daycare. HCA won strong legitimacy in Finland compared to other Nordic countries. It was portrayed as a “freedom to choose”. In contrast, in Sweden, home care has been criticized as a “trap for women”, i.e., an incentive for women to stay at home, and daycare is instead regarded as an important part of early childhood education (Hiilamo & Kangas, 2009).

The Nordic countries are a showcase of the successful implementation of social investment policies (see Frazer & Marlier, 2017). Against this background, it may seem somewhat surprising that social investment as a concept does not play any significant role in the Nordic party, election, or governmental programs. However, social investment is more or less embedded in policymaking, and there are institutional arrangements to promote the ideas of social investment. For example, in Sweden and Denmark, there are specific

organizations called social investment funds. Swedish Social Investment Funds (Sociala investeringsfonder) are a financial mechanism designed to support long-term social investments. Their primary goal is to address social issues by encouraging investment in preventive measures and interventions (Hultkrantz, 2015). In a similar way, the Danish Social Investment Fund (Den Sociale Investeringsfond) highlights how investing in people, especially those who are disadvantaged, leads to significant social and economic benefits (Rosenkrantz-Theil & Hækkerup, 2018; Rosenkrantz-Theil, 2019). In Finland, the Children's Foundation (Itsenäisyyden juhluvuoden lasten säätiö; Itla, 2024) specializes in promoting and supporting the well-being and equality of children and contributing to building a good future for them. The Finnish Innovation Fund Sitra aims to promote the well-being of Finland, accelerate economic growth, produce innovations, and renew society (Sitra, 2025). Sitra's mission statement epitomizes Finnish politics. It embodies Pekka Kosonen's (1998) characterizations of the underpinning of different meta-narratives in the Nordic welfare states. Whereas the limitation of public expenditure and investments in economic growth is the historical policy mode in Finland, the Swedish model is labeled by strong public responsibility for people's well-being; Norway, in turn, is a distributive welfare state promoting investments and expanding transfers, while Denmark is characterized by cocktail-stirring liberalism and the expansion of the generous welfare state.

Our summing up of the cursory political history review of some central aspects of universalism in the Finnish welfare state is somewhat eclectic. To give a Durkheimian verdict on the political making of important welfare programs, we can state that Finnish universalism is not a social democratic doing. The SDP has often been present as an initiator, but because of the fragmented party system and strategic veto points, most of the central welfare legislation has been comprised of compromises. Often, employer federations and trade union confederations have also played an important role. Thus, compromises between representatives of land, labor, capital, and the state characterize the making of the Finnish welfare state, whereas the Scandinavian welfare states are more based on social democratic visions of society. As for the Graubardian (1987) "passion for equality", it is stronger in Finland than in Scandinavia. Despite the same level of income inequalities in their countries, the Finns demand more redistribution than Scandinavians do. The passion is reflected in the Finnish peculiarity of universal basic security benefits (*perusturva* in Finnish) available for all legal residents. The similar connotation between *perusturva* and *perustulo*, i.e., basic income, has motivated support for universal basic income, which has not achieved the same level of popularity in other Nordic countries (Andersson and Kangas, 2005).

The specific Finnish political constellations have produced the somewhat unique combination of universal and income-related transfers. The combination

guarantees both flat-rate minimum security reflecting the agrarian arithmetic passion for equality, plus income-related social insurance transfers without any ceilings reflecting the relative equality in industrial social insurance. A notable feature in the Finnish social policy discourse is that, from the 2010s onwards, social rights gained greater prominence in the Constitutional Law Committee's rulings and in political debate. At the same time, social policy increasingly came to be viewed as a legal issue concerning fundamental rights, rather than merely a political theme.

WALKING THE WALKS: INSTITUTIONS AND OUTCOME

Spending

Comprehensive social protection has its costs (NOSOSCO, 2024; OECD, 2024c). Therefore, the Nordic welfare states have been described as big spenders compared to other countries or other welfare regimes. However, country rankings in the spending indicator have changed from the 1960s to the 1980s, and further in the 2000s. In early comparisons, Finland appeared to be a Nordic laggard. In 1960, public social expenditure in Sweden was 10.8% of GDP, while in Finland, it was 8.8%, which was lower than the overall mean for the OECD countries (Castles, 2004, p. 25). Twenty years later, the Swedish expenditure level (24.5% of GDP) was the highest among all the OECD countries. In Finland, the share had increased to 17.8%, which was somewhat higher than the overall mean. Entering the 2020s, the Scandinavians are no longer the biggest spenders. In 2022, the biggest spenders were found among some Central and Southern European countries (France, Austria, and Italy), followed by Finland in fourth place out of 30 OECD countries. The placements of the other Nordic countries were Denmark 8th, Sweden 11th, and Norway 16th (OECD, 2024a).

One aspect of welfare state comparisons is how much is spent on social security. In the welfare state literature, a distinction is also made between income transfer states and service states. In the former group, pertaining to the Central European welfare regime, there is an emphasis on social insurance, whereas social services dominate in the latter group, as exemplified by the Nordic cluster. Oftentimes, they are labeled as social investment states (e.g., Morel et al., 2012; Hemerijck, 2013 and see Chapter 3).

Clustering countries within welfare state regimes reveals that Nordic countries are the most inclined to provide social services, as measured by the services-to-transfers ratio. In contrast, Southern European countries tend to rely more heavily on income transfers than on social services. In this social investment dimension, Finland (services-to-cash ratio of 0.66) appears closer to certain Central European income transfer states (average ratio of 0.56) than

to its Nordic neighbors (Scandinavian average of 0.81). However, the picture changes when considering in-kind spending relative to GDP. Sweden has the highest ratio among all OECD countries (17.8%), followed by Iceland (17.1%), the Netherlands (17.0%), and Finland in fourth place (15.9%). Relative to their GDP, Denmark and Norway spend less (OECD, 2024a, see also Eurostat, 2024a).

Redistribution

In “traditional” welfare state comparisons, in addition to high public spending levels, high levels of taxes and strongly redistributive policies leading to low income inequality are regarded as the central trademarks of the Nordic welfare cluster (Greve, 2007; Kautto & Kuitto, 2021). The old verdict seems to hold true: the Nordic countries remain at the top when it comes to the level of taxation as a percentage of GDP. Tax levels are also high in Central and Southern Europe and, unsurprisingly, the taxation is the mildest under the Liberal regime (OECD, 2024b, p. 15).

An examination of the combined redistributive effects of income transfers and taxes reveals intriguing country- and regime-specific differences (OECD, 2018, p. 10). On average, taxes and transfers reduce the Gini index of market income inequality by 25% across the OECD. The redistributive effect is the greatest in Ireland closely followed by Finland (redistribution percentage 41%). Denmark ranks 5th with a redistribution rate of 35%, Norway is 12th (30%), and Sweden ranks 17th with a redistribution rate of 26%. Thus, the Nordic group is quite heterogeneous. Interestingly, despite the strong income-related nature of Finnish social insurance schemes, redistribution in Finland remains substantial (Causa & Hermansen, 2019). This supports the concept of “the paradox of redistribution” (Korpi & Palme, 1998), meaning that the more we target benefits exclusively at the poor, the less redistribution is actually achieved.

Employment

High employment rates are seen as one of the central cornerstones of the Nordic model (e.g., Greve, 2007). Following the social investment paradigm, which emphasizes that social services facilitate the reconciliation of family and working lives, we could therefore expect high employment rates in the Nordic countries in general, and among women in particular (see Chapter 3). Additionally, the Nordic investments in integration policies should be reflected in high employment rates among people with disabilities and among immigrants.

Regarding employment rates among native-born men, the Finnish rate in 2023 was somewhat lower than the Scandinavian average (78.3% versus 83.4%).

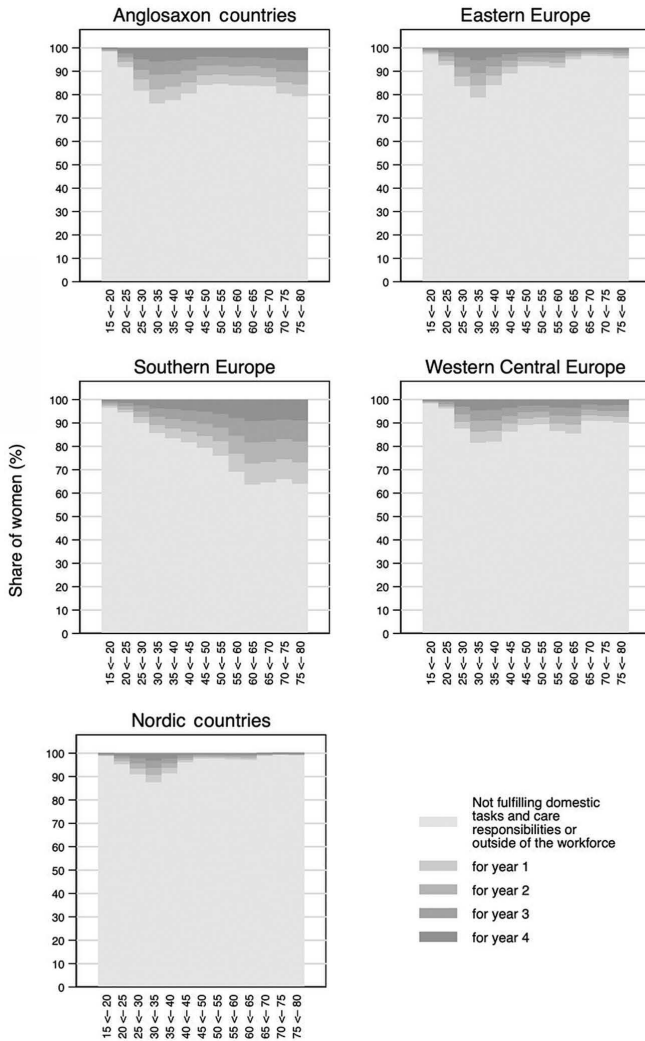
Employment rates among Nordic men are generally high, though not always the highest when compared with other welfare regimes. As for employment rates among women, the Nordic cluster demonstrates the highest participation in paid labor (the average across the four Nordic countries is 78.3%, compared, for example, to the Southern European average of 63.7%). Unlike other welfare regimes, the Nordic countries exhibit minimal gender differences in employment rates among the native-born population. (Eurostat, 2024b; 2024c).

While Scandinavian social investment policies appear effective in promoting female employment, they are less successful in integrating immigrants into the workforce. Employment rates among both foreign-born men and women tend to be lower in the Nordic welfare regime compared with other regimes. In this regard, neither the Scandinavian countries nor Finland demonstrate particularly strong performance. However, the Nordic countries seem to achieve greater success in integrating people with disabilities into employment (European Disability Forum, 2023).

Interestingly, employment among Finnish men lags behind that of other Nordic countries more than female employment does. The result is intriguing given that Finland relies heavily on HCA, which is predominantly (about 85%) used by mothers. To get a fuller picture, it is helpful to separate maternal employment rates by the age of the youngest child. The impact of the home care allowance is most visible in the labor market behavior of mothers with young children. Employment among mothers with children is considerably low in Finland, compared to Sweden. However, when it comes to mothers with older children, there are no major differences (OECD, 2024b).

Figures 7.1a and 7.1b illustrate the situation. The figures display the share of women in the age group 15 to 80 years whose labor force status is either “taking care of children or other relatives” or “inactive”. There are substantial variations between welfare regimes, notably between the Nordic and Southern European clusters. While absence from employment in the Nordic countries concentrates in the 20- to 40-year age bracket, the incidence and duration of absence increase with age in the Southern regime, reflecting differences in the structure of the welfare state in general and care policies in particular. In Denmark, Norway, and Sweden, inactivity spells are negligible and short, whereas in Finland, due to HCA absence rates, are more common in the 20- to 40-year age group. After that, the labor force participation rates among Finnish women are as high as in the other Nordic countries (OECD, 2024d).

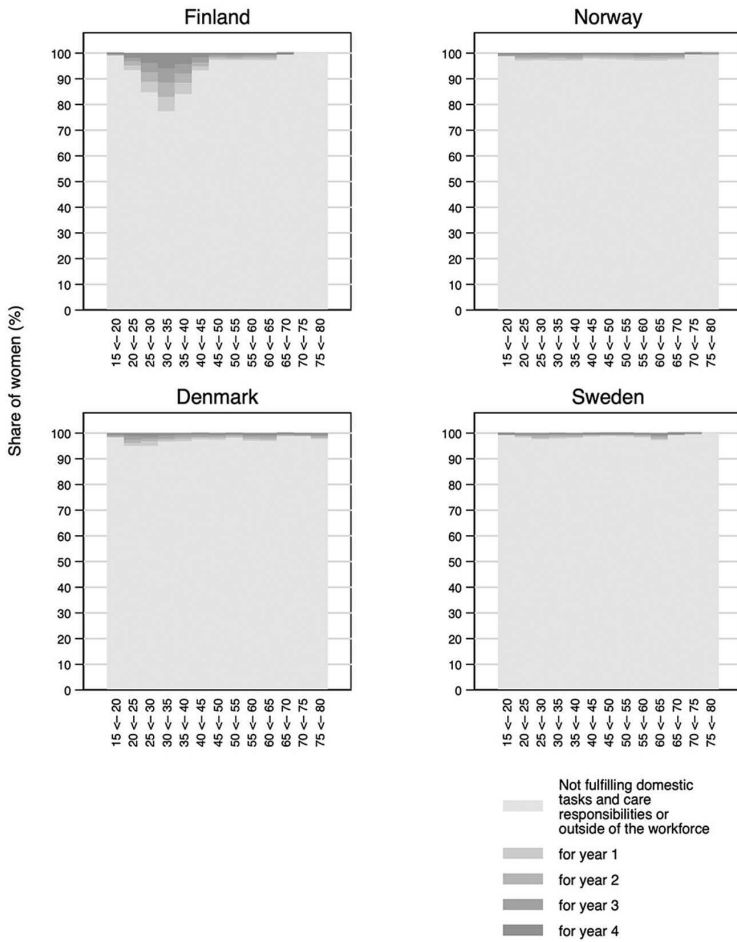
Despite the temporary character of labor market impacts of the HCA in Finland, it has its repercussions. Firstly, the HCA creates monetary disincentives to participate in early childhood education and care (ECEC). Unsurprisingly, the enrollment of Finnish children in ECEC is lower than the enrollment rates in other Nordic countries. The monetary disincentive created by the HCA is rather strong for low-income groups, which is reflected in



Note: Duration of care-related absences from the labor market according to age by welfare regime and by the Nordic countries.

Source: EU-SILC, 2024.

Figure 7.1a Female labor force status “taking care of family-related care responsibilities” (%) – Anglo-saxon countries, Eastern Europe, Nordic countries, Southern Europe and Western Central Europe



Note: Duration of care-related absences from the labor market according to age by welfare regime and by the Nordic countries.

Source: EU-SILC, 2024.

Figure 7.1b Female labor force status “taking care of family-related care responsibilities” (%) – Finland, Norway, Denmark and Sweden

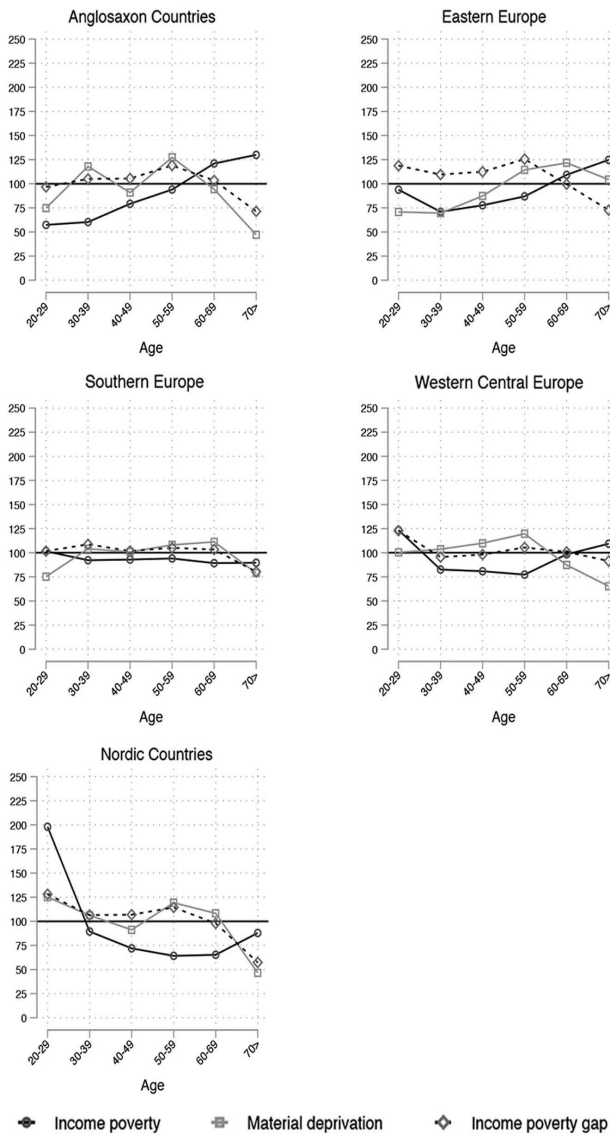
socio-economically biased enrollment. Secondly, while the use of the HCA is not linked to socio-economic characteristics—almost all parents use it—the duration for which it is used correlates with the parents' education and family status. Mothers with high educational attainment tend to use it for shorter periods than mothers with lower education levels. Furthermore, single mothers use it for longer durations than mothers with spouses. The use of HCA support is particularly common among people with a refugee background, and the HCA spells are also longer for them than for the native population (Räsänen et al., 2019). Thus, despite the fact that the Finnish childcare system is universal and, at least in principle, is designed to foster equal opportunities and is geared towards social investments, there are still socio-economic and other demographic biases.

Income Poverty and Material Deprivation

In his turn-of-the-century study on poverty in York, UK, Seebohm Rowntree (1901) observed that poverty was linked to age and family formation in a cyclical fashion. High levels of poverty were observed in childhood, during the family phase, and in old age, whereas in youth and the empty nest phase (i.e., when children had left home), poverty was not such a significant problem.

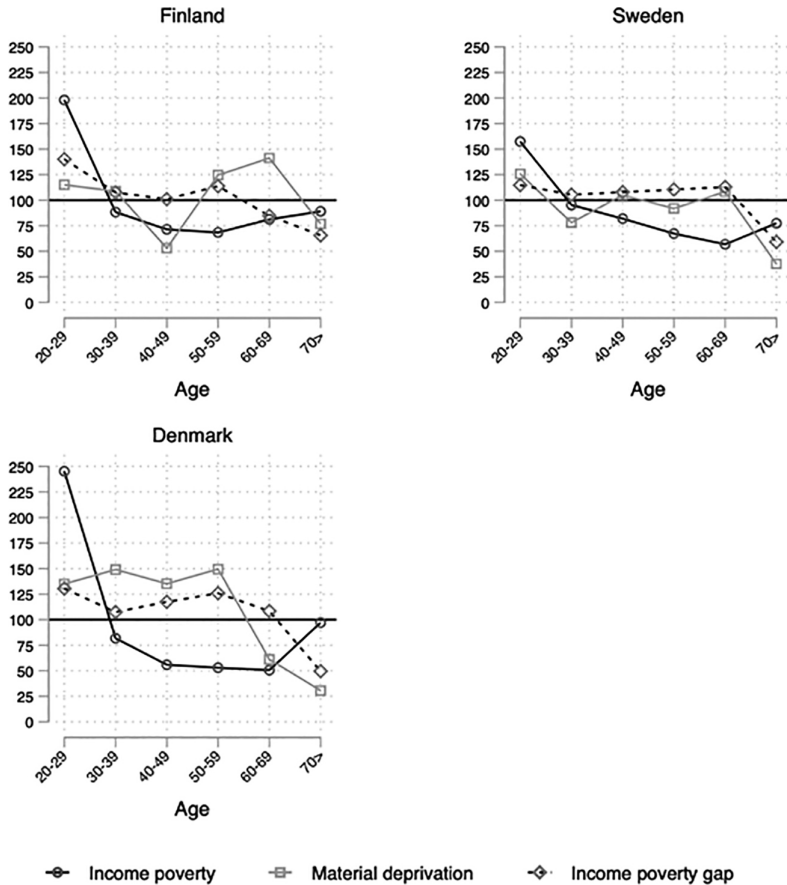
Figures 7.2 and 7.3 display poverty cycles by age for European countries according to indicators provided by Eurostat, i.e., at-risk-of-poverty (AROP), severe material deprivation, and at-risk-of-poverty gap (AROP-gap). Material deprivation differs from AROP in that material deprivation measures involuntary deprivation in living conditions directly, while AROP measures the scarcity of financial resources that may lead to deprivation in material. In addition, while AROP tells us how many households fall below a defined income threshold at any given time, the AROP-gap illustrates the relative distance between the median household income of households below the income poverty threshold and the threshold itself (Eurostat, 2024d) For example, improvements in benefits may have little or no impact on changes in the risk of income poverty. However, changes may significantly raise the average income of those on benefits to levels close to the income threshold.

In Figure 7.2, the at-risk-of-poverty, material deprivation, and the relative income poverty gap for each age group are related to the average levels of income poverty risk, deprivation rate, and income poverty gap for each country or group of countries. Data are for 2022. Results show that the Nordic countries differ somewhat from other welfare regimes. In the Nordic countries, income poverty is significantly higher than the population average in the youngest age group. In contrast, in Anglo-Saxon and Eastern European regimes, income poverty is higher than average, especially in older age groups, while in the Western Central European regime, we can observe a flat U-shaped



Source: EU-SILC, 2024.

Figure 7.2 At-risk-of-poverty (income poverty), severe material deprivation, and at-risk-of-poverty gap by age group relative to the average for the welfare regime



Source: EU-SILC, 2024.

Figure 7.3 *At-risk-of-poverty (income poverty), severe material deprivation and at-risk-of-poverty gap (income poverty gap) relative to the average for a given country*

relationship. In addition, in Southern Europe, very small differences between age groups can be observed. Looking at young people, the economic situation of young people in the Nordic countries also appears to be much worse, regardless of the indicator. One main reason is that, in the Nordic countries in general—and in Finland in particular—young people tend to move out of their childhood homes earlier than in other European countries. By contrast, for

those over 70 years old, although income poverty is close to the average, material deprivation and the income poverty gap are clearly lower. This result suggests that the income level of pensioner households is relatively close to—or at least closer to—the income poverty threshold compared to other age groups.

A closer look at the three Nordic countries, Finland, Sweden, and Denmark, shows that there are both similarities and differences between the Nordic countries (Figure 7.3). Regardless of country, the age bracket 20–29 shows above-average economic hardship on all measures. Similarly, the results show that pensioners have a close to average risk of income poverty but, especially in Denmark and Sweden, a lower-than-average material deprivation and income poverty gap. In particular, the countries differ in terms of age differences in material deprivation and the income poverty gap: while in Sweden the differences in material deprivation between age groups are quite small, in Finland material deprivation is higher than average in the age brackets 50–59 and 60–69, and in Denmark material deprivation falls below the average level only in the two oldest age brackets.

In general, when it comes to the income poverty rates, European statistics show that Nordic poverty levels are significantly lower than the EU average. However, in Denmark, Finland, and Sweden, income poverty increases in the oldest age groups and comes closer to the EU average. Concerning the age group of 20 to 29 years, the explanation is that, in contrast to many other European countries, youngsters move away from their childhood home early and are classified as independent households. Also, regarding the oldest age group, the explanation is linked to household formation. In the Nordic countries, elderly people live on their own, not in two- or three-generation households as they do in many other EU countries. Furthermore, there are lots of older widowed women living alone, and as a rule, households with one income receiver are more exposed to poverty than households with multiple earners.

As regards the comparison of Finland vis-à-vis the Scandinavian countries, in most instances, Finland displays lower poverty and social exclusion levels than the Scandinavian countries. At the total population level, poverty is the lowest in Finland and Norway (15.8% in 2023), while it is somewhat higher in Denmark and Sweden (17.9% and 18.4%, respectively).

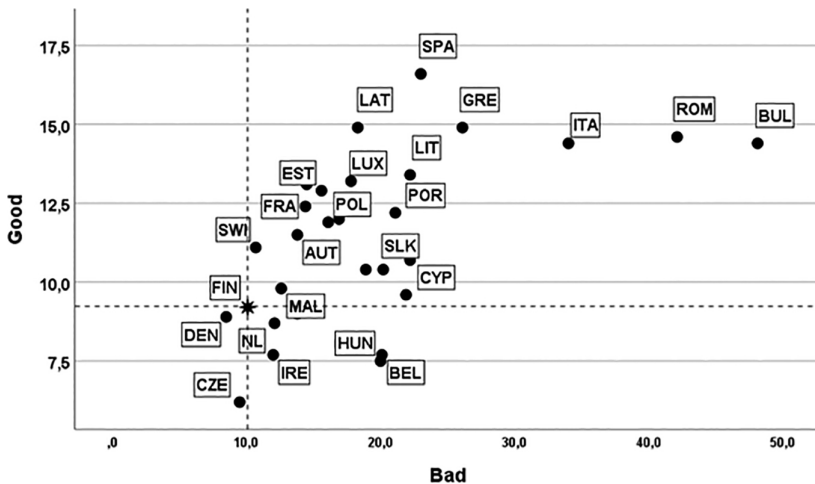
Child Poverty

The goal of the modern welfare state is not only to alleviate poverty in different phases of life but to provide possibilities to everyone regardless of their background to accomplish their potential. Thus, the goal is not only to provide people with an amount of money they can live off but also to provide people with skills and abilities that enable them to become full members of the society they are living in through their own efforts. In Rawlsian (Rawls, 1972/1999)

terms, society should be open and nobody in an unfortunate position should be locked in to their disadvantages. This means, among other things, that disadvantaged social positions or economic hardship should not be passed on to the next generation. Figure 7.4 shows, despite efforts, there is a tendency for material disadvantage to be transmitted. However, the strength of this transmission varies between countries (see e.g., Corak, 2016, OECD 2021; 2023). In this comparison, Finland outperforms its Scandinavian neighbors.

Table 7.1 shows changes in the risk of child poverty between 2003–2004 and 2022 by the age of the child. There are some differences between the Nordic countries in both levels and trends in the risk of child poverty. For children under 18, changes in the risk of child poverty are very moderate in Denmark, Finland, and Iceland (10–11%). In contrast, in Norway, the child poverty rate has risen steadily from around 9% to 14%, and in Sweden, the increase in the child poverty rate occurred between 2005 and 2010, after which the risk of child poverty has remained at around 17–18%.

Differences between countries remain relatively consistent when examining child poverty rates for children under six years of age. Both Norway and Sweden exhibit an increase in the risk of child poverty. In Finland, the child



Source: Eurostat, 2025.

Figure 7.4 At-risk-of-poverty rate for adults (aged 25 to 59 years) by level of financial situation (“good” or “bad”) of their childhood households when the respondent was around 14 years old (data for 2023)

Table 7.1 At-risk-of-poverty rate and at-risk-of-poverty gap for children in the Nordic countries

Country	At-risk-of-poverty	2003–2004 (%)	2005 (%)	2010 (%)	2015 (%)	2020 (%)	2022 (%)
Denmark	Children under 18	9.4	10.4	10.9	10.4	10.0	10.1
	Children under 6	10.6	13.5	10.4	9.0	12.5	9.0
Finland	Children under 18	9.8	10.0	11.4	10.0	11.6	9.5
	Children under 6	11.0	11.9	12.6	11.6	14.1	11.3
Iceland	Children under 18	11.5	10.5	12.6	11.3	-	-
	Children under 6	14.7	11.9	15.4	13.3	-	-
Norway	Children under 18	8.9	9.4	11.7	11.3	14.1	-
	Children under 6	6.8	7.6	11.1	8.7	14.0	-
Sweden	Children under 18	12.1	10.2	17.1	18.1	18.7	17.2
	Children under 6	11.7	9.8	17.3	19.0	19.5	18.8
-	-	-	-	-	-	-	-
Denmark	At-risk-of-poverty gap for children	17.4	18.2	19.6	25.1	15.7	17.0
Finland	At-risk-of-poverty gap for children	15.1	11.9	11.4	11.3	9.5	12.3
Iceland	At-risk-of-poverty gap for children	20.1	23.7	18.2	17.2	-	-
Norway	At-risk-of-poverty gap for children	15.9	19.1	19.6	16.5	18.6	-
Sweden	At-risk-of-poverty gap for children	14.0	16.5	18.2	20.5	19.9	21.4
Mean	At-risk-of-poverty gap for children	16.5	17.9	17.4	18.1	15.9	16.9

Source: EU-SILC, 2024.

poverty rate for children under six also rose from 11% in 2004 to 14.1% in 2020, although it declined to 11.3% by 2022. Denmark, by contrast, displays a downward trend, albeit with some fluctuations. In all countries, the child poverty rate for children under six peaked during the pandemic year of 2020. In Finland and Iceland, the poverty rate for children under six is higher than that for those under 18 years old. Conversely, Norway and, to a lesser extent, Denmark report a lower child poverty rate for children under six compared to the overall child poverty risk.

The levels and trends in the poverty gap vary across countries. Finland has the lowest poverty gap for children. Broad European comparisons reveal that the higher the relative risk of income poverty, the greater the poverty gap. Finland consistently ranks among the countries with the smallest gaps, whether considering the total population or children under 18 years of age. While the poverty gap for children in Finland has decreased over time, it rose from 9.5% in 2020 to 12.3% in 2022. A similar post-pandemic increase can be observed in other countries as well.

CONCLUSIONS

The starting point of our analysis was inspired by Émile Durkheim's *Les formes élémentaires de la vie religieuse*, where Durkheim argued that to explain a social phenomenon, we must study the most elementary form of a society where that phenomenon is visible. In the first part of our analysis, we explored the roots of "Scandinavian" universalism in the making of the Finnish welfare state. We showed that, due to late industrialization, the agrarian population had a strong political position. In the Finnish parliament, this population was mainly represented by the Agrarian Union and the Finnish People's Democratic League. Both of these parties were against pure workers' insurance schemes, often suggested by the Social Democrats, and instead demanded people's insurance. Due to parliamentary minority clauses, parties were compelled to seek consensus, which on the one hand postponed the introduction of social policy programs but on the other hand was an important causal factor in establishing universal policies covering all residents. Thus, the root of universalism lies in the self-interest-based class compromises between political representatives of the traditional production forces, i.e., capital, labor, and land.

After the historical analysis of the political making of the universal welfare state, we shifted our focus to the elements that have been regarded as trademarks of the Nordic welfare states. The Nordic countries, with the exception of Iceland, are high spenders with high tax rates and high redistribution effects. Somewhat surprisingly, the Finnish welfare state, where major social insurance schemes are entirely income-related, i.e., there are no ceilings as there

are in the other Nordic countries, displays the highest redistributive effect. We also demonstrated that Finland is a significant welfare spender but, compared to other Nordic countries, more income transfer-oriented and more reliant on social insurance contributions. This is due to demographics (pensions) and unemployment (more spending on cash benefits than on active labor market measures). However, if we look at cash and in-kind spending in relation to gross domestic product, Finland clearly belongs to the Scandinavian regime.

The Nordic countries are said to be “woman friendly”, meaning that family policy institutions are organized in such a way that they allow both genders to participate in the labor market. Our international comparison showed that female and maternal employment is high in the Nordic countries. There is one Finnish institutional peculiarity, the home care allowance, that has repercussions both on female employment and children’s enrollment in early childhood education. Consequently, Finnish exceptionalism is the low labor force participation among women with small children. However, regarding older children and their mothers, the enrollment and employment rates are at the high Scandinavian level.

After mapping the Nordic characteristics in labor market behavior, we focused on final outcomes in terms of income poverty and material deprivation as well as child poverty with special focus on intergenerational transmission of advantage and disadvantage. We showed that, as a rule, the risk of poverty and social exclusion is low in the Nordic countries, with childhood poverty being particularly low in Finland. We also briefly discussed, inspired by John Rawls’ (1972/1999) theory of justice, the intergenerational inheritance of social positions.

In sum, the “Nordic model” or the “Scandinavian model” is not a homogeneous and solid construction. Rather, there are five different variants of the model that share some elements. There are common cornerstones, but their size and position are not the same in all five countries, as our empirical survey has shown. When speaking about the Nordic model, the question is perhaps more about family resemblance than a bundle of characteristics that all five Nordic countries share. Despite differences in the political economy of the welfare state, the Finnish variant fulfills the criteria of the Nordic/Scandinavian welfare state. Similar results can be achieved through multiple approaches. Each of the Nordic countries is similar in its own way, especially Finland. Also, despite there not being much discussion about social investments as an instrument to achieve these goals, the results show that Finland complies very well with the core ideas of the social investment paradigm. Hence, it seems that the logic of social investment has become institutionalized in Finnish social policymaking without much rhetoric about social investment. The Finns do not talk the talks, but they do walk the walks!

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8. How can the Nordic welfare state respond to demographic change?

Marika Jalovaara, Jessica Nisén and Johanna Lammi-Taskula

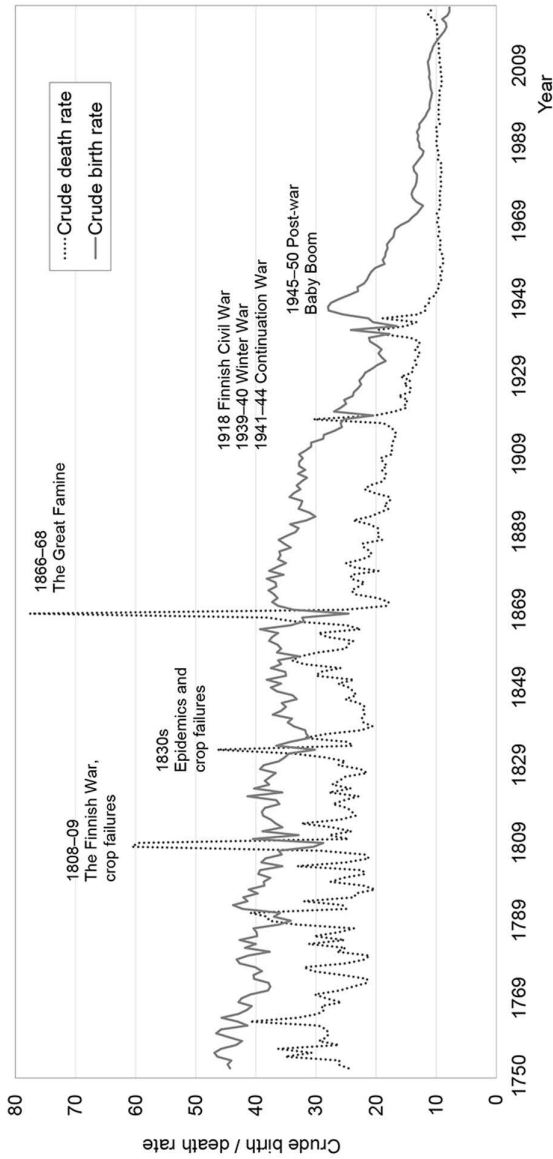
INTRODUCTION

Finland is undergoing profound demographic changes, characterised by declining fertility, increasing longevity, and accelerated population ageing. While these shifts reflect broader patterns in highly developed societies, their pace and scale in Finland are striking. This chapter describes these developments and explores their economic and social implications, ranging from pressures on welfare sustainability to deepening social inequalities and gaps in well-being. We emphasise the need for a comprehensive policy response that adapts to demographic changes by investing in human capital and well-being, supporting individuals throughout their life course, and fostering a sustainable society into the future. While investments in human capital are essential, social and gender equality are conditions that enable the full realisation of everyone's potential in an ageing society.

SHIFTS IN FERTILITY, MORTALITY, AND MIGRATION

From the First to the Second Demographic Transition

In nineteenth-century Finland, both mortality and fertility rates were generally high and stable, although they were occasionally disrupted by periods of exceptionally high mortality caused by wars, famines, and infectious diseases, during which fertility could also temporarily decline. By the late 1800s, Finland had entered the initial phase of what is known as the first, or classic, demographic transition (Notestein, 1945). This refers to the change from high to low mortality and fertility levels as societies industrialise and modernise. The shift in Finland is illustrated in Figure 8.1, which shows the crude rates of mortality and fertility. For fertility, a more refined measure is the Total

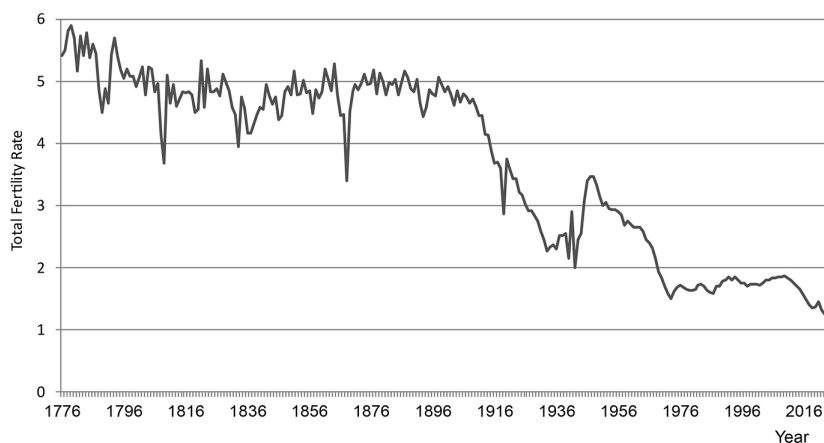


Note: The crude birth rate refers to the number of live births per 1,000 people in the mid-year population. The crude death rate refers to the number of deaths per 1,000 people in the mid-year population.
Source: Statistics Finland, 2025; the labels by the authors.

Figure 8.1 Crude birth rate and crude death rate, Finland, 1751–2024

Fertility Rate (TFR), which controls for any changes in the age structure of the population (Figure 8.2). The TFR refers to the average number of children a woman is expected to have over her lifetime, assuming current age-specific fertility rates remain constant. Between 1900 and the early 1970s, Finland's TFR declined from around five children per woman to just below two. The most significant exception to the continuous fertility decline was the birth of Finland's baby boom generation, known as the 'large age cohorts', born right after World War II, between 1945 and 1950. In the latter half of the nineteenth century, life expectancy at birth in Finland ranged from 32 to 44 years. Since then, it has more than doubled, reaching 82 years in 2024 (Statistics Finland, 2025). Adult mortality declined significantly during the transition, but the more crucial development was the decline in infant mortality from very high to extremely low levels. The usual assumption in the model of the first demographic transition is that, afterwards, mortality and fertility would reach a new balance at a low level, with fertility near the population replacement level. The replacement level – typically slightly above two children per woman – refers to the average number of children each woman would need to have for a population to sustain its size from one generation to the next, in the absence of migration.

Over the past 60 years, Western societies have undergone profound changes in family dynamics, including declining marriage rates, delayed timing of first births, fertility rates falling below replacement level, rising rates of separation



Source: Statistics Finland, 2025.

Figure 8.2 Total Fertility Rate, Finland 1777–2024

and divorce, and an increase in non-marital cohabitation and childbearing among cohabiting couples. These developments are commonly understood as components of the second demographic transition (SDT). According to the SDT theory, these changes are primarily driven by a cultural shift towards attitudes, norms, and values stressing individuality and self-actualisation, and a growing rejection of institutional and familial authority in life decisions (see Zaidi & Morgan, 2017). This transition would increase diversity in individual life courses and family types. The Nordic countries are usually regarded as pioneers of the SDT, having exhibited high rates of non-marital cohabitation, non-marital childbearing, and postponement of first births earlier than many other countries. After the Nordic forerunners, most other European countries began to exhibit similar trends in partnership dynamics, but often with some delay, leading to a reasonably considerable variation in current behaviours such as non-marital childbearing.

Fertility Developments in the Nordic Countries Since the 1970s

Despite leading the way in changes to partnership patterns linked to the SDT, the Nordic countries long resisted the steep fertility declines that affected many other European regions, particularly in the South and East. After the initial decline to around the population replacement level by the early 1970s, fertility in the Nordic countries remained high by European standards. The Nordic countries' ability to maintain fertility levels near the population replacement threshold, around two children per woman, was credited mainly to their strong welfare states, which support families in meeting their care responsibilities, and to greater gender equality, which makes it easier for mothers to balance paid work and family (e.g., Mills et al., 2011; Balbo et al., 2013).

However, since 2010, fertility has declined in all the Nordic countries. The decline has been most dramatic in Finland, where TFR has fallen by 33% in just 14 years (2010–2024), and is now at an ultra-low level, below 1.3 (1.25 in 2024). Between 2010 and 2022, the TFR declined notably in the other Nordic countries as well: 28% in Norway, 25% in Iceland, 23% in Sweden, and 17% in Denmark (Human Fertility Database et al., 2025). The fertility decline in Finland has been the largest among all European countries during this period and was below the European average of 1.38 in 2023 (Eurostat, 2025).

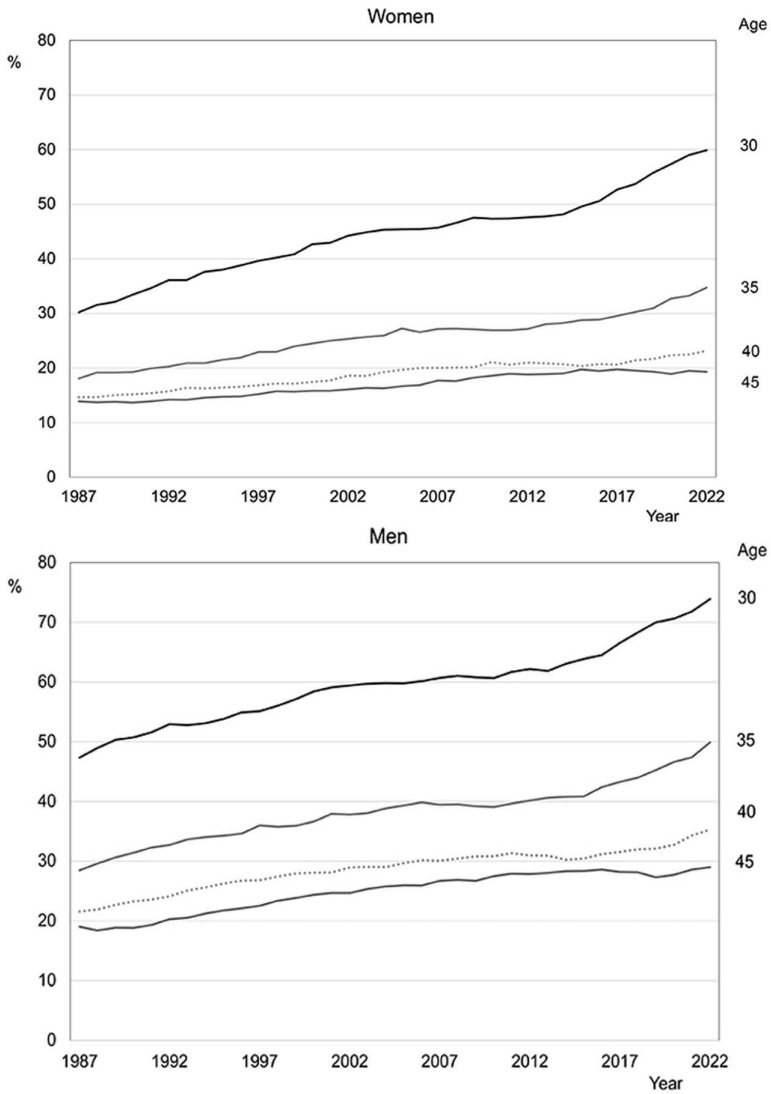
The Nordic fertility decline since 2010 is pervasive, affecting almost all age groups and large population segments. While continued childbearing has also declined, most of the reduction in total fertility rates (TFR) in the Nordic countries stems from a decline in first-birth rates (Hellstrand et al., 2021). Before 2010, fertility declined among women under 30 but increased among those aged 30 and above, reflecting a trend toward postponing childbearing to later ages. In the 2010s, the pattern shifted: fertility has also declined among

women in their 30s and approaching 40. This illustrates that the recent fertility decline is driven not only by delayed childbearing but is also expected to lower cohort fertility, meaning that the total number of children women ultimately have is likely to decrease. Cohort fertility has remained remarkably stable for decades in the Nordic countries: women born in the 1970s ultimately had on average 1.9 children, the same as those born in the 1940s. However, according to forecasts, cohort fertility is declining in most Nordic countries, and women born in the early 1990s in Finland will have, on average, fewer than 1.7 children (Hellstrand et al., 2021). That is, the level will not be as low as the period-based TFR would suggest, as is typical when childbearing is being postponed, but is still significantly lower than for previous female cohorts.¹ Furthermore, the fertility decline appears to extend across virtually all population groups, including those distinguished by urban-rural residence, partnership status, educational attainment, and economic activities inside and outside the labour force (Ohlsson-Wijk & Andersson, 2022). The broad and substantial nature of the decline suggests that a wide range of factors shape it.

In Finland, lifetime childlessness has long been unusually common compared to other Nordic countries and beyond. Women and men born in the late 1960s, for instance, remained childless at levels of 19% and 28%, respectively. Meanwhile, relatively high rates of continued childbearing have helped sustain fertility at relatively high levels, similar to those of the other Nordic countries (Jalovaara et al., 2021). Figure 8.3 shows the percentage proportions of childless individuals at ages 30, 35, 40, and 45 for women and men in Finland between 1987 and 2022. The developments at the age of 35 are particularly noteworthy. Despite many still entering parenthood after 35, the steep rise in childlessness at this age points to a continued upward trend in lifetime childlessness (Jalovaara & Miettinen, 2024).

Another unique feature of the Nordic fertility trends is the educational differences in childlessness and fertility more broadly. Research on cohort fertility shows persistent (for men) and changing (for women) educational differences in childbearing in the Nordic countries. Developments in educational differentials in fertility for women and men have led to a new pattern of gender similarity. For example, whereas in the older cohorts, lifetime childlessness was highest among men with low educational attainment and women with high educational attainment, in the most recent cohorts, lifetime childlessness is highest among those with low educational attainment regardless of gender. Educational differences in the average number of children eventually born to

¹ Overall, trends in men's fertility at the population level typically closely mirror women's trends in low-fertility countries yet at a slightly lower level (Dudel & Klüsener, 2021).



Source: Jalovaara & Miettinen, 2024.

Figure 8.3 Proportions (%) childless at age 30, 35, 40, and 45 in 1987–2022; women and men, Finland

men and women are less pronounced than in lifetime childlessness (Jalovaara et al., 2019). This is partly influenced by the fact that low-educated parents are more likely to have three or more children, which is increasingly associated with childbearing with more than one partner, reflecting partnership instability (Jalovaara et al., 2022). The gender-neutral socio-economic differentials in family formation are consistent with the institutional support for social and gender equality and the dual-earner family model. Yet, welfare state support for combining work and childbearing may be most beneficial to individuals with strong labour market positions. Consequently, the countries now face a new challenge – obstacles to both family formation and partnership stability accumulate among lower-educated individuals, regardless of gender.

Migration and Regional Differences

The population of Finland is relatively small, with 5.6 million inhabitants in 2024 (Statistics Finland, 2025). Since 2016, the natural population change has been negative; that is, there have been more deaths than births annually. However, the population is still growing due to positive net migration, meaning that more people are moving to the country than leaving it.

Until quite recently, Finland was mainly a country of emigration. Many Finns moved abroad, especially to North America in the early twentieth century and to Sweden in the 1960s and 1970s. Compared to other Nordic and Western countries, Finland has a relatively recent history of immigration (Busk & Jauhiainen, 2022). Net migration only turned positive in the late 1980s and 1990s, as growing numbers of refugees, labour migrants, and international students began to arrive. Russian and Estonian migrants are Finland's two largest immigrant groups, especially among women. Net migration averaged approximately 9,000 per year in the 2000s and increased to 15,000 in the 2010s (Statistics Finland, 2025). These figures are notable, being of a similar order of magnitude as the decline in recent birth cohorts, which fell from 61,000 children born in 2010 to 45,000 in 2022 (Statistics Finland, 2025). In 2022, the flow of permanent immigrants relative to Finland's population size remained below the OECD average and that of other Nordic countries, despite a recent upward trend. However, the increase in the permanent-type immigration flow in 2022, as compared to 2019 or 2021, was larger than the respective increase in Denmark, Norway, and Sweden (OECD, 2023). In 2015, 29,000 people immigrated to Finland, a number that increased to 33,000 in 2020 and has remained at a similar or higher level since then (Statistics Finland, 2025). There was also a modest upward trend in emigration from Finland to other countries in the first decades of the 2000s, from an average of 13,000 in the first decade to almost 16,000 in the second decade (Statistics Finland, 2025).

Given its small population and large land area, Finland is sparsely populated and shows significant regional variation in population density and demographic developments. Urbanisation has been a long-standing trend, with the population increasingly concentrated in urban areas and larger cities. Rural areas generally face population ageing at a faster rate than urban areas. This is due to a combination of factors, including out-migration of young people to urban regions, and few children born due to an older population structure in many rural areas (despite higher TFR levels) (Campisi et al., 2023). In contrast, urban areas – especially larger cities like Helsinki, Tampere, and Turku – tend to have younger populations, driven by both immigration and internal migration from rural regions. Larger cities also tend to have higher shares of highly educated individuals.

Global Trends in Fertility and Population Growth

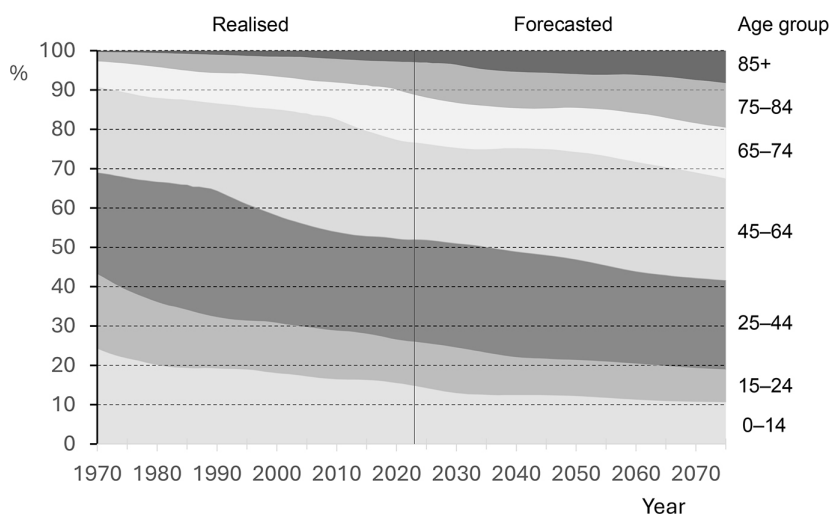
Since the 1960s, most of the world has undergone a significant fertility transition, with birth rates declining not only in high-income countries but also in less developed countries. As a result, many regions – particularly Europe, East Asia, and the Americas – are facing stagnating or negative population growth and rapidly ageing populations. In contrast, sub-Saharan Africa continues to exhibit rapid population growth, driven by relatively high fertility and, more importantly, by a youthful age structure that sustains strong population momentum despite declining fertility. Globally, the population growth rate, having peaked at over 2% per year in the 1960s, has declined to below 1% in the 2020s and continues to fall. The world population surpassed 8 billion in 2022, but growth is expected to slow, with UN projections indicating a peak of around 10.4 billion in the 2080s, followed by stabilisation or decline. Looking ahead, the demographic trajectories of ageing societies will increasingly depend on migration. The sources of population growth will shift significantly across income groups. In low-income countries, growth remains driven by high birth rates and declining mortality. In high-income countries, where births no longer outpace deaths, immigration is, or becomes, the primary driver of population growth (United Nations, 2024).

CONSEQUENCES OF DEMOGRAPHIC CHANGES

Population Ageing

Despite the fertility decline in the long run, Finland's population has grown almost continuously, for instance, from 2.7 million in 1900 to 5.6 million in 2024 (Statistics Finland, 2025). During the shift to lower mortality and fertility levels, Finland's population began to age, meaning that the proportion of

the population in older age groups increased. The primary drivers of population ageing are rising life expectancy and a long-term decline in fertility rates. In addition, Finland's large baby boomer generation continues to influence the age structure, now contributing to the current population's large shares of older age groups. As a result, Finland ranks among the countries with the highest proportion of people aged 65 and older globally. As of 2023, 24% of Finland's population falls into this age group (World Bank, 2024). The recent (2010 onwards) fertility decline accelerates ageing in a country that already has a relatively old population structure. Figure 8.4 illustrates the relative population shares of age groups for Finland, actual for 1970–2023 and projected for 2024–2075. The projected figures are based on Statistics Finland's 2024 population forecast. Notably, the increases are most substantial in the oldest age groups. For instance, the change between 1970 and (projected) 2075 means that the proportion of those aged 75 or older grows seven-fold, and that of those aged 85 or older grows 24-fold.



Source: Statistics Finland, 2025 (data) and the authors (graph).

Figure 8.4 Relative (%) population shares of age groups, actual 1970–2023 and projected 2024–2075, Finland

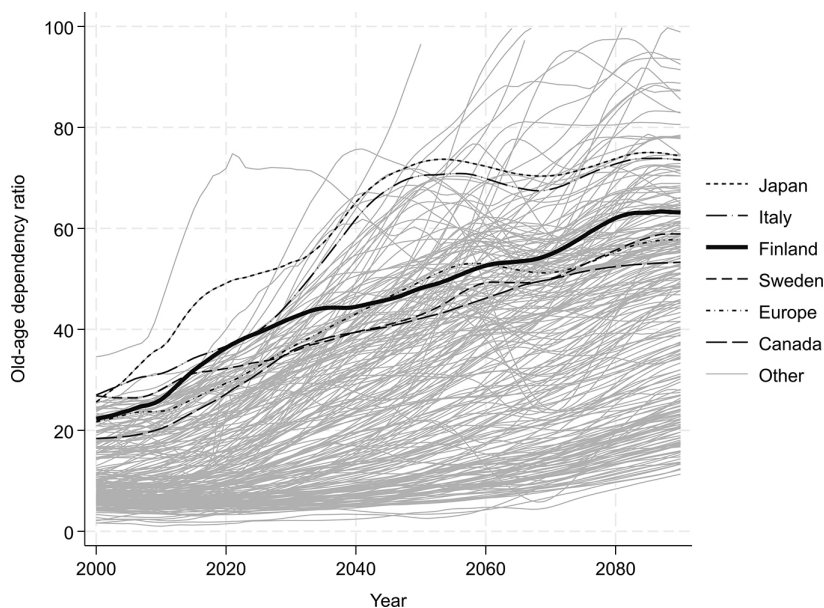
Challenges to Economic and Social Sustainability

The new demographic landscape in the Nordic countries, particularly in Finland, poses significant challenges to the economic and social sustainability of their welfare societies. Declining fertility rates are accelerating population ageing, with far-reaching implications at national, community, and individual levels. This demographic shift strains welfare systems that rely on a balance between a growing number of older adults requiring pensions and care and a shrinking working-age population responsible for financing these supports and providing essential public services. The resulting imbalance threatens economic sustainability by reducing the proportion of the working-age population and increasing pressure on social security systems, including pensions, healthcare, and long-term care. Rural communities, in particular, experience accelerated population ageing, intensifying these challenges at the local level.

As mentioned, Finland, already among the countries with the highest proportion of people aged 65 and older, is facing further acceleration of ageing due to recent declines in fertility rates. Its old-age dependency ratio has risen more rapidly than in other Nordic countries (Figure 8.5). As the population of the oldest age groups – especially those aged 85 and over – increases sharply, the prevalence of age-related health conditions such as dementia, mobility limitations, and multiple chronic illnesses also grows. This makes it increasingly urgent to ensure the availability of accessible, high-quality long-term care, healthcare services, and support for informal caregivers to meet the rising demand for assistance among individuals with reduced functionality.

Small families and individuals living alone will become increasingly common, presenting new challenges in social relationships and well-being. This also needs to be considered when planning social security and public services. For example, the risks of poverty, loneliness, and mental health problems are greater for those living alone. Mental health problems have become more common, and they predict a lower likelihood of having a partner or children, regardless of gender, among young adults in Finland (Kailaheimo-Lönnqvist et al., 2025). With fewer children, daycare and school systems may become more centralised, and schools in particular may shift towards greater digitalisation, leading to longer travel distances or fewer in-person social interactions. Fewer adults are participating in the care of elderly parents, while care services struggle with a lack of personnel.

Aspects of social sustainability include individual well-being and quality of life. In the long run, low fertility is partly the outcome of several positive societal developments, including the widespread availability of effective contraception and safe abortion, which support women's reproductive autonomy. The available evidence suggests, however, that low fertility and childlessness in Finland nowadays are not only a societal problem but also a problem for



Note: Old-age dependency ratio refers to the number of individuals aged 65 or older per 100 people of working age, defined as those aged 15 to 64 years.

Source: United Nations, 2024 (data) and the authors (graph).

Figure 8.5 The old-age support ratio (observed and forecasted) for all countries and regions in 2000–2090

many individuals. As expressed in surveys, the desired number of children has declined only modestly, and the gap between the desired and actual number of children may have widened (Sorsa et al., 2023). However, the evidence remains limited, and there are also indications that childfree life ideals are becoming more common in Finland among more recent birth cohorts (Golovina et al., 2024).

Various polarisations are more pronounced in Finland than in the other Nordic countries. For example, lifetime childlessness is more common, and while it is associated with social and economic disadvantages in all Nordic countries, many disparities are more profound in Finland. Also of great concern are the large and growing socio-economic inequalities in family formation and stability, which signal and may further contribute to unequal prospects for well-being, quality of life, and participation. Research consistently shows that stable family life enhances the well-being, health, and quality of life for family

members. The family remains a fundamental unit of society and an arena for children's socialisation, and family relationships are an essential source of meaning and happiness. These relationships also provide social protection and support throughout the life course and across generations, even in less family-centred welfare systems, such as the Nordic countries. Those with the fewest resources to begin with are most likely to experience the lack of stable family relationships; at the same time, they tend to have the fewest resources to deal with any adverse consequences of a lack of family support. Therefore, family dynamics are also a part of the processes leading to deeper social exclusion.

Challenges related to family relationships also arise from issues of gender equality and gender diversity. The uneven distribution of household chores and childcare in everyday life often leads to conflicts between partners, particularly among parents of young children (Sorsa et al., 2023). Disparities in the division of paid and unpaid work are reinforced during parental leave, as women take considerably longer leave periods than men. This leads to economic inequality between parents, affecting power dynamics in partnerships. Further, individuals who belong to gender or sexual minorities may have feelings of exclusion within family relationships. Childbearing has increased among female same-sex couples in Finland, but only among the highly educated (Ponkilainen et al., 2024)

Facing the Challenges

Some public and policy discussions about fertility decline centre on whether to encourage increased birth rates or to focus on adapting to its impacts. Given the recent sharp decline in fertility in a country already facing rapid population ageing, proactive adjustment and preparation are imperative. The demographic reality of sustained low fertility demands timely and far-reaching societal responses. Substantial short-term increases in fertility are unlikely, and even if fertility were to rise, the rapid pace and advanced stage of population ageing remain pressing challenges. Fertility is in decline globally, and an increasing number of countries are facing the outlook of possibly sustained below replacement-level fertility (Skirbekk, 2022). Further, the Nordic welfare states already provide robust support for family welfare, leaving limited room for additional measures to impact fertility rates significantly, and the fertility decline since 2010 was not preceded by substantial cuts or reductions in family policies. Nevertheless, family policies remain vital for the well-being of family members and can play a role in encouraging childbearing (Rotkirch, 2024). Two key points emerge: first, if the goal is to support family formation, starting with the entry into parenthood, a narrow focus on further supporting existing families with children is essential but insufficient. Broader approaches are needed. Second, the fundamental measures required to adapt to demographic

change and support family formation are aligned, suggesting that there is no strong contrast between these objectives.

In this context, combining broad policy measures with targeted interventions may offer new opportunities to address challenges underlying low fertility levels. For example, reproductive health education that increases awareness of factors influencing fecundity and fertility – such as age and health behaviours – alongside broader support for young people in planning life choices, and wide access to infertility treatments, can serve as timely complements to longer-term social investment strategies. These goal-oriented interventions help individuals make informed decisions about their reproductive lives and overcome barriers to fulfilling their fertility goals, potentially reducing involuntary childlessness and promoting family formation. However, while such interventions may benefit many individuals, their overall effect on population-level fertility is likely to remain modest.

INFLUENCING AND ADJUSTING TO DEMOGRAPHIC CHANGE

Role of Human Capital for Economic Sustainability

In the face of the undeniable need for Finnish society to adapt to low fertility and rapid population ageing, key measures include investments in well-being and human capital, which facilitate employment and productivity in the long run. If anything, high levels of human capital and employment can also support family formation in today's Nordic societies, lessening the need to choose between policies aimed at adaptation and those aimed at supporting family formation. Wolfgang Lutz (2008) emphasises that as populations age, i.e., the old-age dependency ratio increases, investing in the 'quality component', human capital, is crucial. Here, the quality component refers to the population's characteristics and capabilities, such as education, health, and skills, that determine how effectively it can contribute to economic development, social well-being, and sustainability. Such an investment-oriented approach can help mitigate the economic and social challenges faced by an ageing population.

Recent studies have examined the potential of human capital investments to mitigate the economic burden of Finland's ageing society. Marois, Rotkirch, and Lutz (2022) forecasted the productivity-weighted labour force dependency ratio under various assumptions regarding education and fertility, extending until 2060. They concluded that a fertility rate of around 1.6 would not pose a major economic problem if labour productivity increased as a result of Finnish men reaching the educational level of Finnish women. Mäki-Franti et al. (2023) modelled the economic growth in Finland under varying human capital investment scenarios until 2070 using the Bank of Finland's long-run forecast

model (Kokkinen et al., 2021). They reached similar conclusions, stressing that investments in human capital are key to economic growth. Their optimistic scenario, leading to economic growth, also assumed some increase in immigration. Myrskylä et al. (2025) analysed to what extent an increase in human capital can counterbalance the predicted long-term decline in economic growth resulting from a sustained low fertility level (decline from 1.45 to 1.3). In their view, maintaining the investment in education at a constant rate despite the decline in cohort size has the potential to offset the impact of the fertility decline. Increased levels of education, particularly among women, may lead to further delays in childbearing (e.g., Monstad et al., 2008). However, impacts on eventual numbers of children in the Nordic context are likely to be small, but if anything, positive for men (e.g., Nisén et al., (2018).

In ageing societies, it is increasingly important to enable and encourage longer working lives. This helps retain the human capital that societies have already invested in, rather than allowing it to depreciate prematurely. To boost employment among older individuals, pension systems should be reformed to support flexible retirement and provide incentives for extended careers, while removing disincentives to continue working. At the same time, workplaces must become more age-inclusive by offering flexible work arrangements, combating age discrimination, and promoting lifelong learning (e.g., Lindström, 2025).

Role of Immigration for Economic Sustainability

Another key set of measures we emphasise in adaptation to population ageing is immigration, which leads to employment and integration into the host society. Marois, Bélanger, and Lutz (2020) highlight the high stakes involved in mitigating the weakening old-age support ratios in advanced ageing economies through immigration. According to their projections, long-term support ratios are more strongly influenced by changes in educational attainment, labour force participation, and migrant integration than by the sheer number of migrants or overall fertility levels. Nopola's study (2019) examined the long-term implications of migration for the sustainability of Finland's pension system. She demonstrates that migrant groups not only differ in their levels of skills and employment rates, but also in their fertility: the latter may compensate for the former, given that migrant groups with lower skills (i.e., from lower-income countries) tend to have higher fertility. However, as fertility declines globally, the initial skill levels and the integration of migrants become even more crucial for economic sustainability. Moreover, the fertility behaviour of the descendants of migrants also typically resembles that of natives, and their fertility can even reach lower levels than that of natives (Höhn et al., 2024).

Immigrants, on average, have a weaker position in the labour market than native Finns, and this is particularly evident in the relatively low employment rates among female immigrants (Sutela, 2016). However, the employment rate of female immigrants (aged 20–64) increased from 53% in 2016 to 68% in 2022 in Finland, indicating a strengthening labour market attachment of this group. In 2022, the overall employment rate among immigrants was 73.4%, comparable to that in Sweden (72.4%) (Sutela, 2023). There is a significant variation in labour market attachment and educational level among immigrants depending on their country of origin. For instance, in 2022, the employment rate of male immigrants from other EU countries was higher than that of native Finnish men, while the employment rate of male immigrants from other countries was lower. Female immigrants from outside the European Union are less likely to be employed than native Finnish women. In contrast, the employment of female migrants from other EU countries resembles that of native Finnish women (Sutela, 2023).

Role of Family Policy and Gender Equality for Social and Economic Sustainability

Prior to the unexpected decline in fertility rates in the 2010s, there was widespread support for the idea that strong family policies and high levels of gender equality in the Nordic countries were responsible for their relatively high fertility rates compared to other high-income countries. However, developments over the past 15 years have called this assumption into question. Particularly, isolated family policy measures may prove ineffective in achieving a sustainable reversal of the trend (Neyer & Andersson, 2008), especially when fertility has fallen to very low levels and an increasing proportion of young adults are childless. This is because fertility behaviour is related to many, often complex, societal developments. Moreover, low fertility may have self-reinforcing effects on continued low birth rates through social, economic, and demographic mechanisms that may hinder an increase back to higher levels (Lutz et al., 2006). The demographic mechanism means that as the pool of women of reproductive age shrinks, it becomes increasingly unlikely to foresee an increase in the number of births, even if the number of children born per woman increases. Despite these challenges, it remains crucial to continue enhancing the well-being of families with children and to support young adults in achieving their desired family planning goals.

Much literature studies the role of various family policy measures in influencing fertility, typically related to the reconciliation of paid employment and childcare, or to compensating the costs of children and supporting the family economy. The primary policy indicators encompass parental leave policies, childcare services, and child-related benefits. Recent systematic reviews

(Bergsvik et al., 2021; Thomas et al., 2022) conclude that family policies promoting work-family reconciliation and gender equality can be more effective strategies for increasing fertility than cash transfers, which often have only temporary effects on the timing of childbirth. However, the support for work-family reconciliation may have more substantial consequences for continued childbearing than for first births, given that first births are strongly impacted by educational enrolment, partnership dynamics, and lifestyle-related reasons at young ages. Important to note is that the needs of (prospective) families vary. Covering the direct costs of childbearing is likely more acute for couples with lower levels of education and income. Couples with higher levels of education may benefit more from reducing the indirect costs of children, which may ease the work-family reconciliation. In addition to economic security, support for parenting skills and co-parenting practices is also relevant for the progression to a second birth (Moilanen et al., 2024).

It can be argued that family policies in the Nordic countries are already well developed to support gender equality (Daly & Ferragina, 2018). Mothers' participation in paid employment has been high for several decades, and attitudes towards the gendered division of labour in parenting are more egalitarian than in many other countries. However, the 'stalled revolution' remains apparent even in these countries, as men have yet to take on a more equal share of unpaid care responsibilities. As a result, women in paid employment are often burdened with a disproportionate 'second shift' at home. Additionally, economic gender inequality remains in these countries, for instance, in terms of labour earnings accumulated over time (Nisén et al., 2025). To strengthen gender equality as a building block of social sustainability, a cultural shift is needed that challenges norms and expectations around gender, promoting not only equal participation in the labour market but also more equally shared care responsibilities (see, for instance, Evertsson et al., 2023).

Early evidence suggests that the most recent parental leave reform in Finland, implemented in 2022, which granted fathers a longer non-transferable leave, has to some extent increased fathers' uptake of leave (Helske et al., 2025). While legal regulation and statutory rights are crucial for achieving gender equality, workplace practices that support the reconciliation of paid employment and family life are also needed. Such practices include autonomy and flexibility of working hours and place of work, as well as making leave use and care responsibilities possible for both mothers and fathers.

A more equal sharing of parental leave between mothers and fathers supports the well-being of both parents and children. It also supports society's social and economic sustainability by reducing inequalities and promoting women's careers and economic growth. Daly (2020) notes that gender equality is often not a central priority in social policy models focused on social investment. However, addressing persistent gender inequalities is crucial not only

for promoting economic sustainability but also as a matter of social justice and equity.

A more equal sharing of paid and unpaid work within families may create more favourable conditions for childbearing (Helske et al., 2025). Accordingly, it is important to recognise that reductions in family policies – particularly those supporting gender-equal division of care and work – could further depress fertility by weakening the prospects of potential parents, whether for first or subsequent children.

CONCLUSION: NAVIGATING THE DEMOGRAPHIC FUTURE OF AN AGEING SOCIETY

Finland's demographic shifts, including declining fertility, increasing longevity, and population ageing, present significant social and economic challenges. While these trends reflect broader developments in industrialised and modernised societies, Finland's sharp decline in fertility since 2010, along with its advanced stage of ageing, sets it apart from other Nordic countries and much of Europe.

Population ageing, accelerated by low fertility, poses risks to the sustainability of welfare systems, intergenerational support structures, and labour market dynamics (i.e., patterns and changes in employment, workforce participation, and labour supply and demand). Simultaneously, rising levels of childlessness, persistent and growing socio-economic differentials in family formation, and challenges in work-family reconciliation and gender equality demand multifaceted policy approaches. Addressing these challenges requires adapting to the new low-fertility landscape and population ageing while fostering conditions conducive to family formation.

While increasing fertility levels through policy measures remains complex and uncertain, any efforts to raise fertility should adopt a bottom-up approach and aim to mitigate the gap between desired and achieved fertility of individuals (Gietel-Basten et al., 2022). We emphasise a broader perspective, prioritising sustained investments in human capital, gender and social equality, and well-being. Enhancing educational attainment, reducing disparities in labour market opportunities, and improving the compatibility of work and family life are crucial for adapting to population ageing. Still, they may also address some of the factors underlying today's low fertility.

Immigration plays a crucial role in sustaining population growth and supporting economic productivity. At the same time, ensuring the well-being, inclusion, and equal opportunities of immigrants is essential, so that they can fully participate in Finnish society and the labour market. Notably, investments in human capital should encompass immigrants and their children,

promoting both their individual development and long-term societal and economic sustainability.

Ultimately, Finland's ability to navigate these demographic changes lies in a holistic approach that balances social sustainability with economic imperatives. By fostering a society that values inclusivity, supports individuals throughout their life course, and invests in its people, Finland can address its demographic challenges while preserving the core principles of its welfare state.

The Nordic welfare states are particularly well-positioned to respond to fertility decline through a dual strategy that combines long-term investments in education, gender equality, and social capital with targeted interventions aimed at supporting informed reproductive and life choices (see Chapter 2). While broader social investments lay the groundwork for individuals' well-being and human capital, as well as family-friendly environments and reproductive autonomy, carefully designed interventions (e.g., reproductive health education) can directly influence the timing and feasibility of family formation. This integrated investment-intervention approach not only aligns with the values and institutional strengths of the Nordic model but also offers a realistic means to mitigate the demographic consequences of sustained fertility decline and population ageing in the coming decades.

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9. Redefining welfare deservingness: the impact of AI and algorithmic systems on the social investment state

Minna van Gerven and Wim Van Lancker

SOCIAL INVESTMENT IN THE DIGITAL ERA: STEPS TOWARDS DIGITAL DESERVINGNESS

The redevelopment of the welfare state will center around digitalization, leveraging digital technologies to organize social benefits and services. Over recent decades, advancements in information technology (IT) have paved the way for administrative efficiency and the rise of “digital welfare states”, deploying large-scale datasets such as population-wide registers together with advancements in statistical methods and IT systems to streamline benefit allocation and service delivery and inform policy decisions (see e.g. Van Landeghem et al., 2021).

Today’s technological advancements, propelled by datafication and artificial intelligence (AI), are expected to revolutionize digital governments. Through datafication, vast amounts of data on people and everyday processes collected from digital interfaces and platforms are transformed into knowledge to assist governments by allowing them to steer with (potentially) greater precision (Nikunen, 2024; Reutter, 2022; Eubanks 2018). Drawing on such data, algorithmic systems support a wide range of practices. At one end, simple algorithms automate and optimize (parts of) tasks, while at the other, advanced AI processes unstructured data and adapts to new information. AI’s ability to self-learn and improve over time allows policies and administrators to scale up and analyze larger, more complex datasets than traditional statistical methods can handle. This capability aids policymakers in forecasting trends, understanding behaviors, and planning more effective interventions. These technologies also enable simulations and scenario analyses, allowing policymakers to explore potential intervention strategies and their causal impacts.

This runs in parallel with welfare states being increasingly reoriented towards investments in services and a focus on human capital to equip individuals with

the capabilities to navigate modern labor markets and societies, reducing the need for traditional social insurance schemes (Van Kersbergen & Hemerijck, 2012). Following the investment-intervention approach outlined in this book (Chapter 2 and Chapter 4), investments are future oriented to prevent future problems while interventions target specific needs that need to be addressed immediately. Unemployment benefits, for instance, provide immediate relief while investments in quality education improve future opportunities. As such, the investment-intervention approach combines universal services, such as education and healthcare, with interventions targeted towards specific groups or individuals. In a way, this is a more radical extension of policy developments over the past decades, emphasizing universal services over universal benefits and moving towards more targeted and conditional benefit systems (Cantillon & Van Lancker, 2013; van Gerven & Nygård, 2017). This puts the classic question of who should get what in the welfare state center stage again. Phrased differently, who is deserving of tailored support in the digital welfare state?

Rapid technological advancement carries the promise of being much more accurate in identifying and delineating specific categories of need and potential beneficiaries of targeted interventions. The logic of datafication and algorithmic decision-making thus aligns with the objectives of the investment-intervention approach, as they reduce the scope of welfare interventions to ever smaller units. In this, they enable “the individualized mass processing” (Heidenreich & Rice, 2016), often seen as a requirement to properly identify service needs and to make it possible to effectively tailor-make and target the services to those who would benefit from support. At the same time, however, this data-driven reductionism may not address some of the core problems of the welfare state, such as inequality and social exclusion (Rawls, 1971). To the contrary, it may strengthen the dividing lines of social policy by extending the differentiation between deserving and undeserving citizens, and in doing so risk excluding certain groups and individuals from support.

This chapter *explores the potential directions algorithmic systems and datafication can take in the development of the social investment state*. It discusses the state of the art in literature to point out the potentials and risks of algorithmic systems and automation, and questions how these advancements may alter the basic principles of welfare states in the long run.

REDEFINING DESERVINGNESS

The question of “who is deserving?” can be traced back to the inception of the modern welfare state. The distinction between deserving and undeserving citizens dates back to the early forms of poor relief in Europe. Under the Elizabethan Poor Laws in the sixteenth and seventeenth centuries, a moral

difference was recognized between people who were worthy of support, such as the elderly, disabled, or orphans, and those who were deemed unworthy of support, in particular able-bodied persons who were not working. In his seminal work on deservingness, van Oorschot argues that these distinctions persist in modern welfare states (van Oorschot, 2000). Social insurance schemes, for instance, delineate between those who are entitled to benefits by means of their contributions. However, welfare state reforms in the 1970s and 1980s were characterized by a “workfare turn” and increasing conditionalities pressured by budgetary restrictions and structural unemployment. The ideal of social protection as a universal and citizen-based entitlement (Marshall, 1998; Titmuss, 1968) has lost ground against a more stringent interpretation of social protection in which individual responsibility became key (Dingeldey, 2007). Not dissimilar from what happened during the time of the Poor Laws, the workfare turn emphasizes contributing to society through paid work and being a productive citizen. The imposition of behavioral requirements as a condition for benefit entitlement, then, is a way of making the distinction between deserving and undeserving citizens. While checking an increasing number of conditions and behavioral requirements requires complex administrative processing and is demanding for social professionals and frontline workers dealing with benefit applications, digitalization processes carry the promise of improving the efficiency of determining “who gets what” by automating the process of checking requirements throughout the whole benefit process. So, while the question of who deserves what kind of support has been center stage in welfare state development from the very beginning, the “digital turn” and the exploration of “digital welfare states” (Alston, 2019, Dencik & Kaun, 2020; van Gerven, 2022) provide new impetus to revisit this fundamental question.

The key tenets of social investment as a policy paradigm and policy practice serve to reinforce the focus on productive citizens and paid employment (Hemerijck, 2017). The focus on preventing social risks from happening instead of repairing damage done through benefits, on education from early childhood throughout life, on adapting people to new labor market requirements, and on health promotion to sustain a healthy workforce, all require an increased emphasis on individual responsibility and reciprocity. In order to prioritize effectiveness and affordability, investment-intervention strategy requires the ability to identify vulnerable children and find ways to incentivize parents to enroll their children in childcare services; it requires the ability to monitor labor market entries in real-time and to be able to provide people experiencing job loss with targeted forms of support aligned with their profile as soon as possible; and it requires the potential to reward citizens for behaving well and to punish citizens who fail to comply with the required set of preventative behaviors. While these aspects of the social investment paradigm has been criticized earlier (Cantillon & Van Lancker, 2012; 2013; Taylor-Gooby

et al., 2015), it is of utmost importance to critically engage with the different manners in which digitalization and datafication can impact the welfare state in order to underpin its role as a social investment state.

TECHNOLOGICAL DETERMINATION OF DESERVINGNESS

Datafication, automation, and algorithmic decision-making have transformed many administrative processes, significantly impacting both “screen-level” administrators (Bovens & Zouridis, 2002) and digital citizens (Schou & Hjelholt 2019). A key statement from the 2019 “Automating Society” report, published by Algorithm Watch in cooperation with Bertelsmann Stiftung and presented to the European Parliament, emphasizes this shift: “Algorithmically driven, automated decision-making (ADM) systems are already in use all over the EU” (Müller-EiseltMüller-Eiselt, 2019, p.10).

ADM signifies a shift where human decision-making (HDM) capacities in public administration, corporations, or organizations are increasingly partially or completely delegated to data-driven, algorithmically controlled models. Well-known examples exist in the fields of insurance, profiling, human resources, journalism, credit scoring systems, the criminal justice system, and in a range of online and social media applications (O’Neill, 2017). In human resource management, for instance, it has become quite common for large companies to deploy algorithms to filter and prioritize job applicants before any human action is taken (see Müller-Eiselt, 2019). Algorithms predicting future criminal behavior are shaping judicial decisions on granting parole to prisoners. And of course, the algorithms assigning tasks to platform workers are an example of this evolution too. These examples demonstrate how digital technologies increasingly assist—or replace—human tasks.

AI-driven applications are becoming central to the provision and allocation of benefits and services in welfare states (ISSA, 2024). These tools promise more effective delivery, aligning with core principles of the intervention-investment model. AI and automation are already widely employed in processing benefits claims and executing payments, enhancing administrative efficiency. They also enable predictions, risk-scoring, and identification. For example, across Europe, public employment services utilize AI tools to classify jobseekers into risk groups (profiling), recommend appropriate employment services (targeting), and match jobseekers to suitable job or training opportunities (matching) (see Körtner and Bonoli, 2023). Additionally, algorithmic systems streamline benefit claim management processes and assist case managers by providing data to support their decisions. While full automation in sensitive areas of decision-making remains uncommon, its potential to replace human discretion raises significant implications for administrative processes

(Busch and Henriksen, 2017; Bullock, 2019; Fest et al., 2023). Datafication, as in the growing ability to combine diverse (administrative, corporate, and platform) datasets, is a key driver for AI expansion (van Landeghem et al., 2021). However, the adoption of these technologies comes with both opportunities and challenges, shaped by the design of digitalized welfare systems and the politics underlying these. The following subsections explore these issues in detail, demonstrating the logic of technology in practice, the areas where it is applied, and the opportunities and challenges it presents for determining deservingness.

On the Technological Design of Deservingness in the Approach to Social Investment

Although the study of AI in welfare policies is still an emerging academic field, existing research has provided valuable insights into (in)compatibility of technological systems in administering welfare rights. It has also highlighted the crucial roles that data and design play in shaping policy outcomes. The fundamental logic of algorithmic systems and AI technologies lies in their ability to process (unprecedentedly) large sets of structured or unstructured data, and to reduce the scope of welfare interventions to increasingly smaller units and identify patterns that would otherwise remain invisible. By leveraging historical data, the systems can predict outcomes based on observed patterns. This predictive model can then be applied to new client data to generate forecasts for specific outcomes, which could be crucial in advancing the “preparing” rather than the “repairing” in the social investment approach (Körtner and Bonoli, 2023).

Following this logic, AI allows for a more precise or targeted delivery of public services, benefits, and goods. It facilitates, for instance, a faster dissemination of information and resources, allowing early interventions and faster responsiveness to particular clients’ needs. As argued at the start of the chapter, targeting refers to the allocation of resources based on a set of pre-defined criteria. In social policy, this often raises fundamental questions: who should get what and why? (van Oorschot, 2000). Targeting healthcare interventions based on individual lifestyle characteristics and needs is expected to make healthcare provision more effective on the one hand and to spare people and societies the side effects and costs of interventions from which they would not benefit on the other hand (see also Lucas et al., 2021; van Gerven et al., 2026). Similarly, AI-supported processes for income protection are designed to ensure that public resources are spent more efficiently by directing them to those beneficiaries and needs that yield the biggest return, thus maximizing the impact of welfare investments. Digital technologies, therefore, hold potential to achieve unprecedented levels of precision in the design and delivery of

goods and services. Overall, the integration of interventions into the social investment framework, in parallel with datafication, algorithmic decision-making systems, and the growing importance of AI, has the potential to create more inclusive and effective policies. In particular, this holds great promise for avoiding one of the biggest dysfunctions of targeting: the problem of non-take-up (NTU) and the complexity of its administration.

In his seminal 2002 book chapter on targeting income benefits, Wim van Oorschot took a skeptical stance towards the promises of targeted welfare: “[It] generally implies lower benefits, stronger and more intrusive controls over personal circumstances and activities, more complex obstacles to the realization of rights, fewer opportunities to become better-off and a greater chance of needy citizens being seen (and treated) as second-rate people” (2002, p. 187). Can the use of digital technologies make targeting more effective and reduce these dysfunctions, particularly by reducing the levels of NTU? NTU refers to situations where individuals entitled to support or benefits do not actually receive it or have access to it. This remains a significant challenge for welfare states, especially for means-tested benefits, where NTU frequently affects more than half of the eligible population (Eurofound, 2015; Frey & Hye, 2024). NTU is not only limited to social benefits but extends to a wide range of welfare services, where eligibility for one benefit may determine access to other public services. For example, a European Commission report highlighted that one of the most important problems to be addressed is “the failure of [employment] services to reach the most disadvantaged” (Bouget et al., 2015, p. 6). This double disadvantage is critical since in many countries registration with employment services is a precondition for accessing social assistance or unemployment benefits. Non-compliance in such cases can result in a high risk of living in poverty and undermine the effectiveness of public welfare state systems (see also Bennett, 2024).

Public administrations increasingly rely on big, interlinked datasets that include social security and labor market information. Algorithms, then, are used to churn these datasets to identify potential beneficiaries, prioritize benefits claimants or service users, predict fraudulent behavior, or assess compliance with eligibility conditions. In practice, automation can be used either to target benefits or to extend the scope of claimants. The latter is seen as a potential solution for NTU (see, e.g., Bennett, 2024). Databases can be used to simplify benefit administration. Automated enrollment could grant benefits without requiring formal claims, or data can be used to proactively reach those who are potentially eligible. Alternatively, the claiming process can be streamlined to maximize rights acquisition, for instance, by linking eligibility for one benefit to others or using a single set of documentation for multiple claims (Goedemé et al., 2020; Bennett, 2024). Furthermore, administrative records can be used to ensure the continued receipt of benefits without requiring

reapplications. Such proposals for auto-enrollment have recently been made by UN Special Rapporteur on extreme poverty and human rights, Olivier De Schutter (2022) and Eurofound (2015), aiming to use big data and digitalization to eliminate the need for applications altogether. However, the politics of digital welfare remains largely shaped by national politics, with most states prioritizing targeted allocation over automation of social rights, as discussed shortly.

Furthermore, discretion traditionally plays a significant role in defining deservingness within the welfare state. AI and ADM offer the promise of reducing human errors and biases: algorithms are not prejudiced regarding deservingness criteria and put everyone on the same footing; automated processes running on big datasets are usually cheaper than humans plowing through case files; and they show great potential to proactively identify potential beneficiaries, which should lead to much higher take-up rates. Despite these being promising features of digitalization, skepticism is nevertheless warranted. Digitalization introduces risks of systemic errors. Despite public administration datasets and register data providing a wealth of data, the real-world complexity of clients' situations cannot be fully captured by existing data, particularly those from pre-defined/structured databases designed for administrative purposes. Quite the contrary, the use of simplified "proxies", such as use of data concerning jobseekers' click behavior for determining their motivation for job search (Brioscú et al., 2024), is seen to oversimplify life and detach human behavior from the broad social-economic-political context in which people live and have to make everyday decisions (Marjanovic et al., 2021). The use of algorithms churning big data can compound the effect of simple errors. Automated decisions can perpetuate prejudice and amplify biases because the models are based on skewed or low-quality data. Additionally, grave concern has been voiced about a lack of transparency, explainability, and accountability in automated decisions resulting in the data-driven administrations "seeing without knowing" (Ananny and Crawford, 2018).

If the content of underlying databases reflects deservingness perceptions of civil servants, algorithms will tend to reproduce these biases. Particularly problematic here is the scale of things. While case managers can have prejudices that lead to unequal treatment of clients, ADM risks compounding errors affecting thousands of beneficiaries at once. In her book on automation practices in the US, Virginia Eubanks (2018) documents how the systematic replacement of case workers by automated processes in welfare administration in Indiana has led to a dramatic reduction of beneficiaries due to the combination of deliberate policies to save money, technological failures, inability to hold private contractors accountable, and the lack of human oversight to intervene in the process or rectify computer errors.

Moreover, replacing human decision-making with automated processes might also increase NTU by creating barriers for individuals lacking digital literacy or access to online application systems. Complex life circumstances may also fall outside of the scope of even the most advanced systems, since they generally rely on structured data. In a recent study, Millar and Whiteford (2019) document how fully automated systems in the UK (Universal Credit) and Australia (Centrelink), designed to match data on incomes, family composition, and employment in real time in order to predict benefit payments, are extremely error-prone. As a result, the number of alleged overpayments rose strongly. Many families had to repay large amounts of debt, which disproportionately affected families with irregular incomes and pushed them deeper into the abyss.

The digital welfare state has unprecedented technological advances at its disposal to impose person-centered and individualized policies in line with integrating social investment through targeted interventions: The ability to predict who needs to be targeted by preventative policies also strengthens their current and future productivity in comparison with the traditional welfare mechanisms, such as digital welfare support aiming to repair the consequences of poverty or joblessness. However, such precision-driven operations risk deepening the existing social divides and creating new cleavages and new categories of deserving and undeserving citizens by oversimplifying and decontextualizing the social problems of the offline world.

On Political Redefinition of Digital Deservingness

The identification of individuals at risk enables more intensive efforts to support them early on. However, a dominant narrative surrounding the digital welfare state recalibration has centered on neoliberal values, emphasizing the targeting of public sector interventions towards deserving citizens (Alhutter et al., 2020). This focus, as we have argued, fosters a system that prioritizes monitoring and excluding the undeserving (Zuboff, 2019; Eubanks, 2018) over the inclusion and support for those at the margins of society.

While algorithmic systems are often deployed to enhance effectiveness and quality in public administration (on the dubiousness of digital effectiveness, see van Gerven et al., 2025), the datasets used by public sectors are frequently marked by entrenched inequalities and discrimination, as noted earlier. These data(bases) evidently become embedded in algorithmic systems. The extent to which algorithms reproduce or mitigate such biases depends not only on data and design, but also on the purposes and policy objectives they are intended to serve (see also Körtner & Bonoli, 2023). When AI is used to steer government intervention towards highly selective, targeted measures, particularly addressing perceived social “pathologies” such as benefit fraud, the potential of

technologies may be harnessed to address moral hazards rather than enhance the effectiveness of the welfare state.

Many well-known cases of digital welfare states have gained notoriety for their problematic implementation. Perhaps the most infamous cases in Europe originate from the Netherlands. The first concerns the Dutch digital welfare fraud system (Systeem Risico indicatie SyRI), which was declared unlawful by the Dutch court in 2020 for violating human rights (Bekker, 2020). The SyRI, administered by the Dutch Ministry of Social Affairs and Employment, aimed to prevent various forms of fraud (social benefits, tax) by profiling individuals using a large pool of personal and sensitive data collected from public authorities. It could be used upon request, by governmental bodies (e.g., social security administration, ministry inspectors) and Dutch municipalities. The SyRI's risk model included a range of indicators—such as data on taxes, health insurance, residence, education—to generate risk profiles of “cases” in “certain neighborhoods” suspected of a higher likelihood of fraud. Authorities used this information for further investigation. However, the SyRI was highly problematic; it flagged individuals without their knowledge, based sometimes merely on “empty proxies” such as their residence in certain areas, and their data was retained for two years. The system came under scrutiny after a coalition of Dutch civil society organizations and two citizens challenged its legality in court. Investigations revealed that in addition to the lack of transparency on the use of the system, SyRI was primarily used in neighborhoods with a high proportion of low-income residents, migrants, and ethnic minorities (Appelman et al., 2021), exacerbating biases and discrimination.

Similar issues have arisen with preventive policing algorithms. When such tools are deployed primarily in neighborhoods already classified as “high risk”, the historical data that informs the algorithms are biased from the start. Increased surveillance in these areas reveals “more frequent” crimes, further reinforcing discriminatory patterns in future applications. The SyRI case gained international attention, with the then United Nations' Special Rapporteur on extreme poverty and human rights, Philip Alston, raising concerns about it in a letter to the Dutch court on 26 September 2019 (Alston, 2019).

A second scandal in the Netherlands concerned the Dutch tax authorities in 2019 (AIAAIC, 2020). From 2013, the Dutch tax office had used self-learning algorithms to create risk profiles that aimed to detect benefit fraud. The system relied on nationality as a risk factor, assigning higher risk scores to individuals with dual nationality or low income. Dutch journalists later uncovered a hidden blacklist maintained by tax authorities for over two decades, which flagged individuals as high-risk fraudsters (Trouw, 2020). As a result, over 50,000 parents and caregivers, mostly low-income minorities, were falsely accused of fraud and ordered to repay thousands of euros in benefits. The impact was

catastrophic. Media reports revealed that “Over 1,600 children whose parents were implicated in the scandal were removed from their homes by social workers. Additionally, the tax office later admitted that 11,000 people were subjected to extra scrutiny because they held dual nationality” (DutchNews, 2024). The scandal ultimately led to the collapse of the Dutch cabinet in 2021 and the establishment of a €14 billion compensation package to the families (DutchNews, 2024).

Similar controversies have recently emerged in the UK. Since 2021, the Department for Work and Pensions (DWP) has used AI to detect benefit fraud (see Guardian, 2023). As in the Netherlands, algorithms were deployed to flag cases for further investigation by the public administrators. Allegations have surfaced that certain nationalities—such as Bulgarian, Albanian, Romanian, Polish, and Greek—were disproportionately targeted for benefit fraud or sham marriage investigations. Although authorities have denied these allegations, public concerns remain high, especially given the self-learning nature of algorithms. British MP Kate Osamor has raised questions about inherent nationality bias in these systems targeting benefit fraud (AIAAIC, 2021). The DWP is currently under investigation for alleged unfair disability benefits fraud detection algorithms (AIAAC, 2022).

These scandals highlight the broader issue of algorithmic fairness. The extent to which (predictive) algorithmic systems reproduce or reinforce existing biases and discrimination in regards to certain groups and individuals is a critical concern (Mitchell et al., 2021). Ultimately, the outcomes of such systems depend on their purposes and policy objectives. Investing heavily in technologies for fraud detection as a means to modernize the welfare state raises serious ethical concerns. For example, the Finnish Social Insurance Institution (Kela) has recently invested in developing technical capabilities to identify and prevent benefit fraud and misuse. While addressing moral hazards has always been integral to welfare states, and responsible governance requires prudent use of public funds, the extent to which modern administrations allocate resources and attention to these technologies is debatable. Taking the Finnish example, in 2022, Kela distributed benefits totaling €16.3 billion. According to Kela’s misuse reports from 2020 to 2024, social security fraud and misuse have remained low. In 2024, 1,104 suspected fraud cases were identified, corresponding to €7.2 million in total. The proportion of reported cases relative to all benefits paid was 0.43 per mille (Kela, 2025). Through further investigation, it was found that, on average, each suspected case amounted to little over €6,000 and only less than half of the flagged cases underwent further investigation, with 72% of them resulting in a criminal offense investigation (Helsingin Sanomat, 2024). On the whole, it appears that the problems of misuse and fraud are minor issues, and therefore prioritizing surveillance over support to address root causes of such acts may not effectively advance

the objectives of the social investment state. These examples do show how datafication, automation, and the increasing use of AI may risk sharpening the distinction between deserving and undeserving citizens—promising the detection of fraud and excluding those who are not entitled to support, but in practice reinforcing patterns of inequality.

REDEFINING DESERVINGNESS: CONCLUSION

This chapter examined *the potential directions algorithmic systems and datafication can take in the development of the social investment state*. Automation, in particular automation driven by datafication and accompanying developments in artificial intelligence (AI), carries the promise of overcoming long-standing problems with the welfare state. By leveraging vast amounts of data and disaggregating it to granular levels, algorithmic systems enable more efficient benefits and service delivery. In principle, these technologies can identify eligible individuals for benefits, provide tailored services, and predict risks before they arise, aligning closely with the preventative objectives of the social investment state and its interventions. Compared to traditional (digital) welfare mechanisms, AI-driven policymaking has the potential to further optimize administrative processes, reduce administrative burdens through automation, and improve access to (personalized) services. With these aims, AI and mass targeting lead to (cost) effectiveness and emphasize evidence-based interventions, prioritizing outcomes over causes (see Chapter 1). By addressing the consequences of social problems directly (or even proactively), they may help to tackle pertinent obstacles for social welfare and activation by eradicating non-take-up and providing a better match between people's needs and public support. In this way, their usability for interventions in the broader framework of social investment is promising.

However, these advancements come with risks and demand due caution. Data-driven approaches risk oversimplification if they fail to address foundational issues of welfare states in general and non-take-up in particular, while creating new social and economic divides. By focusing on short-term interventions, the over-reliance on automated systems can remove the human factor from high-stakes decision-making processes crucial for safeguarding vulnerable people's well-being in the long term. While AI and algorithmic systems have the potential to redefine the social investment state, their impact is deeply contingent on the underlying policy objectives and design principles guiding their use.

When these systems prioritize targeting and fraud detection, rooted in neo-liberal narratives of deservingness, they risk reinforcing systemic inequalities, bias, and exclusion. For social investment states to harness the transformative potential of AI, they must prioritize inclusive strategies focusing on support

and equitable access to resources. Policymakers must ensure that algorithmic systems adhere to the principles of fairness, transparency, and accountability. Furthermore, investments in high-quality, representative data and robust human oversight are essential to mitigate biases and prevent the reproduction of historical inequalities.

Without careful design and implementation, algorithmic systems may exacerbate social divides, intensify differentiation between “deserving” and “undeserving” citizens, and exclude individuals from the tailored support they need. While such technologies are necessary to sustain the welfare state financially and equitably allocate (diminishing) public resources, data-driven approaches alone cannot address the core aims of the welfare state—protecting individuals from social risks and supporting their (self) realization of opportunities in the long run. Short-term, reductionist approaches that fail to consider individuals within their broader social contexts risk undermining these objectives. In the longer run, an ill-advised deployment of ever-expanding technological possibilities combined with an investment-interventionist approach to welfare reform risks triggering a spiral of deteriorating social rights. As social protection becomes more datafied and technology-driven, the fundamental principles of social insurances, collective solidarity, and mutual risk-sharing, may be weakened. Technology’s capacity to differentiate at ever smaller levels increases not only the risk of discrimination (as seen in algorithmic fraud detection) but also a broad shift towards means- and needs-tested welfare. Algorithmic systems are already reshaping everyday means-testing, particularly in regard to how income and “acceptable” expenses are assessed (Heikkinen et al., 2025). This form of codified discretion through automation has far-reaching consequences for individuals’ relationship with the state—affecting conditionality, trust, and perceived fairness—and may contribute to a shift towards increased needs-testing at the expense of preserving social security rights.

Ultimately, the impact of AI on welfare states depends on how it is designed and deployed (as Kangas and Niemelä remind us in Chapter 7). AI can support universal, rights-based policies aimed at preventing marginalization or it can reinforce selective, contribution-focused (workfare) policies. A contemporary understanding of the social investment approach recognizes the importance of rights-based universal forms of social protection in mitigating risks and facilitating life transitions. This entails targeted investments at various life stages in addition to robust social protection measures. Technology can facilitate this if technically and politically designed to do so.

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10. Public policy for future generations: well-being economy in the Nordic context

Heikki Hiilamo

INTRODUCTION

The essential challenge facing all nations today is how to achieve a balance between ecological, economic, and social sustainability. As the doughnut economy model (Raworth, 2017) illustrates, no country has yet succeeded in harmonizing the three dimensions of sustainability (O'Neill et al., 2018). High-income countries have come closest to fulfilling basic needs for their populations, but only by exceeding planetary boundaries. Low-income countries, by contrast, remain within ecological limits but often fail to meet the essential needs of large portions of their citizens, which compromises social sustainability. Compounding challenges with ecological and social sustainability, rising levels of public debt in some countries put strain on governments' abilities to respond effectively to crises and invest in sustainable initiatives (Congressional Research Service, 2010). This debt burden creates a perceived imperative for economic growth, as governments depend on future growth to generate the revenues needed to service and repay their debts. At the same time, future generations face the dual challenges of addressing environmental damage and bearing the costs of healthcare and pensions for an aging population. Economic sustainability becomes essential to balancing these competing demands, ensuring that current policies not only address immediate needs but also avoid exacerbating the debt burden. This chapter explores the well-being economy as a transformative framework for advancing ecological, economic, and social sustainability within the Nordic welfare states.

The chapter begins by examining various approaches to sustainability in the Nordic context, with a particular focus on how public policy can balance economic, ecological, and social goals. It then analyzes the role of social investment strategies in this process, culminating in a discussion of the well-being economy as a promising framework for integrated and long-term

sustainability.¹ Finally, it presents policy interventions aligned with the well-being economy framework.

Among the three dimensions of sustainability, ecological sustainability is the most pressing issue for high-income countries (see Howes & Surandiran 2021 for the cautionary example of Nauru). The current affluence in rich countries is materially built upon centuries of fossil fuel use and exploitative practices, including colonization. While these systems have generated immense wealth, they have simultaneously created environmental and social liabilities that future generations must bear. The earth inherited by today's newborns is, in many ways, worse off than ever before. The first visible impacts of global warming are already unfolding in the Global North, while people in the Global South suffer far more severely from environmental degradation and climate-related disasters.

SUSTAINABILITY IN THE NORDIC COUNTRIES

The Nordic countries are often celebrated as some of the most successful societies in the world, consistently topping global rankings in well-being, equality, and governance. Finland, for example, has been ranked the happiest country in the world for eight consecutive years (Helliwell et al., 2024). These accolades reflect the Nordic countries' commitment to social equity, robust welfare systems, and high levels of trust in public institutions. However, despite these successes, significant challenges remain, particularly in achieving ecological sustainability.

The Nordic region, often portrayed as a leader in environmental awareness, faces its own pitfalls (Gómez-Alvarez et al., 2024). Iceland, for instance, holds the dubious distinction of having the largest ecological footprint per capita of any country, largely due to its reliance on fisheries and energy-intensive industries (Global Footprint Network, n.d.). Norway, while lauded for its wealth and innovation, continues to exploit new oil fields in the North Sea, exacerbating global carbon emissions. Finland's extensive forests, once a symbol of untouched nature, have been largely transformed into monoculture tree plantations, reducing biodiversity and altering ecosystems. In Lapland, mining activities pose a direct threat to the traditional livelihoods of the Sámi people,

¹ This chapter draws on the Finnish Institute for Health and Welfare's Resilience and Recovery project "Building a knowledge-based well-being economy framework for Finland – project (2022–2025)" which has developed tools for well-being economy decision-making. See <https://thl.fi/en/research-and-development/research-and-projects/building-a-knowledge-based-wellbeing-economy-in-finland-a-project-to-develop-policy-tools>.

which raises concerns about the balance between economic development and cultural preservation.

These examples highlight a fundamental gap between the urgent adjustments needed to avoid environmental crises and the short-termism that often dominates contemporary politics. Populist voices, increasingly influential across the Nordic region, frequently prioritize immediate economic and political gains over long-term ecological strategies (Vihma et al., 2020). Meanwhile, alarmist media narratives can create a sense of urgency that fosters myopia, obscuring the slow but meaningful incremental changes that are gradually taking place in policies and practices.

In the Nordic model, social policies act as a balancing force between capital interests and public welfare, using the productive forces of market competition while safeguarding individuals through robust social security measures (Hiilamo and Kangas, 2013). This system has allowed the economy to thrive without sacrificing workers' rights, environmental standards, or social equity. Social policies—ranging from universal healthcare to unemployment benefits—protect individuals from market volatility and ensure a baseline of security, enabling them to participate actively and equitably in the economy. This integration of competition with comprehensive social protections has created a resilient and socially sustainable economic model.

Free education is another cornerstone of the Nordic approach, providing not only a pathway to equal opportunity but also a platform for shaping values and attitudes toward sustainable development. The Nordic system of education ensures that every citizen has access to knowledge and skills, enabling a fair start in life regardless of socio-economic background. It is also a powerful tool for fostering a culture of sustainability; by embedding environmental awareness and responsibility within educational curricula, the Nordic countries cultivate citizens who are informed and engaged in sustainable practices (Vihma et al., 2020).

On a critical note, the Nordic approach can be characterized as productivism (Raphael et al., 2024). The main idea of the welfare state has been de-commodification; that is, ensuring protection for people who are not participating in the labor market. The model has not addressed the structure and quality of the commodification, i.e., in which type of areas of production the workers are selling their labor input. More recently the social investment approach has emphasized re-commodification, i.e., equipping people to enter and re-enter the labor market (see Chapter 3). The social investment approach takes a long-term perspective to public policies in terms of social and economic sustainability but ignores the ecological dimension of sustainability.

NAVIGATING BETWEEN GREEN GROWTH AND DEGROWTH: THE WELL-BEING ECONOMY AS A PRAGMATIC SYNTHESIS

Extensive academic research on sustainability has produced a variety of strategies aimed at achieving ecological, economic, and social sustainability. Degrowth is an economic and social movement advocating for intentional reductions in production and consumption to foster a sustainable and equitable society (Hickel, 2020; Kallis et al., 2018). It challenges the prevailing focus on GDP growth, arguing instead for the adoption of broader measures of social progress such as life expectancy, health, education, and housing (Saito, 2023). It emphasizes ecological sustainability by recognizing the finite nature of global resources and questioning the viability of infinite economic expansion (Lindholm, 2024). This approach directly addresses the visible consequences of unchecked growth, including pollution, resource depletion, and biodiversity loss (Dasgupta, 2021). However, many degrowth proposals predominantly rely on top-down governmental interventions to curb consumption (Cosme et al., 2017).

An alternative approach, green growth, or the green transition, offers a vision of achieving environmental sustainability without halting economic expansion (Hussain et al., 2022). Proponents of green growth argue that technological innovation, renewable energy adoption, and circular economy models can decouple economic growth from environmental harm in the not-too-distant future. Positioned between green growth and degrowth, post-growth seeks a balanced approach. It recognizes the need for environmental limits while avoiding the radical contraction advocated by degrowth and the reliance on technological fixes championed by green growth (Kurz, 2023). Post-growth envisions a society where well-being and sustainability take precedence over economic growth, focusing on a pragmatic transition beyond GDP-centric policies without inherently opposing growth (Jackson, 2021).

Nordic countries appear well-suited for degrowth policies due to their strong democratic institutions, high levels of social trust, and commitment to equity, which could facilitate collective action toward ecological sustainability (Raphael et al., 2024; Hiilamo & Kangas, 2013). Degrowth could theoretically help transition these economies toward ecological sustainability (Global Footprint Network, n.d.; Gómez-Alvarez Díaz et al., 2024). However, multiple structural barriers make degrowth highly challenging. Due to unfunded pension as well as social and healthcare liabilities, the Nordic welfare state depends—at least in the short term—on growth-driven tax revenues, and its financial sustainability is already under strain due to demographic shifts and rising costs in healthcare and education (Corlet Walker et al., 2021; Crowe et al.,

2022). Economic contraction could increase unemployment and weaken the tax base, jeopardizing public services and social benefits, especially in countries with high debt like Finland (Hiilamo & Kangas, 2013; Hayden & Dasilva, 2022; Büchs & Koch, 2017). Additionally, degrowth's emphasis on local food production conflicts with the Nordic climate and limited arable land, which could heighten dependence on imports (Nordic Council of Ministers, 2019). The democratic nature of Nordic governance, while conducive to participatory decision-making, is susceptible to populist backlash against radical lifestyle changes (Scheidel, 2017). Moreover, in an interconnected global economy, isolated national degrowth efforts could be undermined by free-riding nations prioritizing growth (Lindholm, 2024). Degrowth may also stifle technological innovation, whereas Nordic countries are already global leaders in green technology and service-based economies that reduce material consumption (MIT Technology Review, 2023; Sartorius et al., 2022).

The well-being economy approach provides a novel post-growth framework for Nordic countries to balance ecological, economic, and social goals while redefining societal success through well-being-centric metrics (Coscieme et al., 2019; Orpo & Ghebreyesus, 2024). Unlike traditional economic models focused solely on GDP growth, this approach prioritizes human and environmental well-being as key indicators of progress. Although there is no single definition of a well-being economy,² various interpretations exist, reflecting different priorities and policy orientations (Coscieme et al., 2019; Hayden & Dasilva, 2022). Mason and Büchs (2023) highlight key distinctions between major organizations promoting the concept: the Well-being Economy Alliance (WEAll) advocates for deprioritizing economic growth and critiques capitalism while the Well-being Economy Governments (WEGos) focus on complementing GDP with additional performance indicators without fundamentally shifting policy objectives. The OECD has played a central role in advancing the well-being economy perspective by promoting multidimensional welfare metrics that extend beyond traditional economic indicators (OECD, 2023, 2024).³

² There is a minor distinction between the concepts "well-being economy" and "economy of well-being". As the OECD (Llena-Nozal et al., 2019) suggests the "economy of well-being" integrates well-being into existing economic systems as a driver and outcome of growth, while the "well-being economy" reimagines the economy to prioritize human and planetary well-being over traditional growth metrics.

³ The OECD 2023 report for the G7 Finance Ministers and Central Bank Governors outlines new initiatives to measure well-being, including the forthcoming 2025 System of National Accounts, which will integrate aspects such as the digital economy, unpaid household activities, and natural capital depletion (OECD,

Drawing on the OECD's "economy of well-being" framework (Llena-Nozal et al., 2019), the well-being economy approach underscores the interplay between individual well-being and economic resilience. Unlike radical critiques of GDP growth as inherently problematic, this approach complements traditional metrics with alternative measures of progress in areas such as education, health, social protection, and gender equality. In this sense, it aligns more closely with green growth than with degrowth, which seeks to shrink economic activity as a means to achieve sustainability (Capasso, 2021). Investments in well-being create a "virtuous circle" where improved social outcomes enhance economic resilience and growth while fostering long-term sustainability. Scholars have characterized this as a "weak post-growth" approach, as it seeks to balance economic activity with social and environmental priorities without entirely rejecting growth (Hayden & Dasilva, 2022; Hayden, 2024).

The well-being economy framework emphasizes key policy areas essential for sustainable prosperity. Education and lifelong learning reduce inequality and boost economic productivity, while accessible healthcare improves quality of life, supports workforce participation, and alleviates public financial burdens (Llena-Nozal et al., 2019). Social protection policies enhance economic stability, mitigate intergenerational poverty, and strengthen societal resilience. Gender equality, in turn, expands labor market participation and enhances overall economic performance. Together, these elements form the foundation for a sustainable and inclusive economy.

The well-being economy recognizes the role of incentives in driving sustainable behavior. Policy mechanisms must align economic structures with social and environmental objectives, ensuring that businesses and individuals are encouraged to adopt sustainable practices. By fostering innovation and enabling widespread adoption of sustainability measures, the well-being economy offers a pragmatic and politically viable alternative to more extreme economic transformation models.

As ecological crises and resource scarcity intensify, the well-being economy presents a constructive pathway for sustainable development. However, McCartney et al. (2023) caution that merely adopting well-being rhetoric is insufficient. A genuine well-being economy requires a systemic redesign of economic structures, a just transition away from harmful activities, and mechanisms for democratic participation in shaping policies and asset ownership.

2023). Additionally, the OECD's "How's Life?" publication series, launched in 2011, tracks over 80 indicators of well-being, emphasizing sustainable and inclusive progress. The latest 2024 report continues this focus, reinforcing the OECD's commitment to policies that prioritize human well-being and environmental health alongside economic growth (OECD, 2024).

WELL-BEING ECONOMY INTERVENTIONS

The well-being economy has increasingly gained traction as a policy framework in high-income countries (Coscieme et al., 2019). Countries that have adopted the well-being economy approach often leverage existing strategic, resource, and regulatory governance frameworks to embed well-being into decision-making—offering valuable insights and lessons for policy learning in the Nordic context. The Well-being Economy Governments (WEGo) group includes the governments of Scotland, Iceland, New Zealand, Wales, and Finland, with Canada actively participating. For example, Wales and Scotland have institutionalized long-term well-being goals within their policy systems, while Iceland defines well-being priorities for each electoral term (Korhonen et al., 2022; Korhonen et al., 2024). The well-being economy policies can support the creation of green jobs, promote investments in education and skills, and foster social cohesion. This holistic model encourages forward-looking investment strategies that align short-term actions with long-term sustainability goals (Hirvilammi et al. 2023). For instance, investments in lifelong learning and upskilling are central to enabling green transitions and ensuring economic resilience in the face of ecological constraints.

A notable example of the institutionalization of the well-being economy is Wales, where the Well-being of Future Generations Act was enacted in the 2010s to formalize well-being-oriented governance (Stielke et al., 2023). This legislation requires public sector organizations to prioritize national well-being goals and consider the long-term impacts of their actions, particularly on future generations. Implementation is supported by the Office for the Future Generations Commissioner, which offers cross-governmental advice and monitors progress; and Audit Wales, which ensures compliance with the Act's obligations (Welsh Government, 2015).

Well-being Budgeting

Well-being budgeting, an emerging approach in public finance, exemplifies the practical application of the well-being economy framework in resource governance. Traditional budgeting often measures success through economic metrics like GDP growth (Fioramonti et al., 2019), sidelining broader considerations of societal well-being and ecological sustainability. In contrast, well-being budgeting aligns directly with the well-being economy by assessing how government spending contributes to a comprehensive set of well-being indicators, encompassing health, education, social equity, and environmental sustainability (see also Cook et al., 2023).

In New Zealand, well-being priorities are integrated into annual budget processes, reflecting a short-term but focused commitment to the well-being economy (Mintrom, 2019). Results management—a key tool of resource governance—has also been utilized in Ireland, Iceland, and Wales to advance national well-being goals. In New Zealand and Canada, well-being budgeting has transformed the way governments allocate resources. New Zealand introduced its first well-being budget in 2019, guided by priorities such as mental health, reducing child poverty, fostering indigenous opportunities, and transitioning to a low-emission economy (Mintrom, 2019; Moll et al., 2024). These priorities embody the well-being economy's focus on social inclusion and ecological sustainability. Tools like the “Cost-Benefit Analysis x” (CBAX) framework ensure transparency and accountability by requiring ministries to evaluate the impact of proposed expenditures on these well-being goals (Jensen & Thompson, 2020).

Similarly, Canada employs a “Quality of Life Framework” that assesses public spending's effects on diverse demographic groups and regions (Malkamäki & Hiilamo, 2024). By embedding equity considerations into its fiscal policies, Canada's approach operationalizes the well-being economy's principle of inclusive development. Both countries demonstrate how well-being budgeting can shift the focus from economic outputs to societal outcomes, creating policies that balance short-term economic needs with long-term societal benefits.

While well-being budgeting aligns closely with the well-being economy, its implementation faces significant challenges (Malkamäki & Hiilamo, 2024). One key obstacle is aligning the long-term nature of well-being goals with the short-term cycles of public budgets and political terms. Another is the risk of “well-being washing”, where policies are superficially framed around well-being while failing to deliver substantive outcomes.

TOWARDS A NORDIC MODEL FOR WELL-BEING ECONOMY: THE CASE OF FINLAND

The idea of a well-being economy in Finland was introduced in 2012 by SOSTE, the Finnish Federation for Social Affairs and Health. Initially advocated by civil society, the concept gained government endorsement, particularly from the Ministry of Social Affairs and Health (MSAH). In 2019, the concept was incorporated into a cabinet program under the Social Democratic leadership of Prime Ministers Antti Rinne and Sanna Marin. Finland also promoted the concept during its presidency of the Council of the European Union in 2019.

Environmental sustainability has been a central theme, with Finland committing to achieve carbon neutrality by 2035—15 years ahead of the European Union's target. Despite its progressive vision, Finland lacks a fully implemented

well-being indicator framework. This gap is significant, given the framework's ambition to move beyond GDP as the sole measure of societal success.

Recent political changes have further complicated the framework's trajectory. The 2023 shift to a conservative-led government was accompanied by social benefit cuts and labor market reforms that may divert attention from social and ecological sustainability goals. Although the implementation of some initiatives, such as the Well-being Economy Action Plan, continues, it remains uncertain how these changes may impact Finland's commitment to the well-being economy framework. By 2024, Finland remained the only member of the WEGo network without such tools fully implemented at the national decision-making level.

Between 2022 and 2025, the Finnish Institute for Health and Welfare implemented a project to develop a well-being economy governance model and indicators. Drawing on international best practices, the project explored how to balance ecological, social, and economic sustainability. The theoretical foundation of Finland's well-being economy initiatives is grounded in the theory of sustainable well-being, developed by Tuula Helne, Tuuli Hirvilammi, and Frank Martela (Hirvilammi & Helne, 2014; Martela, 2024), drawing on the work of sociologist Erik Allardt (1976, 1993). This theory identifies four key dimensions of well-being: "having", which refers to material resources needed to meet basic needs; "loving", emphasizing reciprocal and caring human relationships; "doing", which encompasses meaningfulness, autonomy, and societal participation; and "being", focused on health and life satisfaction. The theory positions the economy as a facilitator of well-being, providing resources to meet these needs. However, it stresses that the economy is not the primary source of well-being; rather, sustainable well-being also depends on ecological and social sustainability. They are necessary to ensure resources for future generations while maintaining social justice.

WELL-BEING ECONOMY INTERVENTIONS IN FINLAND

The Nordic countries have shown that market economies can successfully coexist with strong social policies by prioritizing social equity through robust welfare systems (Nordic Council of Ministers, 2019, 2021). Achieving ecological sustainability in high-income countries such as the Nordic countries necessitates profound transitions in the production and consumption of food, transportation, and housing, including energy systems such as heating (Nordic Council of Ministers 2019, 2021). These transitions require individuals to adopt new roles as consumers and workers, reflecting shifts in both lifestyle and economic participation. Finland's work in this area highlights the potential of the Nordic model, which integrates robust social policies with economic goals to foster societal equity and environmental sustainability.

We outline three key areas for interventions to advance public policy under the framework of the well-being economy in Finland: ensuring a just transition through inclusive ecological policies, addressing demographic change through work-based migration, and reducing long-term dependency on GDP growth through structural reforms. These interconnected strategies aim to balance ecological imperatives with social justice and economic sustainability in the context of the green transition.

Firstly, price mechanisms—such as carbon taxes or subsidies for renewable energy—play a central role in steering consumption and production toward sustainable practices. By adjusting the cost of goods and services to reflect their environmental impact, these mechanisms can incentivize behavior change aligned with ecological sustainability. However, relying on market-based tools alone risks exacerbating inequality. Low-income households are particularly vulnerable to rising costs in energy, food, and transportation (EAPN, 2022). To safeguard social sustainability, policy must incorporate compensatory and protective measures.

A just transition requires not only cushioning consumers but also supporting workers in sectors that must be phased out. Peat production in Finland, while relatively small in workforce size, represents a prime example of an industry that needs to be rapidly phased out due to its high carbon intensity. Workers in such sectors must be supported through retraining, income protection, and job creation in green industries. The broader challenge is to extend these mechanisms to other fossil fuel-reliant sectors in the Nordic region. Proactive labor market policies, including lifelong learning programs and robust unemployment protection, will ensure that ecological reforms are inclusive and socially acceptable, thereby maintaining political legitimacy for the green transition.

Secondly, alongside ecological considerations, demographic change demands urgent attention. Globally, declining birth rates are contributing to population stabilization, which aligns with long-term ecological sustainability. In the Nordic countries, however, fertility has fallen to such low levels that it threatens the financial sustainability of welfare states. While some governments have attempted to raise birth rates through policy incentives, these efforts have yielded limited results and may not be necessary in the broader sustainability context (Hiilamo, 2020). Instead, work-based migration offers a more viable path forward.

A shift from restrictive to facilitative migration policies could help meet labor demands and support welfare systems. Social policies can support this transition by providing streamlined residency pathways, integration assistance for migrant families, and employment programs tailored to migrants' skills. Such reforms are particularly relevant for a country like Finland, which has traditionally maintained more limited migration policies. By aligning migration policy with ecological and economic goals, Nordic societies can build a

more diverse, adaptable, and sustainable labor force while addressing population decline.

Thirdly, over the long term, the well-being economy framework necessitates a decoupling from GDP growth as the central pillar of economic policy (Hirvilammi, 2020; Hayden & Dasilva, 2022). Nordic countries can begin this transition by reforming public finance structures—for instance, moving toward fully funded pension schemes that are not reliant on continuous economic expansion. Additionally, increasing the progressivity of income taxation can serve both redistributive and environmental purposes. Higher taxation on top earners can curb unsustainable consumption patterns while generating resources for investments in education, healthcare, and clean energy infrastructure (Lindholm, 2024). This dual-purpose policy enhances both social equity and ecological sustainability. Complementing these measures, reducing working time—such as by transitioning to a four-day workweek—can support well-being, lower environmental impact, and promote a more equitable distribution of labor.

Beyond fiscal policy, reimagining the role of work in society is essential. The well-being economy encourages alternative models of value creation that are not tied solely to formal employment or consumption. Policies such as basic income or participation income can provide financial stability to individuals engaged in low-consumption, community-oriented lifestyles focused on local food production, ecological restoration, and care work (Hiilamo, 2022; Dukelow and Murphy, 2022). These models offer a form of decommodification that supports sustainable living and strengthens social cohesion. By recognizing contributions beyond the traditional labor market, they foster a broader understanding of prosperity and resilience in line with ecological limits.

CONCLUSIONS

The well-being economy offers an integrated framework that combines ecological sustainability, social equity, and economic resilience. Yet, its practical implementation faces mounting challenges in a world shaped by rising military expenditures and the spread of populist politics—forces that increasingly sideline long-term sustainability in favor of short-term geopolitical and domestic agendas. Global military spending has reached record levels due to ongoing conflicts, such as the wars in Ukraine and the Middle East. These expenditures divert public funds from climate action and social investment, while also consuming vast material and energy resources. In this context, the well-being economy's emphasis on efficient resource use and equitable global development—particularly between the Global North and South—clashes with the realities of a security paradigm dominated by arms races and militarization.

At the same time, the rise of nationalist populist leaders, including in the Nordic countries—many of whom downplay or reject the urgency of climate change—further complicates progress. These leaders often frame sustainability policies as threats to jobs, national identity, or economic sovereignty. Such rhetoric resonates with parts of the population who feel left behind by globalization or fear rapid social change, making it difficult to build broad, durable political support for long-term ecological transitions (Vihma et al., 2020). Populist politics also tend to undermine evidence-based policymaking, weakening environmental regulation and leading to withdrawal from international cooperation—core elements of the well-being economy.

Despite these global headwinds, Finland is well-placed to lead in implementing the well-being economy. With a strong welfare state, high public trust, and existing policy tools already aligned with sustainability goals, Finland has laid the groundwork for balancing social, ecological, and economic priorities. For example, well-being indicators are increasingly embedded in Finnish strategic planning and governance, moving beyond GDP as the sole measure of progress (Korhonen et al., 2024).

Although the well-being economy may appear idealistic when compared to current global trends (Slameršak et al., 2024), it presents a pragmatic alternative to both unsustainable growth models and more radical approaches such as degrowth. Unlike proposals that call for expansive state control over markets and individual behavior (Koch 2022), the well-being economy seeks to recalibrate, not expand, the role of public institutions. It emphasizes leveraging market mechanisms to promote sustainable innovation, while also elevating the role of civil society and the commons. This participatory, bottom-up approach encourages organic transitions that are socially inclusive and politically feasible.

For Finland, the task is not to shield the well-being economy from political and geopolitical tensions, but to respond to them strategically. By framing sustainability through concrete benefits—such as green job creation, cost savings, and improved quality of life—Finland can maintain broad-based public support. In doing so, it can continue to act as a global pioneer, demonstrating how democratic governance and ecological responsibility can reinforce each other.

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PART III

Case studies of effective interventions from Finland

11. Housing First and the reduction of homelessness in Finland among people with substance abuse problems

Alexi Karhula, Joonas Ollonqvist, Elisabetta Leni, Veera Niemi and Pasi Moisio

INTRODUCTION

Homelessness is a persistent social challenge globally, affecting individuals across various demographic and socioeconomic backgrounds. Finland's Housing First approach has been widely recognized as a successful model for addressing homelessness by providing permanent housing without preconditions, coupled with individualized support services. The model contrasts with traditional treatment-first approaches by prioritizing stable housing as a foundation for recovery and social rehabilitation. Finland's experience with Housing First offers an almost unique case for studying the long-term impacts of such policies.

Among the most vulnerable subpopulations experiencing homelessness are people with substance use problems, who often face compounded difficulties related to health, employment, and social integration. This subgroup is often seen as problematic in respect to the Housing First system as they are clearly in need of extensive support for problems that provided housing might not be able to solve. Despite extensive international research on the effectiveness of Housing First showing positive impacts, people with substance use disorder (SUD) are one of the subgroups for whom the effectiveness of the system is debated (Aubry et al., 2015; Baxter et al., 2019; Saldanha et al., 2024). Here we provide an excellent long-term follow-up study based on register data to assess the long-term impacts on this subgroup.

Finnish evaluations of Housing First have primarily relied on qualitative studies, survey data, and small-scale mixed-methods analyses. While these approaches have provided valuable insights, they have not fully leveraged national register data, which allows for a more precise and longitudinal analysis of homelessness trends and outcomes. Especially regarding groups, such

as people with substance use problems, register-based information provides excellent long-term follow-up possibilities that would otherwise be almost impossible. The results will enhance our understanding of the broader implications of the Housing First system and improve its implementation.

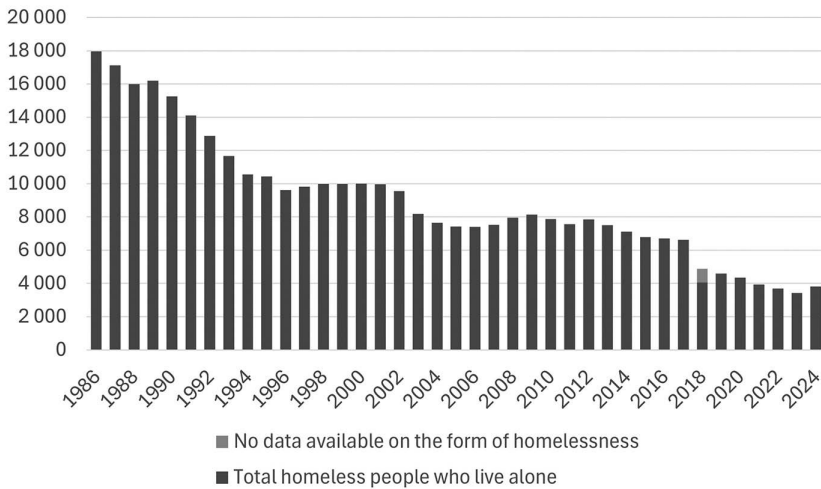
In this chapter, we examine the effectiveness of Housing First on people with substance use problems in reducing homelessness, increasing the likelihood for them to be alive two years after the treatment period, and increasing the likelihood for them to reside in permanent housing two years after the treatment period by utilizing national register data. We identify homeless people with substance use problems based on their visits to substance use treatment services. We analyze the years from 2000 to 2017 spanning a period before and after the implementation of the PAAVO I, PAAVO II, and AUNE Housing First programs. Our study contributes to the literature by offering robust register-based evidence on the effectiveness of Housing First for a particularly marginalized and debated subgroup. Furthermore, our findings provide a foundation for future research on the systematic evaluation of Housing First policies and their various components.

BACKGROUND

Finnish National Homelessness Strategies

Finland has achieved international recognition as a model country in the fight against homelessness. Unlike many other countries where homelessness is a persistent and growing issue, Finland has managed to reduce homelessness steadily between 2012 and until 2023 (ARA, 2025). This success is the result of a long-term national strategy that has evolved over decades. The eradication of homelessness was first included as a goal in the government program in 1987 and, since then, every government program has included the goal of reducing or eradicating homelessness or long-term homelessness. 1987 was also the year that homeless statistics started to be published. Homelessness has been measured once a year for almost 40 years, and this data provides important evidence in support of the effectiveness of the Finnish homeless policies (see Figure 11.1).

Initially, the homelessness strategy focused on ensuring the provision of affordable housing, with direct investment from the state, and the development of financial instruments to support the construction, renovation, and acquisition of housing for the homeless (Fredriksson, 2018). This approach led to a steady and significant reduction in the number of homeless people that in 10 years (from 1986 to 1996) was almost cut in half (from 17,958 to 9,610). Nonetheless, for many homeless people, night shelters remained the only option as tenant selection in affordable housing was prioritizing other



Source: ARA (2025).

Figure 11.1 Homelessness in Finland 1986–2024

categories—such as families with children—and there was a general lack of small dwellings (Fredriksson, 2018). Another obstacle for many was that the supported housing services offered by the municipalities were often requesting a change in lifestyle—e.g., sobriety or positive steps toward rehabilitation (Alkila & Rinta-Panttila, 2018).

Until 2007, the mainstream operating model was the so-called “staircase system”—or “treatment first”—where a homeless person had to be deemed housing ready before being offered an apartment (e.g., Padgett et al., 2011; Tsai et al., 2010; Tsemberis et al., 2004). The entire process might begin in a shelter, with the person then moving to temporary housing and finally receiving a permanent home. Typically, homeless people are required to abstain from taking substances or attend treatment during the process and in order to maintain housing. However, many things can go wrong. It is very difficult to abstain while sleeping in a shelter, and people can easily get stuck in the system (e.g., Greenwood et al., 2013; Fredriksson & Kaakinen, 2018). Sometimes people relapse and go back to square one. This means that they use the same institutional services again and again, in a kind of “revolving door”. The model proves costly, because long-term homeless people often have complex support needs that require an intense use of health and substance use treatment services (see, e.g., Culhane, 2008; Latimer et al., 2017).

Over time, it became increasingly clear that this approach was not able to reduce long-term homelessness (Fredriksson, 2018). Despite decades of efforts, long-term homelessness remained high, and shelters were overflowing. In October 2007, the Ministry of Environment—which in Finland is responsible for housing—appointed a working group of four experts representing different sectors of society to prepare a report on homelessness and to provide a basis for a new policy to reduce long-term homelessness. The “Name on the Door” report (Voutilainen et al., 2007) is considered a turning point in Finnish homelessness policy. It provided a new theoretical perspective to the discussion around homelessness and how to combat it. In particular, the report proposed the adoption of the Housing First principle, which states that housing is a human right and should be offered unconditionally and immediately to anyone experiencing homelessness (Voutilainen et al., 2007). According to the authors of the report, stable housing should be seen as the foundation necessary for addressing other personal challenges. Once people have a secure place to live, they are more likely to engage with support services, maintain employment, and reintegrate into society. The “Name on the Door” report was pivotal to obtaining governmental support and enabling the widespread adoption of the Housing First approach in Finland. A consistent political consensus across governments has enabled them to set long-term strategies beyond election cycles (Benjaminsen & Knutagård, 2016; Kaakinen & Turunen, 2021).

In 2008, the “Program for ending long-term homelessness by 2015” or PAAVO (for a description see Tainio & Fredriksson, 2009) was based on the recommendations and principles laid out in the “Name on the Door” report. The program was implemented in two phases: PAAVO I (2008–2011) and PAAVO II (2012–2015). The primary objective of PAAVO I was to halve long-term homelessness by 2011, and PAAVO II aimed to eradicate it entirely by 2015. The program promoted converting shelters into supported housing units, creating new housing and service units, and developing new competences for the staff. It also proposed measures to prevent homelessness. The plan was executed through a robust collaboration between central government departments and key stakeholders, including major social housing providers. Local governments, including Finland’s largest cities, signed letters of intent, helping to establish political consensus across all levels of government (Pleace et al., 2016). The PAAVO programs were closely aligned with the Housing First principle, driving substantial practical transformations and receiving a high level of national resources.

Housing was central in PAAVO programs: clear targets on the number of housing units and scattered apartments needed to achieve the objectives were set and funds were secured to increase the housing supply and run the support services (Benjaminsen & Knutagård, 2016; Fredriksson & Kaakinen, 2018). In Table 11.1, we can see that this was indeed achieved, but the number of

Table 11.1 The housing built for the homeless during PAAVO I and II in the biggest Finnish cities

Municipality	Homeless living alone – 2008	Homeless living alone – 2020	Homeless living alone / 1000 inhabitants – 2008	Homeless living alone / 1000 inhabitants – 2020	Total flats created within the programs	Apartments in supported housing units PAAVO I	Apartments in supported housing units PAAVO II	Scattered apartments PAAVO I	Scattered apartments PAAVO II
Helsinki	3150	1534	5.5	2.3	1530	427	472	405	226
Espoo	486	429	2	1.5	652	146	181	46	279
Vantaa	611	227	3.1	1	257	61	136	57	3
Tampere	608	294	2.9	1.2	445	109	26	39	271
Turku	347	384	2	2	262	0	0	59	203

Source: Kaakinen (2012); Karpainen & Fredriksson (2016); Helsingin kaupunki, sosiaalivirasto (2011).

apartments in supported housing units created varies a lot between cities and PAAVO periods. This relates to both how strongly cities started to implement the programs, but also to what kind of homelessness programs were already in action in different cities. For example, in Helsinki, where the rate of homelessness is higher, 1,530 places in supported housing units were created: 427 during PAAVO I and 472 during PAAVO II with a further 405 and 226 respectively in scattered housing. Some cities, such as Turku, concentrated more on the scattered housing and some like Helsinki prioritized the construction or renovation of housing units.

The following national homelessness program (AUNE 2016–2019) shifted focus toward prevention, as well as the construction and allocation of housing for individuals experiencing or at risk of homelessness. The subsequent program (2019–2023) emphasized collaboration among major cities, municipalities, service providers, and the third sector. The current program (2024–2026) seeks to end long-term homelessness by 2027, with a particular emphasis on cooperation between cities and the newly established wellbeing services counties, which are responsible for providing public social and health services in Finland since the beginning of 2023. Since 2020, national homelessness strategies have no longer had a designated national program leader, and the responsibility for coordinating the implementation of Housing First has largely shifted to municipalities. This has led to increasing disparities in how the model is applied across different regions (Kaakinen, 2023; Kaakinen & Turunen, 2021).

The Finnish Model of Housing First

Housing First is a term that is often associated with two different yet closely linked models to respond to homelessness: Pathway Housing First and Finnish Housing First. The first was developed in New York during the 1990s by the organization Pathways to Housing under the leadership of Sam Tsemberis. The goal was to provide individualized solutions for people experiencing homelessness who had severe psychiatric and substance use disorders. This was achieved with the Housing First model that offered housing without requiring recovery or abstinence as a precondition (Tsemberis, 2010; Greenwood et al., 2013). This model emphasized that housing should be given first since it is the foundation upon which all the other life issues can be tackled. Housing First revolutionized the mainstream approach at that time, which was based on a treatment-first concept that saw housing as the final step in a recovery process. The Pathways Housing First has inspired several small-scale initiatives, particularly in the UK. Finland and Denmark became the first countries to implement a national-level homelessness strategy based on the Housing First principle (Benjaminsen & Knutagård, 2016).

The Finnish Housing First model was conceptualized later, in 2007, and shares the core principle of Pathway Housing First: that housing is the basis upon which other life issues can be addressed. Since the initial formulation in the “Name on the Door” report, the Housing First concept has evolved and now includes an emphasis on the separation between housing and support, and specific client-work practices (e.g., non-coercive recovery orientation, harm reduction approach) (see, for example, Kaakinen et al., 2022; Y-Foundation, 2017). While the Pathways Housing First is designed as a model to be followed with a high degree of fidelity (see, for example, the fidelity scales developed by Gilmer et al., 2013; Stefancic et al., 2013), the Finnish Housing First is based on a set of principles that are intended to guide large-scale homelessness initiatives. There is a strong emphasis on the right to housing as well as recommendations for adapting to the local context and specific needs of the homeless population (Leni, 2024).

Finnish Housing First is available to anyone experiencing homelessness, regardless of the severity of needs. In essence, its implementation involves the provision of housing based on rental law legislation (without other conditions) and tailored support. Support services are structured around the concept of housing social work (Granfelt, 2022). This approach primarily aims to secure housing stability and prevent homelessness from recurring while also promoting residents’ rehabilitation. A key function of housing social work is connecting clients with mainstream services while upholding their autonomy and right to make their own choices. While emphasizing autonomy and choice, the Finnish model places less focus on voluntary service use and more on providing diverse service options with high resident participation in planning (Kaakinen et al., 2022; Y-Foundation, 2017; Kettunen, 2013). Support services are available but voluntary, ensuring housing remains unconditional and fostering more equal, participatory worker-client relationships (Löfstrand & Juhila, 2021; Pleace et al., 2015). Finnish Housing First also highlights empowering worker-resident interactions (Ranta & Perälä, 2022) and systematic neighborhood engagement (Kaakinen & Turunen, 2021).

A special feature of the Finnish Housing First approach is the reliance on different housing options: approximately 20% of the housing options created during PAAVO I and II were congregate units (i.e. apartment buildings where all residents experienced homelessness) while the rest were scattered housing (i.e., single flats in normal apartment blocks) (Kaakinen & Turunen 2021) (see Table 11.1). Congregate housing defies a tenet of Pathways Housing First according to which Housing First residents should live in scattered-site apartments to foster community integration (Tsemberis, 2010). Finland has thus adapted Housing First to congregate housing (Kaakinen et al., 2022; Pleace et al. 2015) by creating supported housing units where staff are present on-site (either during the day or 24/7) but support services and housing are separate. Residents sign a rental contract, which gives them legal rights, and can use the

support available on-site but they are not forced to. Great attention has to be placed on ensuring privacy, legal rights, and resident autonomy (Kaakinen & Turunen, 2021; Pleace et al., 2015). Supported housing units are the Finnish Housing First options for people with the highest support needs and/or when the safety of the clients is of concern (Leni, 2024). They are thus particularly important for people with severe substance abuse problems.

Housing First shares many overlapping areas with the theoretical approach of harm reduction, which focuses on policies and services that address the social and health problems associated with substance use rather than aiming to reduce the substance use itself. This focus is evident at both the individual and societal levels (Pates & Riley, 2012). Both approaches emphasize support without requiring predetermined conditions for recovery, abstinence, or other life changes. Harm reduction is considered one of the core principles of the Housing First ideology (Andvig et al., 2018). In Finland, Housing First was initially introduced within the housing policy debate, separately from harm reduction policies (Ranta & Perälä, 2022).

In Finland, the exceptionally low levels of homelessness are partly explained by a comprehensive and legally defined last-resort income protection system that safeguards housing costs even for those with minimal or no earned income. The Finnish housing benefit (general housing allowance, housing allowance for pensioners, and housing supplement for students) and social assistance schemes are integrated into a broader universal safety net that ensures housing stability for low-income residents regardless of their employment status. Comparative studies have shown that Nordic integrated and rules-based systems tend to produce more coherent and equitable outcomes than the segmented and discretionary models common in many other European countries (Frazer & Marlier, 2016; Immervoll, 2009; Tervola et al., 2023). Unlike systems where access to housing support is conditional, locally discretionary, or restricted to narrow population groups, Finland's model demonstrates how clear legal entitlements and national coverage can function as structural interventions in themselves. The Nordic universal safety net provides a stable platform upon which targeted homelessness policies—such as Housing First—can operate effectively.

Substance Abuse and Homelessness

Substance abuse issues are more prevalent among people experiencing homelessness than in the general population. It is estimated that the prevalence of alcohol and drug-related disorders within the homeless population is around ten-fold greater than general population estimates in high-income countries (for a review and meta analysis see Gutwinski et al., 2021). There is substantial variation in the prevalence estimates across studies due, for example, to differences in sampling methods and country. A study conducted in France

estimated that the prevalence of addictions is three to five times higher among the homeless population than in the general population (Laporte et al., 2018). In Germany, the prevalence of substance-related disorders was estimated to be 21 times higher than in the general population, and that of alcohol dependency was 22 times higher (Schreiter et al., 2017).

The relationship between homelessness and substance use problems is complex and deeply intertwined. Theoretical perspectives on this issue diverge and the nature of the relationship remains controversial: some scholars argue that substance abuse leads to homelessness, while others suggest that it often emerges or intensifies as a response to the hardships of life without stable shelter. The social selection theory posits that substance use problems can be a primary driver of homelessness (Baum & Burnes, 1993) or a contributing factor (Johnson & Chamberlain, 2011; Vangeest & Johnson, 2002). According to this perspective, substance abuse can lead to homelessness directly or indirectly. As addiction escalates, it can drain personal resources, erode social support networks, and exacerbate socioeconomic difficulties such as financial instability, job loss, and mental health deterioration. Over time, these cumulative challenges increase an individual's vulnerability to homelessness. In contrast, the social adaptation model suggests that substance use is often a coping mechanism for the extreme physical and psychological stressors of homelessness (Neale, 2001; Teesson et al., 2003). Individuals facing exposure to harsh weather, unsafe living conditions, social isolation, and the constant uncertainty of food and shelter may turn to alcohol or drugs as a form of self-medication. Additionally, the homeless environment itself can reinforce substance dependence, as individuals living on the streets or in shelters are more likely to be surrounded by others who engage in substance use, making access and exposure more frequent. Empirical evidence supports the idea that homelessness and substance abuse reinforce one another in a bidirectional cycle. Research indicates that substance abuse can lead to homelessness (Allgood & Warren Jr., 2003; Early, 2005; Shinn et al., 1998) while also showing that homelessness increases the likelihood of substance use (Johnson & Chamberlain, 2008; Shinn et al., 1998). Some studies suggest that these dynamics can occur at the same time (Johnson et al., 1997; McNaughton, 2008; Neale, 2001; Shinn et al., 1998).

Survey data from homeless populations confirm that substance abuse constitutes a risk factor for homelessness. In Denmark's latest homelessness survey, approximately one-third of homeless individuals identified drug or alcohol addiction as the primary cause of their homelessness (Benjaminsen, 2024). Similarly, in Sweden's most recent national count, 55% of people experiencing homelessness reported addiction as a contributing factor (Socialstyrelsen, 2024). It is also important to note that even if substance abuse can increase the risk of becoming homeless, only a small minority of individuals with even severe addiction ever become homeless. In Finland, 9% of drug service clients

are homeless (Kovanen, 2024), though the rate may be higher among those who are not engaged with any services (Ranta & Perälä, 2022). Recent literature widely agrees that so-called individual causes of homelessness, such as addiction, should be seen as structural issues—for example, due to the lack of accessible and effective addiction services (Johnson & Light, 2024; Buch-Geertsema et al., 2014).

It has been argued that the prevalence of substance abuse and mental health issues amongst the homeless is higher in the Nordic countries compared to countries with a less extensive welfare system (Benjaminsen & Andrade, 2015). In Denmark, more than 74% of the transitional homeless (i.e., a temporary and short-term experience of homelessness) have a drug or alcohol abuse problem while less than 31.8% of the transitionally homeless in New York City suffer from a mental illness or substance abuse problem (Benjaminsen & Andrade, 2015). A study in Sweden reported that 42% of men and 41% of women experiencing homelessness were diagnosed with problematic alcohol or illicit drug use (Beijer & Andréasson, 2010). In a study involving homeless people from eight different EU countries (France, Ireland, Italy, Netherlands, Poland, Portugal, Spain, and Sweden), 39% reported having addiction or substance abuse problems (Greenwood et al., 2020). As homelessness rises globally due to increasing housing and living costs, economic factors are playing a growing role, influencing the proportion of homelessness linked to addiction or other social issues (Foundation Abbé Pierre & Feantsa, 2024).

Finland's national homelessness count does not collect data on related social problems. However, its definition of long-term homelessness prioritizes the need for support due to social or health issues over the duration of homelessness. In the latest count, 27% of homeless people living alone were classified as long-term homeless (ARA, 2025). One of the few quantitative analyses of the psychosocial profiles of the homeless in Finland was conducted by Kostiainen & Laakso (2015), surveying 1,515 formerly homeless Helsinki residents with a 17% response rate. One in ten respondents cited substance abuse as a partial cause of their homelessness. Another study examined young homeless income support recipients in Helsinki and showed that 31% of those who had been homeless for at least one month during 2008–2010 also had clienthood in substance abuse services (Niemi & Ahola, 2017).

The empirical evidence underscores the pressing need for integrated strategies that address both substance abuse and homelessness concurrently. The stigma associated with both homelessness and addiction can create additional barriers to seeking help, as homeless individuals struggling with substance use often face discrimination in healthcare settings and difficulty accessing rehabilitation services (Cunningham et al., 2023; Leni, 2024; Vihreäsalu et al., 2025). As a result, the cycle of addiction and homelessness becomes self-perpetuating, making it increasingly difficult for individuals to escape without targeted intervention.

Effectiveness of Housing First

Finnish Housing First was inspired by some pilot interventions that were conducted in the 1990s (Tiivola, 2018; Fredriksson & Kaakinen, 2018), where long-term homeless people with complex needs were housed without requiring them to abstain from using substances or change their lifestyle. These pilots succeeded in ensuring housing stability for a very difficult group of clients and thus provided suggestive evidence that a Housing First approach could be successfully implemented on a large scale.

Since the launch of the PAAVO program, the Finnish Housing First approach has been evaluated using a mix of quantitative and qualitative data. Although these evaluations have not provided strong causal evidence, they offer robust support for the effectiveness of the approach. One of the primary data sources is the annual homelessness count conducted by ARA since 1986 (see e.g., ARA, 2025). These data show a consistent decline in homelessness figures following the implementation of the program, continuing through to 2023 (see Figure 11.1). In addition, the programs incorporated self-assessment reports in which the achievement of strategic targets was reviewed and commented on by Finnish experts (Kaakinen, 2012; Karppinen, 2020; Karppinen & Fredriksson, 2016). Furthermore, both PAAVO and AUNE were subject to external evaluations by internationally recognized homelessness researchers with expertise in Housing First (Pitkänen et al., 2019; Pleace et al., 2015). Regarding PAAVO, Pleace et al. (2015) concluded that its central goal—achieving a lasting national reduction in long-term homelessness—had been met, largely due to a well-designed and comprehensive inter-agency cooperation strategy. Two additional studies examined potential cost offsets associated with Housing First in Finland (Sillanpää, 2013; Ympäristöministeriö, 2011). These analyses used linked administrative data to assess the changes in the use of health, substance abuse, police, and homelessness services before and after staying in supported housing units. The findings were mixed and suggest that the extent of cost savings depends significantly on the resident profile. Sillanpää (2013) also conducted a qualitative assessment which revealed an improvement in quality of life when people moved into the supported housing units.

At the international level, there is a substantial body of research looking at the effectiveness of Housing First as a homelessness intervention inspired by the Pathways model (Tsemberis, 2010). These investigations employ both qualitative and quantitative methods and are based on extensive empirical evidence. Among the outcomes considered, housing stability is the main one and is explored by almost all impact evaluations concerning Housing First. Additional outcomes frequently examined include improvements in physical and mental health, functional recovery, quality of life, and patterns of service use and associated costs across healthcare, social services, and the criminal justice system (Goering et al., 2011; Saldanha et al., 2024). Data collection for

these evaluations typically involves multiple waves of surveys and structured interviews. Register data is often used to enhance the validity and reliability of findings, particularly in relation to service utilization and cost-effectiveness. Qualitative research plays an essential role in capturing the complexity and contextual dimensions of social work interventions. Techniques such as in-depth interviews provide nuanced accounts of the lived experiences of individuals affected by homelessness as well as insight into subjective perceptions of support, barriers to service engagement, and the social and emotional consequences of intervention participation. Importantly, qualitative findings complement quantitative results by offering a more holistic understanding of the effectiveness of the program.

Evidence from randomized controlled trials (RCTs)—the gold standard for impact evaluation—provide strong evidence in support of the effectiveness of Housing First on housing stability. In the Pathways to Housing evaluation, participants who were randomly assigned to the Housing First program spent more time stably housed than those in alternative programs (Gulcur et al., 2003). In the Canadian At Home/Chez Soi trial protocol (Goering et al., 2011), 73% of Housing First participants and 31% of treatment-as-usual participants resided in stable housing at one-year follow-up (Aubry et al., 2015). In the French Chez Soi d'Abord trial, it was estimated that individuals from the Housing First group spent significantly more days in independent housing than individuals in alternative treatment (Loubière et al., 2022). A meta-analysis of RCTs on Housing First concluded that participants receiving Housing First are two and a half times more likely to be stably housed after 18–24 months (Baxter et al., 2019). In recent years, research has increasingly focused on individuals who “fail” in Housing First, meaning that even in supported housing, living and rental contracts may be terminated despite active efforts to address issues among residents and between residents and staff. This group is often referred to in the literature as the “10–20%” (Kaakinen & Turunen, 2021). In some studies examining experiences and perspectives of frontline workers, the support offered in the Housing First-supported housing units has been evaluated as insufficient, especially among the youngest homeless people (Perälä & Juvansuu, 2016).

While Housing First effectively addresses homelessness and housing stability, its influence on other life outcomes varies, especially when it comes to substance use or substance-related problems (Aubry et al., 2015; Baxter et al., 2019; Loubière et al., 2022). Unsurprisingly, the literature suggests that the average lifespan of a homeless person is shorter than that recorded for the general population and people who have experienced homelessness face excess mortality in comparison to members of the general population (Feodor Nilsson et al., 2018; Henwood et al., 2015; Meyer et al., 2025; Romaszko et al., 2017; Seastres et al., 2020; Stenius-Ayoade et al., 2017). There is a dearth of studies looking at the effect of Housing First on mortality. The available findings

suggest that Housing First residents have higher mortality rates than members of the general homeless population even though the comparison might be biased since only chronic homeless people are considered for Housing First programs (Henwood et al., 2015). Interestingly, causes of death may differ between Housing First participants and their homeless counterparts. Specifically, chronic diseases appear to be more prominent causes of death among Housing First participants (Henwood et al., 2015).

DATA AND METHODS

Our study sample consists of homeless individuals who received substance abuse treatment services between 2000 and 2017. These individuals are identified using the national Care Register for Social Welfare (Sosiaalihuollon hoitoilmoitusrekisteri, Sosiaalihilmo). From the national register, we observe both the type of treatment received and the type of permanent residence, one category of which is homelessness. As a caveat to our research, it is possible that the registration of the substance abuse treatment clients might have changed over time. This relates especially to our findings related to the first research question, and we will return to this in the discussion section.

In the analysis, we use information on receiving any housing benefit from the National Pensions Institute (Kela) registers (Statistics Finland data module FOLK Income) and information on housing tenure from population registers to identify people in permanent housing (Statistics Finland data module FOLK Basic data). During the timespan of our analysis, Finland had two main housing allowance benefits: the general housing allowance and the housing allowance for pensioners. Also, there are separate housing support benefits for students and military conscripts. Our measure of housing benefits includes all types of allowances available in Finland. In general, individuals are entitled to receive housing support if their income does not sufficiently cover their verified and approved housing costs. This implies that receiving housing benefit presupposes that the person has a residence. We combined the information of receiving any housing benefits with the information on tenure type at the end of the year from population registers. The tenure type information relies mainly on move declarations that are mandatory in Finland but corrects this information based on building registers that indicate certain buildings as designated to, for example, subsidized rental or homeownership. This combination measure of having permanent housing is likely to have errors in both directions; some people might have registered housing although be homeless in reality (mainly through tenure type), and some might have housing although it is not in the registers (neither measure is perfect in this regard). These errors are, however, unlikely to change over time. As an outcome, we also use the mortality information derived directly from the population registers (Statistics Finland data module Basic data).

Regarding the control variables, age, gender, and municipality of residence are based on the national population registers (FOLK Basic data module). Regarding gender, one should note that this refers to the last recorded gender. There is possibly a small number of people who have changed their at-birth registered gender. Education information is based on the national educational registers. Information on foster care is obtained from the Finnish Institute for Health and Welfare's Register of Child Welfare.

One caveat of using register data to identify homeless individuals with substance use disorders is that we can only include those who have sought and received treatment. It is likely that not everyone in need of treatment actually seeks help. Furthermore, some of the information regarding the type of permanent residence in the Care Register for Social Welfare is missing (ranging from 0 to 6% annually). Therefore, our data represents only a subset of all homeless individuals with substance use disorders.

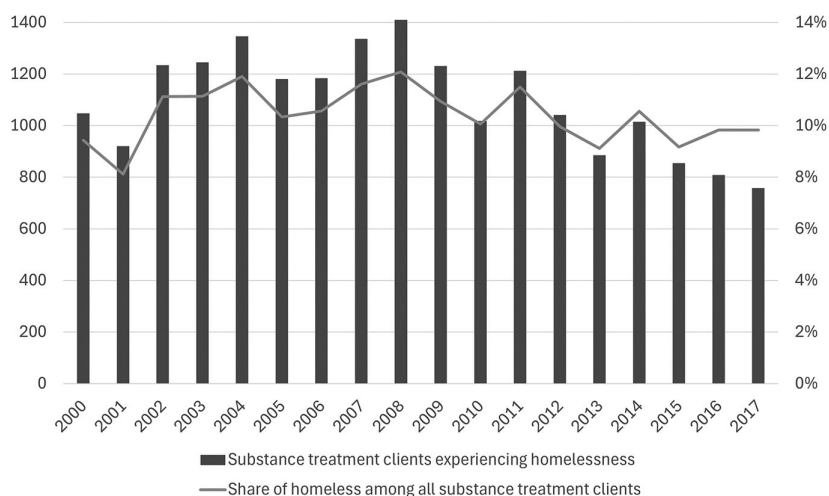
Despite these limitations, the combination of national coverage, detailed treatment records, and the ability to link across registers makes this dataset exceptionally valuable for studying marginalized populations in a robust and comprehensive way. Moreover, the individuals captured in our data represent a particularly relevant group: they have not only experienced homelessness but have also, at some level, sought help for their substance use—indicating a potential motivation or readiness for change. This makes them a particularly meaningful group to study in terms of service use and outcomes. At the same time, it also means that those with the most severe marginalization—who do not seek treatment at all—remain outside the scope of this analysis.

The same individual may have experienced homelessness and received treatment for substance use in multiple years, and thus may appear more than once in our study sample. In total, our research sample contains around 19,000 yearly-person observations (around 11,400 unique persons), which are roughly equally divided between before and after the launch of PAAVOs (shown with full details in Tables 11.2a, b, and c).

Regarding methodology, we first rely on very basic analysis with direct counts and shares (Figure 11.2). To further study the outcomes two years after the situation of being homeless with substance use problems in treatment, we constructed simple linear probability models for both being alive two years after and having registered stable housing two years after. In this register follow-up, we especially concentrated on changes over the years that could possibly be related to PAAVOs and AUNE. We constructed models with just the years as an independent variable (M0), models with city controls (M1), and models with individual level controls (M2) to account for the effect of changes in geographical distribution and background variables across the years (see Table 11.A1 in the Appendix). In the main text, only the results from the final model with all the controls are illustrated (see Figures 11.3 and 11.4).

RESULTS

Figure 11.2 shows both the absolute number of substance treatment clients experiencing homelessness and the relative share of this group among all substance treatment clients. Throughout the 2000s, the share of homeless clients among all substance treatment clients has remained fairly stable at around 10%. After the implementation of the Housing First programs in 2008, we can see a slight decrease in the share; in 2008, it was almost 12%, but in 2017 a little over 9%. In absolute terms, the number of homeless substance treatment clients remained relatively stable during the early 2000s, with a slight increase peaking around the financial crisis in 2008. Since then, both the number of homeless substance treatment clients and the total number of substance treatment clients have steadily decreased. The change among homeless clients is quite substantial: their number declined from approximately 1,400 in 2008 to fewer than 800 in 2017. This could indicate that the PAAVO and AUNE Housing First programs have indeed been at least somewhat successful in reducing the number of people with substance use problems who end up homeless in the first place. Still, the persistence of both homelessness and substance use problems remains high: around 25 to 30%—slightly less in some



Source: Own calculations based on the national Care Register for Social Welfare.

Figure 11.2 Prevalence of homelessness among substance treatment clients

years—of homeless substance treatment clients remain both homeless and in treatment in the following year.

Turning to our other two outcomes of interest in Tables 11.2a–c, we can see the situation of the homeless people with substance use problems two years after being observed as homeless and receiving substance abuse rehabilitation. Two years after, we examine two outcomes: (1) likely stable housing measured in having a registered housing tenure or reciprocity of any housing benefit, and (2) being alive at the end of the following two-year period. The outcomes are observed for the period 2002–2019. Tables 11.2a–c describe our study sample by presenting the proportions of key variables across the entire study period, as well as separately for the periods before and after the launch of the PAAVO I program (in 2008).

As a whole, the homeless people with substance use problems in Finland are a very disadvantaged group, as can be seen from Tables 11.2a–c. The mortality rate is high: over 6% of the individuals have died within two years of the observation. On a more positive note, approximately 79% have a place to live, conditional on being alive. One should note that this information is based on two things: either registered housing tenure or reciprocity of housing benefits, and is not a perfect measure of permanent housing; it should be taken as a rough indicator (see details in “Data and Methods” section above).

Further, within the study sample, around 82% are men, whereas only 18% are women. As many as 14% have a history of foster care some time in their childhood, contrasting strongly with rates of under 1% in the cohorts we are studying (Forsell, 2024). The share is larger in the latter part of the time span, which may be related to the fact that information on foster care is only available from 1991 onwards and may therefore be more incomplete for earlier birth cohorts. This suggests that the true share may in fact be even higher. Further, only 37% have any kind of degree after primary school. In general 90% of the Finns tend to have a secondary degree and around half attain a general secondary degree

Table 11.2a Descriptive statistics of the sample used in the regression analysis two years later

	Share whole time span	Share: before PAAVO (2007)	Share: after/during PAAVO
Alive	0.938	0.938	0.938
Any tenure or receiving housing allowance	0.788	0.751	0.822
Observations, total	19,008	9,232	9,776

Table 11.2b Descriptive statistics of the sample used in the regression analysis: observation year

	Share: whole time span	Share: before PAAVO (2007)	Share: after/during PAAVO (2008 onwards)
Male	0.824	0.828	0.821
Helsinki	0.129	0.181	0.080
Espoo	0.117	0.115	0.119
Vantaa	0.081	0.082	0.080
Tampere	0.090	0.093	0.087
Turku	0.066	0.048	0.083
Other PAAVO municipalities	0.146	0.137	0.154
Other municipality	0.371	0.344	0.397
With history of foster homes	0.144	0.0988	0.186
Any secondary degree (or higher)	0.368	0.363	0.373
Observations, total	19,008	9,232	9,776

Note: The same individual may appear more than once in the sample. Other PAAVO municipalities are Joensuu, Kuopio, Lahti, Oulu, Jyväskylä and Pori. Pori joined for PAAVO II.

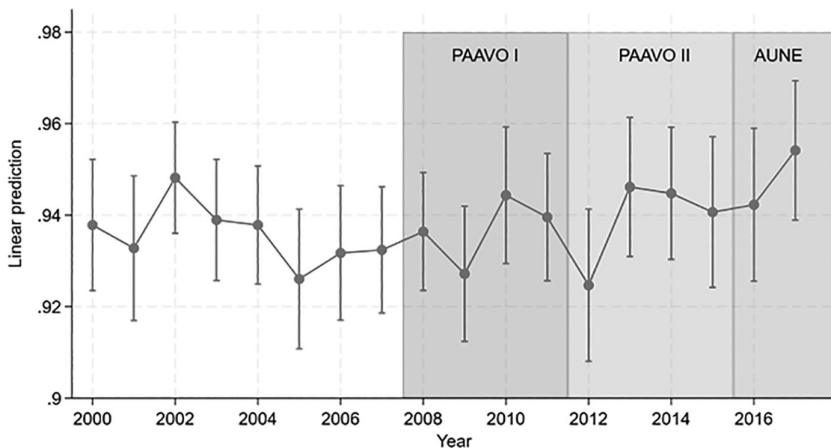
Table 11.2c Descriptive statistics of the sample used in the regression analysis: age groups

-	Share: whole time span	Share: before PAAVO (2007)	Share: after/during PAAVO (2008 onwards)
0–24	0.146	0.149	0.144
25–34	0.287	0.262	0.310
35–44	0.251	0.276	0.228
45–54	0.206	0.223	0.190
55–64	0.094	0.079	0.108
65+	0.016	0.011	0.021
Observations, total	19,008	9,232	9,776

(Kilpi-Jakonen et al., 2016). These individuals are more likely to be younger, as only 10% of them are at least 55 years old.

The municipal distribution of homeless people with substance use problems shows notable changes over time. Helsinki had the highest share overall, but also experienced the most significant decline: from 18.1% before 2008 to 8% after. In contrast, the shares in Espoo, Vantaa, and Tampere remained relatively stable. Turku is an exception, showing an increase in its share after 2008. The proportion of homeless people with substance use problems in other municipalities increased from 48.1 to 55.1%, suggesting a possible geographical dispersion of homelessness over time.

In Figure 11.3, we illustrate the results of the changes in being alive two years after being homeless in substance abuse treatment services from the most extensive model with all the control variables. We can observe that there has been very little change in this regard. The homeless people with substance use problems have remained a group with high mortality. During the PAAVO and AUNE periods, there is a slight increase in the probability of staying alive, but this is small and not statistically significant. As an additional robustness



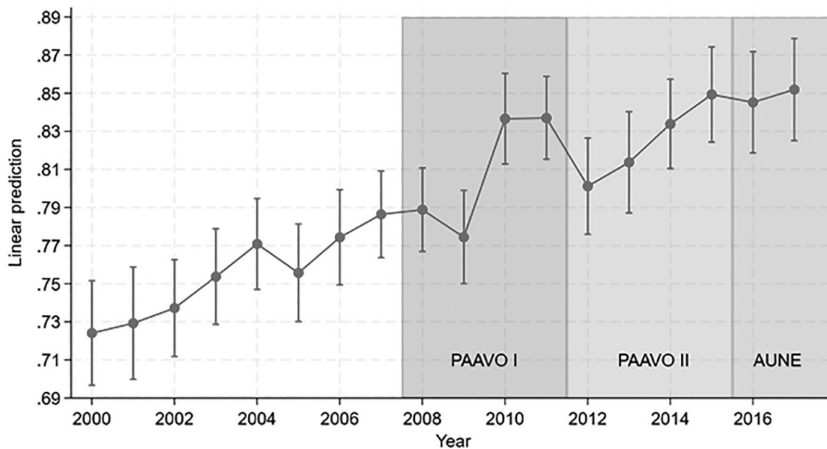
Note: The figure presents predictive margins for each year for the probability of being alive two years later, accompanied by 95% confidence intervals.

Source: Own calculations based on the study sample.

Figure 11.3 *The yearly variation in the likelihood of being alive two years after being a homeless client at the substance abuse treatment services (Table 11.A1, M2)*

check, we ran models for different age groups, but all the age groups showed similar patterns over time (results available upon request from the authors).

In the interpretation of the results, one should note that our findings are conditional on individuals being both homeless and receiving substance abuse treatment. It should also be noted that the number of homeless people in substance abuse treatment has been decreasing during the PAAVO and AUNE programs, as shown in Figure 11.2. Although we have some controls of the situation of homeless people in the models, there is a possibility that homeless people with substance use problems have become a more negatively selected group during the period. This in turn might bias our results to be more negative. When we observe no changes, it is thus possible that positive effects of the programs might not be observed because of more negative selection into the group.



Note: The figure presents predictive margins for each year for the probability of having permanent housing two years later, accompanied by 95% confidence intervals. Our measure for having permanent housing is likely to have errors in both directions. Some people might have registered housing although be homeless in reality, and some might have housing although it is not in the registers. However, these errors are unlikely to change over time.
Source: Own calculations based on the study sample.

Figure 11.4 The yearly variation in the likelihood of having permanent housing two years after being a homeless client at the substance abuse treatment services based on the registered tenure type and the reciprocity of any housing benefit (Table 11.A1, M2)

The main goal of Housing First systems has been to provide housing. This is why we next turn to the question of whether or not PAAVO and AUNE have had any effect on how many of the homeless people in substance abuse treatment are in permanent housing two years after the treatment in Figure 11.4. Here we can see clear changes. Even before PAAVO and AUNE, the situation has been getting better with a 6 percentage point statistically significant increase from 2000 to 2007 in the number of homeless people with substance use problems having a permanent apartment based on the housing and benefit registers. During PAAVO and AUNE, the increase continued with a 13 percentage point increase from 2000 to 2017, and even a 6.6 percentage point increase from 2007 to 2017. There is a big jump in the two years after the first PAAVO program started, and this would make sense as it has taken cities some time to implement the program and build new housing units.

If our first results concerning mortality might be negatively biased considering the possible effects of PAAVO and AUNE, our more positive results on housing outcomes might in turn be too positive. This is due to the fact that the housing situation of the homeless people with substance use problems had already been clearly improving before the programs. The increases we see during the programs might also reflect this positive trend over time instead of the effect of the programs. However, it is also possible that the positive trends before the national programs might have resulted from some city-level programs implemented earlier.

DISCUSSION

In this chapter, we have given a short description of Housing First with emphasis on the Finnish model. We further provided some empirical examinations of how the model's implementation has been connected to the fates of homeless people with substance use problems in Finland. Housing First is usually regarded as a success story, but people with substance use problems are one of the groups discussed where the results are still debated (Baxter et al., 2019; Saldanha et al., 2024).

As our first result, we showed that during PAAVO and AUNE, the number of homeless people in substance abuse treatment services decreased, rapidly going down from over 1,400 in 2008 to less than 800 in 2017. This decline happened at the same time as PAAVO and AUNE's implementation. As Finland experienced a downturn of the economy in 2008 and 2009, it is likely that this turn was not fueled by macroeconomic circumstances, but rather the Housing First programs. Of course, our temporal associations are not causal estimates and one should understand the uncertainty behind them. Further, the share of homeless people remained much more stable at around 10% of the substance abuse treatment clients with only a slight decline during the Housing First

programs from a little less than 12% in 2008 to less than 10% in 2017. The one caveat to this result is also the possibility that the registration practices of substance abuse clients would have changed over time regardless. We tried to verify the integrity of the data, but it is still possible that there are biases left in the analysis.

Our results highlight that, on average, the housing situation two years after substance abuse treatment for homeless people improved significantly during the PAAVO and AUNE programs. The homeless people were clearly more likely to have permanent housing based on the register information on tenures and housing allowances. However, it remains somewhat unclear if this development was caused by the Housing First programs as we can already see clear increases before the implementation of the programs. However, as the absolute number of homeless clients in substance abuse treatment has been radically declining, we could have expected more negative results due to increased selection of the subgroup. We did not observe anything of the sort.

When it comes to the mortality of homeless people with substance use problems we see no clear trends before or after the Housing First programs were implemented. This might be related to increased selection mentioned above, but it might also mean that Housing First is not effective in combating the mortality of this subgroup. What should be noted is that we do not see radical increases in the mortality either, something that the most radical doubters of Housing First might have expected to see; it does not seem that Housing First increases the mortality of the homeless with substance abuse problems.

Overall, our results highlight the positive associations between the implementation of the programs and observed outcomes, especially regarding the absolute number of homeless people with substance use problems. Further, considering the mortality and housing situation two years later for people who still ended up homeless, it seems that the implementation of Housing First had at least a positive association with the number of people in permanent housing. Regarding mortality, no clear trend was evident.

Our findings support the view that the Housing First approach is effective not only in reducing homelessness but also in sustaining long-term housing. Within the Housing First framework, housing is considered a fundamental starting point that can lead to further positive outcomes in recovery and overall life circumstances. Access to housing and the elimination of homelessness are assessed as valuable goals in themselves, regardless of their broader individual or social impacts.

This study underscores the importance of large-scale, long-term longitudinal research in evaluating such societal initiatives. While the effectiveness of Housing First has been widely studied, there is limited research utilizing population-level register data, as we have done in this chapter. Finland presents a particularly valuable context for this kind of analysis due to its consistent

national implementation of Housing First policies and its notable success in reducing homelessness. Further, research with more casual settings would be crucial. As highlighted here, the temporal association between changes and implementation of Housing First programs has definite value, but to concretely estimate the effects of the programs, we would need better empirical setups.

The Finnish Housing First program stands as an example of how targeted and evidence-based interventions can address acute social problems while being embedded within broader welfare state services and benefits. It represents a textbook case of the investment-intervention approach described in Chapter 2 of this volume. Its impact illustrates the potential of such interventions to both complement and compensate for the limitations of long-term investments, especially when dealing with marginalized and vulnerable segments of the population who may not benefit from mainstream social investment policies alone. Crucially, the effectiveness of Housing First in Finland is supported by a universal and legally defined safety net that guarantees access to housing-related benefits regardless of employment status or life situation. This integrated system functions as a structural foundation, reducing the risk of exclusion and enabling tailored interventions to succeed. The Finnish experience thus strengthens the case for integrating reactive interventions into the broader welfare policy toolbox. It highlights the importance of pairing inclusive universalist approaches with tailored, low-threshold services for marginalized groups—an essential strategy for maintaining both social sustainability and equity in the Nordic welfare state model.

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APPENDIX

Table 11.A1 *Linear probability models on being alive and having permanent housing two years after being a homeless client at the substance abuse treatment services*

Category	Outcome: being alive - M0: No controls	Outcome: being alive - M1: M0 + cities	Outcome: being alive - M2: M1 + individual controls	Outcome: having housing - M0: No controls	Outcome: having housing - M1: M0 + cities	Outcome: having housing - M2: M1 + individual controls
Year (ref. 2000): 2001	-0.00576 (0.0108)	-0.00791 (0.0108)	-0.00506 (0.0108)	0.0191 (0.0210)	0.0250 (0.0208)	0.00515 (0.0205)
Year (ref. 2000): 2002	0.00912 (0.00941)	0.00604 (0.00940)	0.0103 (0.00947)	0.0212 (0.0195)	0.0329 (0.0193)	0.0131 (0.0190)
Year (ref. 2000): 2003	-0.00251 (0.00982)	-0.00500 (0.00982)	0.00111 (0.00987)	0.0383* (0.0193)	0.0482* (0.0192)	0.0296 (0.0189)
Year (ref. 2000): 2004	-0.00345 (0.00971)	-0.00620 (0.00973)	-2.20e-06 (0.00977)	0.0487* (0.0189)	0.0653*** (0.0187)	0.0468* (0.0185)
Year (ref. 2000): 2005	-0.0197 (0.0106)	-0.0185 (0.0107)	-0.0118 (0.0107)	0.0416* (0.0196)	0.0500** (0.0193)	0.0316 (0.0191)
Year (ref. 2000): 2006	-0.0137 (0.0104)	-0.0120 (0.0105)	-0.00611 (0.0105)	0.0607** (0.0193)	0.0671*** (0.0191)	0.0502** (0.0189)
Year (ref. 2000): 2007	-0.0124 (0.0101)	-0.0108 (0.0101)	-0.00543 (0.0102)	0.0754*** (0.0187)	0.0801*** (0.0184)	0.0623*** (0.0182)
Year (ref. 2000): 2008	-0.00646 (0.00973)	-0.00542 (0.00975)	-0.00144 (0.00981)	0.0763*** (0.0184)	0.0831*** (0.0182)	0.0647*** (0.0179)

Category	Outcome: being alive - M0: No controls	Outcome: being alive - M1: M0 + cities	Outcome: being alive - M2: M1 + individual controls	Outcome: having housing - M0: No controls	Outcome: having housing - M1: M0 + cities	Outcome: having housing - M2: M1 + individual controls
Year (ref. 2000): 2009	-0.0164 (0.0104)	-0.0152 (0.0104)	-0.0107 (0.0105)	0.0623** (0.0192)	0.0667*** (0.0190)	0.0504** (0.0187)
Year (ref. 2000): 2010	-0.00321 (0.0104)	-8.52e-05 (0.0105)	0.00651 (0.0106)	0.127*** (0.0189)	0.129*** (0.0187)	0.112*** (0.0185)
Year (ref. 2000): 2011	-0.00653 (0.0101)	-0.00473 (0.0101)	0.00172 (0.0102)	0.128*** (0.0182)	0.130*** (0.0180)	0.113*** (0.0178)
Year (ref. 2000): 2012	-0.0217 (0.0111)	-0.0188 (0.0111)	-0.0132 (0.0112)	0.101*** (0.0194)	0.0935*** (0.0191)	0.0771*** (0.0190)
Year (ref. 2000): 2013	0.00241 (0.0105)	0.00422 (0.0106)	0.00832 (0.0107)	0.102*** (0.0199)	0.106*** (0.0197)	0.0896*** (0.0195)
Year (ref. 2000): 2014	-0.000418 (0.0103)	0.00309 (0.0104)	0.00693 (0.0104)	0.130*** (0.0188)	0.127*** (0.0186)	0.110*** (0.0184)
Year (ref. 2000): 2015	-0.00467 (0.0110)	-0.000438 (0.0110)	0.00283 (0.0112)	0.144*** (0.0192)	0.139*** (0.0191)	0.125*** (0.0189)
Year (ref. 2000): 2016	-0.00213 (0.0111)	0.00149 (0.0112)	0.00443 (0.0113)	0.128*** (0.0199)	0.131*** (0.0198)	0.121*** (0.0196)
Year (ref. 2000): 2017	0.00956 (0.0106)	0.0126 (0.0106)	0.0163 (0.0107)	0.133*** (0.0199)	0.137*** (0.0198)	0.128*** (0.0196)
Municipality (ref. Helsinki): Espoo	-	-0.00894 (0.00617)	0.000717 (0.00614)	-	-0.0206 (0.0137)	-0.0206 (0.0137)
Municipality (ref. Helsinki): Vantaa	-	-0.0137 (0.00707)	-0.00412 (0.00704)	-	0.0452** (0.0145)	0.0430** (0.0144)

Category	Outcome: being alive – M0: No controls	Outcome: being alive – M1: M0 + cities	Outcome: being alive – M2: M1 + individual controls	Outcome: having housing – M0: No controls	Outcome: having housing – M1: M0 + cities	Outcome: having housing – M2: M1 + individual controls
Municipality (ref. Helsinki); Tampere	-	-0.0154* (0.00695)	-0.00878 (0.00688)	-	0.0395** (0.0143)	0.0347* (0.0141)
Municipality (ref. Helsinki); Turku	-	-0.0282*** (0.00835)	-0.0152 (0.00830)	-	-0.0131 (0.0163)	-0.0161 (0.0162)
Municipality (ref. Helsinki): Other program municipalities	-	-0.0356*** (0.00648)	-0.0225*** (0.00645)	-	0.112*** (0.0120)	0.108*** (0.0120)
Municipality (ref. Helsinki); Other municipalities	-	-0.0321*** (0.00512)	-0.0204*** (0.00509)	-	0.109*** (0.0106)	0.109*** (0.0106)
History of foster homes: Yes	-	-	-0.00329 (0.00461)	-	-	-0.0490*** (0.00982)
Man-	-	-	0.0163*** (0.00401)	-	-	0.0808*** (0.00725)
Age group (ref. under 25 years old): 25 to 34 years old	-	-	-0.0122** (0.00437)	-	-	-0.0499*** (0.00963)
Age group (ref. under 25 years old): 35 to 44 years old	-	-	-0.0295*** (0.00520)	-	-	-0.0535*** (0.0105)

Category	Outcome: being alive - M0: No controls	Outcome: being alive - M1: M0 + cities	Outcome: being alive - M2: M1 + individual controls	Outcome: having housing - M0: No controls	Outcome: having housing - M1: M0 + cities	Outcome: having housing - M2: M1 + individual controls
Age group (ref. under 25 years old): 45 to 54 years old	-	-	-0.0556*** (0.00612)	-	-	-0.0417*** (0.0110)
Age group (ref. under 25 years old): 55 to 64 years old	-	-	-0.0815*** (0.00862)	-	-	-0.0301* (0.0131)
Age group (ref. under 25 years old): 65+ years old	-	-	-0.105*** (0.0202)	-	-	-0.0304 (0.0237)
Any secondary degree (or higher)	-	-	-0.00536 (0.00395)	-	-	0.0481*** (0.00637)
Constant	0.944*** (0.00714)	0.965*** (0.00783)	0.982*** (0.00866)	0.712*** (0.0144)	0.647*** (0.0167)	0.680*** (0.0183)
Observations	19,008	19,008	18,983	17,822	17,822	17,797
R-squared	0.001	0.004	0.017	0.011	0.028	0.040
Mean outcome	0.938	0.938	0.938	0.788	0.788	0.789

Note: Standard errors in parentheses, *** p<0.001, ** p<0.01, * p<0.05.

Source: Own calculations based on the study sample.

12. Not just kids' play: bullying prevention is an investment that pays off

Sanna Herkama, Marie-Pier Larose, Tiina Turunen and Christina Salmivalli

INTRODUCTION

Finland's decades-long efforts to prevent bullying illustrate how nationwide action on a major developmental risk factor can serve as a long-term societal investment, benefiting children and society as a whole. Globally, Finland and the other Nordic countries can be considered an "early bird" in bullying prevention. In Finland, awareness about bullying started rising in the early 1990s and various factors contributed to this development – books originating from other Nordic countries were translated to Finnish, first scientific publications on bullying appeared, and the first school shooting occurred in 1989. At the time, extensive media coverage highlighted that the shooter – a middle-school student – had been subjected to prolonged and intense bullying. Thus, over the years, many factors played a role in creating a "window of opportunity" to prevent and intervene in bullying with an evidence-based bullying prevention program nationwide.

In general, bullying is a widespread and well-known peer group problem among children and young people that has considerable impact on the daily lives of children and youth. Since bullying is a group phenomenon (Salmivalli, 2010), all children will inevitably come across it either as a target, a perpetrator, or a witness of bullying during their school years. Bullying is topical in many families and adults may recall bullying incidents that took place during their school years. Simple comments labeling bullying as "kids' play", "a normal part of growing up", and "just teasing" frame this behavior as harmless, severely minimizing the problem. Bullying is not just kid's play; rather, it should be understood as a considerable risk potentially preventing healthy development. It may have severe consequences on the mental well-being of the

individuals involved and can also lead to societal costs through later difficulties in social integration. Therefore, bullying should be considered a significant societal problem that calls for action, resources, and investments. In this chapter, we examine the nature and effects of bullying, with a particular focus on how its prevention, via universal and targeted interventions, can serve as a societal investment in the long term by building individual capabilities and institutional capacities. Throughout the chapter, special attention is given to bullying prevention in Finland, utilizing the KiVa® antibullying program as an example.

WHAT IS BULLYING?

Bullying has been defined as aggressive behavior targeted repeatedly and over time against a peer who finds it difficult to defend themselves (Olweus, 1993). Although the definition has been debated during the past decade, this serves as a base for a whole field of research concentrating on school bullying and its prevention. Unfortunately, bullying is a fairly common social problem worldwide: the phenomenon is known globally from Western countries to the Global South and developing countries (Hong et al., forthcoming). The results from WHO's Health Behaviour in School-Aged Children study (Cosma et al., 2024), including data from over 40 countries and regions in Europe, central Asia, and Canada, indicate that, on average, around one in ten (11%) of boys and girls from 11 to 15 years of age report that they have been bullied at school at least 2–3 times a month in the past couple of months. Moreover, 6% of adolescents reported that they had bullied others at school at least 2–3 times a month during the same period, with 8% of boys and 5% of girls admitting to such behavior. In Finland, the prevalence of bullying has been monitored since 1996 through the School Health Promotion Study which is conducted biennially by the Finnish Institute for Health and Welfare (2025), a governmental agency. Nowadays, the survey targets students in elementary school (10–11 years of age), middle school (14–15 years), as well as secondary education (16–17 years of age).

WHY BOTHER ABOUT BULLYING?

Bullying causes enormous human suffering and considerable costs for societies via its devastating effects on mental health and marginalization. It seriously violates human rights and individuals' fundamental need to belong. Moreover, it is a violation of children's right to education, which entails the right to a safe school environment emphasized by the Safe Schools Declaration (UNESCO, 2025).

Most longitudinal research to date has focused on the outcomes of being bullied, and negative consequences have been widely documented. Victims suffer from loneliness, anxiety, depression, and various somatic symptoms both concurrently and later in their lives (Christina et al., 2021; Klomek et al., 2015; Wolke & Lereya, 2015). They also report higher instances of arrests, convictions, violence, and substance use than non-victimized children (Glassner & Cho, 2018), and even have a slightly increased risk of dying by suicide (Geoffroy et al., 2023). Consequences of early victimization seem to be more serious than later victimization (Hoffman et al., 2017). Moreover, research has shown that youth who are both victims and perpetrators of bullying (i.e., bully-victims or aggressive victims) face the most significant challenges among all children involved in bullying. These challenges span a multitude of outcomes, including academic difficulties, internalizing and externalizing problems, and lower self-esteem, all of which threaten their life opportunities (Graham et al., 2006; Kelly et al., 2015; Pollastri et al., 2010; Yang et al., 2016).

The lives of those who bully others are also affected (Klomek et al., 2015). However, it is still unclear if bullying itself leads to problems later in life, or if other factors both cause bullying during school and later issues in life. On one hand, bullying perpetration in school-aged children has been associated with adverse outcomes later in life, including mental and physical health problems, poor well-being, low educational attainment, antisocial personality disorders, substance use, violence, and offending (Copeland et al., 2013; Moore et al., 2015; Ttofi et al., 2012, 2016). On the other hand, bullying may also result in benefits for perpetrators such as high status and access to romantic partners (Volk et al., 2022; Wiertsema et al., 2022). Overall, research linking school-aged bullying with adult outcomes is limited – especially regarding the heterogeneity of youth who bully – and common beliefs, such as that school bullies often end up in prestigious business or political positions, still lack scientific evidence.

Finally, ample evidence shows that merely witnessing bullying, even without being involved as a victim or a perpetrator, can also be a risk factor for well-being (Midgett & Doumas, 2019; Rivers et al., 2009). Bystanders may feel guilty about not intervening (Obermann, 2011), but witnessing bullying may also make them feel unsafe at school (Zacharia & Yablon, 2022), affecting their well-being and learning. In conclusion, bullying poses a risk for the healthy development of all children and adolescents – even those involved as bystanders, not just victims and perpetrators – and societies cannot afford these consequences.

INTERVENTIONS AS AN ADD-ON TO SOCIAL INVESTMENT: THE CASE OF THE KIVA ANTIBULLYING PROGRAM

The devastating and multifaceted consequences of bullying have led to the initiation of bullying prevention practices and programs, such as the KiVa® antibullying program developed in Finland. The Finnish Basic Education Act (1998) already calls upon the right for every student to have a safe school environment. The act was further amended in 2003 to include the obligation for the education providers to “draw up a plan, in connection with curriculum design, for safeguarding pupils against violence, bullying and harassment, execute the plan, and supervise its adherence and implementation”. This requirement was later incorporated into the Pupil and Student Welfare Act (2013), which clearly posited that education providers need to have a plan to prevent bullying and take action when acute cases of bullying come to their attention, and this plan needs to be part of the local curriculum.

In 2006, the Finnish Ministry of Education decided to invest in bullying prevention and funded the development and nationwide roll-out of the KiVa antibullying program. This governmental initiative can be considered a flow factor. Bullying prevention programs are often school-based and consist of various components, and KiVa is not an exception. It includes universal components that are aimed at all students with the objective of preventing bullying from happening and targeted actions to be utilized when acute cases of bullying emerge. It also includes a monitoring tool to support the program implementation and provide schools with a data-driven approach to monitor the bullying prevalence and improve their antibullying practices.

The program was evaluated in a large randomized controlled trial (RCT) during two consecutive school years between 2007–2009. First, the program was launched among children in grades 4–6 with promising results (Kärnä et al., 2011b). The year after, the RCT was extended to grades 1–3 and 7–9, with more modest results especially in the older age group (Kärnä et al., 2013). After the Finnish RCT, the program has been evaluated in other contexts and there is evidence of its effectiveness outside of Finland as well (Huitsing et al., 2020b; Nocentini & Menesini, 2016). Due to the positive results obtained from the RCT, the Ministry of Education decided to fund the nationwide roll-out of the program, which was fast, and the program reached basic education institutions within the country with remarkable coverage. After a few years, over 90% of the Finnish primary and middle schools were registered program users. In 2016, a small license fee was introduced and some schools decided to abandon the program. Currently, the program is utilized in 40% of the schools

in Finland, and it is additionally being used in schools in 25 countries outside of Finland.

To evaluate whether investing in bullying prevention is worth the effort, the magnitude of change related to individual interventions is an important metric deserving attention. For example, Kärnä and colleagues (2011a) succinctly demonstrated the magnitude in practice when evaluating the effectiveness of the KiVa antibullying program among 150,000 Finnish basic education students during the first year of the nationwide broad roll-out. In this sample, the implementation of the evidence-based bullying prevention program resulted in a reduction of about 3,900 victims and 2,300 bullies within just one year. If scaled nationwide successfully to all 500,000 Finnish basic education students in grades 1–9, the intervention would have resulted in a reduction of about 7,500 bullies and 12,500 victims during the first year of implementation. This notion makes it clear what bullying prevention in practice means in terms of human suffering and in the lives of society's future taxpayers.

INTERVENING IN BULLYING IS WORTH THE INVESTMENT

Over the years, many antibullying interventions have been evaluated, providing a foundation for an evidence-based approach to bullying prevention. Several meta-analyses conclude that school-based bullying prevention reduces bullying victimization and perpetration to some extent (Fraguas et al., 2021; Gaffney, et al., 2019; Hensums et al., 2023; Ng et al., 2022; Ttofi & Farrington, 2011). For example, Gaffney and colleagues (2019) investigated programs' efficacy across 100 independent studies utilizing either RCT (n=45), quasi-experimental (n=44 effect sizes), or age cohort designs (n=14), and concluding that bullying prevention programs reduce bullying perpetration by approximately 19–20% and victimization by 15–16%. Similarly, Hensums and colleagues (2023) performed an individual participant meta-analysis, based on ten quasi-experimental or randomized controlled trials, and showed that interventions aiming to reduce bullying were effective, but also found that the effects were overall stronger among youth under 12 years of age and among those who had been most severely victimized at baseline. However, both Gaffney and colleagues (2019) and Hensums and colleagues (2023) report great variability in the effectiveness of interventions aiming to prevent bullying and discuss the need to better understand how contextual and individual factors influence the effectiveness of interventions.

In recent years, research on bullying prevention has increasingly focused on the cost-effectiveness and cost-benefit ratios of antibullying interventions. These economic evaluations offer compelling arguments for prioritizing and investing in bullying prevention in the public and political spheres.

By monetizing both the short- and long-term outcomes of participants who have received the bullying prevention program, compared to those who have not, these studies provide a concrete basis for assessing the financial viability of more resource-intensive prevention efforts since more intensive prevention efforts also cost more (Bradshaw et al., 2020)

Early investigations into the cost-effectiveness of bullying prevention relied primarily on base-case or simulation designs. Persson and Svensson (2013) used a discrete choice experiment to estimate the public's willingness to pay for reducing school bullying in Sweden, establishing a benchmark for social acceptability in future cost-effectiveness and cost-benefit analyses. Building on this, Beckman and Svensson (2015) assessed the cost-effectiveness of the Olweus Bullying Prevention Program (OBPP, a bullying prevention program developed in Norway) in a typical Swedish primary school, utilizing data from administrative, observational, and quasi-experimental studies conducted in Norway. The results indicated that the external costs of implementing the OBPP were lower than the previously established willingness-to-pay threshold. A similar approach was applied by Persson et al. (2018) in their study of the KiVa antibullying program in a Swedish elementary school setting, which showed comparable results. They found that when implemented throughout primary school, the KiVa program was cost-effective, with the costs of the program falling below the willingness-to-pay threshold based on victim-free years and quality-adjusted life years' (QALYs) estimates. QALYs are estimates that are frequently used to examine the (cost)-effectiveness of programs and policies as they represent a holistic measure of health status, including longevity as well as quality of life (Greenberg & Pliskin, 2002). QALYs have monetary estimates that can later be considered when calculating the ratio between the cost of implementing a program with the long-term benefits that this program can generate.

More recent studies have shifted towards documenting the cost-benefit of bullying prevention programs using experimental design data. Huitsing et al. (2020a) provided the first evidence that school-based bullying prevention can yield substantial long-term monetary benefits, showing that the cost of implementing the KiVa program was significantly outweighed by potential long-term returns. Specifically, for every euro invested in KiVa, the estimated long-term return ranged from €4.04 to €6.72, highlighting a strong return on investment. Importantly, this analysis was conservative, focusing solely on the lifetime outcomes for victims and excluding potential outcomes to bullies, bystanders, and parents.

Jadambaa and colleagues (2022) took a different approach by examining the cost-benefit of preventing bullying in Australian schools using the Friendly Schools Friendly Families intervention developed in Australia. They categorized the benefits in terms of avoidable disability-adjusted life years (DALYs)

and found that a reduction in bullying victimization by 18% would result in 9,114 DALYs saved nationally. This reduction could translate into annual cost savings of AU\$120 million, even after accounting for the costs of program implementation across all schools.

Taken together, these studies demonstrate that economic evaluations can play a critical role in advocating for social investment to support the implementation of evidence-based interventions in areas such as child development and education. Considering the strong evidence of short- and long-term consequences of bullying and the economic evaluations conducted so far, it becomes clearer how nationwide bullying prevention efforts can be seen as long-term social investments. Addressing this well-known developmental risk factor on a national level has the potential to improve individuals' quality of life and enhance their ability to function as full members of society throughout their lives. However, prevention is often relegated to later investment because problems that require immediate attention take priority in the political arena. The risk of such a strategy is that it does not align with developmental research showing that bullying in childhood and adolescence has a long-term impact on later adjustment. Presenting economic arguments on how bullying prevention programs enhance labor market productivity and reduce strain on the healthcare system adds significant weight to the case for immediate action. By framing the issue in terms of long-term economic benefits, such as a more productive workforce and reduced healthcare costs, the urgency and value of investing in prevention become clearer for stakeholders. The next challenge will be to advocate for sustained resources to maintain high-quality implementation of these complex prevention interventions, so that first investments and implementation expertise are not lost over time.

THE CHALLENGE OF MAINTAINING LONG-TERM PREVENTION EFFORTS

No matter how effective a particular intervention might be, it needs to be sufficiently implemented in order to produce desired effects. Bullying prevention calls upon systematic and structured effort, and it is not about passing projects or occasional themes brought up in educational discussions. It requires clearly defined methods, structured practices, and long-term commitment to these practices. Research indicates that consistent and ongoing efforts to prevent bullying are valuable and needed. The impact of prevention programs has been demonstrated to grow over time, as they continue to be implemented (Herkama et al., 2017; Huitsing et al., 2020b; Olweus et al., 2019). Unfortunately, in many cases, more resources are often allocated toward program development rather than toward implementation and sustainment. It is often overlooked in decision-making and societal discussion that sustainment of evidence-based

practices is not possible without sufficient funding, supportive educational structures, and political will – i.e., ensuring through social investments that interventions have the capacities to be implemented.

Most bullying prevention programs include multiple components, and a recent study investigating the implementation of the KiVa antibullying program in Finland over six years showed that the delivery of certain program components remains high whereas the delivery of others declined considerably over time creating a risk for the long-term sustainment of the effects (Herkama et al., n.d.b). Moreover, studies examining to what extent the program guidelines are being followed (Johander et al., 2021) and the program sustained (Sainio et al., 2020) bring into the spotlight the importance of high-quality implementation and possible challenges bullying prevention efforts face in everyday life at school. Examination of facilitators and barriers to implementation (Sullivan et al., 2021) and sustainment (Herkama et al., 2022), as well as contextual factors influencing bullying prevention (Pearce et al., 2024) demonstrate the complexity of everyday practices in educational institutions and clearly depict what is needed to successfully prevent bullying in education. Such studies emphasize the importance of resources – specially devoted time and trained staff – as well as values and commitment as factors contributing to successful bullying prevention in the long run in the educational context. To successfully prevent bullying, schools need evidence-based tools, but they also benefit from clear policies and guidelines, funding from the government to support the implementation of chosen practices, regular training, parental involvement, ongoing evaluation, and a supportive working culture.

In recent years, the Finnish Education Evaluation Centre (FINEEC) has conducted several evaluations that highlight the current efforts to prevent bullying in Finland. An evaluation focusing on schools' welfare plans uncovered that nearly all (95%) student welfare plans included the statutory measures to protect students from violence, bullying, and harassment (Summanen et al., 2018). But, as evidenced by another evaluation (Rumpu et al., 2023) focusing specifically on the usability and sustainability of seven bullying prevention methods used in Finland, several aspects of bullying prevention still required further development. For instance, it was recommended that schools integrate bullying prevention methods more thoroughly into their annual plans. In addition, allocation of sufficient time and personnel resources for bullying prevention and ensuring that bullying prevention methods become part of everyday operations and teaching were emphasized. This brings to the surface a significant gap in the field, as demonstrated by Sainio and colleagues (2024): Not all staff members perceive that they have shared and actively implemented bullying prevention practices in their school. This can have a severe impact on how the bullying prevention efforts are implemented and sustained in schools.

Research on bullying prevention conducted at the INVEST Research Flagship Centre builds on previous research and shifts the focus from program development and evaluation to implementation and sustainment of bullying prevention programs. The IMpLeMentation REsEarch Project (IMPRES) aims to develop and evaluate an evidence-based support model for schools (for more details, see Herkama et al., 2024). In this project, an implementation support model has been created, and its effectiveness and cost-effectiveness are being assessed through RCT. Twelve schools received implementation support, while another 12 served as control schools using the KiVa antibullying program as usual. Initial results on implementation fidelity are promising (Herkama et al., n.d.a). Schools receiving implementation support delivered more preventive lessons compared to schools without such support. Additionally, students in schools with implementation support reported less victimization immediately after the intervention and at a 12-month follow-up (Larose et al., n.d.). However, the impact on bullying perpetration was more modest, only becoming evident at the follow-up after 12 months. This project highlights the importance of enhancing program sustainment. Resources are wasted if new initiatives are constantly developed without evaluating and supporting the implementation of existing ones. Ultimately, all efforts to prevent bullying must overcome the challenges of high-quality implementation and sustainment in everyday school life.

Investing in bullying prevention can yield significant long-term benefits, both socially and economically. However, bullying prevention requires continuous attention and systematic effort in schools. In that sense, the initial resources devoted to developing, evaluating and implementing an evidence-based intervention program need to become focused on social investment in education. By offering an evidence-based institutionalized way to promote student well-being, we can capitalize on already invested resources and ensure sustained efforts in bullying prevention.

LESSONS LEARNED ON HOW TO TURN INTERVENTIONS INTO SOCIAL INVESTMENTS

The Finnish case on bullying prevention shows how complex it can be to turn interventions into social investments over time. When aiming to develop and implement an intervention for common childhood problems such as bullying on a large scale, it is essential to understand that this is not merely about isolated efforts by academia, government or educational practitioners, but about a comprehensive and long-term process. Next, we highlight four aspects that have the potential to create a window of opportunity for successful intervention development and implementation benefiting society at large.

First, normative regulation plays a central role and has the potential to accelerate intervention development significantly. Laws and official regulations form the foundation upon which everyday practices in education and health-care can be built. However, it is not quite enough that regulations exist – their implementation also requires systematic roll-out, monitoring, and continuous feedback. Importantly, regulations should be reflected in concrete actions and practices – evidence-based interventions – within educational and healthcare institutions and other everyday environments supporting child development. In other words, the investment-intervention approach brings a practical dimension to the social investment framework by emphasizing concrete means for achieving policy objectives and critically assessing their impact.

Second, public discourse and societal acceptance should not be overlooked. For example, public awareness concerning bullying not only increases the understanding of the seriousness of the problem, but it also may create pressure and space for the development and scaling up of evidence-based interventions as the case of the KiVa antibullying program demonstrated. It is politically less demanding to allocate resources to initiatives perceived as socially acceptable. Creating such a public space might require, for example, active communication, advocacy, and information sharing.

Third, the development and implementation of effective interventions require significant resources – primarily time, funding, scientific rigor, and sustained capacity building. High-quality interventions rest on the systematic identification of problems, a sound theoretical understanding of the mechanisms of change they aim to influence, and rigorous evaluation through controlled and replicable research designs. This process, in turn, depends on robust research infrastructures, interdisciplinary collaboration, and the ability to translate findings into concrete interventions and practices.

Fourth, building and maintaining school capacities to implement preventive and targeted interventions requires early and sustained investment. When emerging challenges arise, timely responses are only possible if the necessary research and implementation infrastructure is already in place. In this sense, capacity building functions as a crucial *stock factor* in the social investment-intervention approach – i.e., capacities accumulate over time and underpin the system's ability to act effectively via the implementation of interventions.

Yet, *flow factors* are equally essential. They provide the operational resources needed to implement interventions when problems occur. Without long-term investment in capacity (stock), interventions cannot be developed; without short-term flow resources, even the best-designed *interventions* cannot be implemented. Therefore, a key challenge is to ensure that preventive interventions themselves become integrated into stock investments, strengthening the capacities of both individuals and institutions. This approach not

only supports sustainable development but also helps free up flow resources for the design and deployment of new interventions as future needs arise.

CONCLUSIONS

By addressing bullying effectively, its immediate and long-term negative consequences, such as mental health problems, academic struggles, and social difficulties, can be mitigated. These improvements, besides reducing human suffering, can lead to youth developing into more productive members of society in the long run. From an economic perspective, the costs associated with bullying – such as healthcare expenses, lost productivity, and additional needs for educational support – can be substantial over time. Thus, minimizing talk about bullying as just “kids’ play” is harmful and distracts from the essential issue of viewing bullying as a risk for healthy development and bullying prevention as an investment in the future. In essence, effective bullying prevention is not just a moral question but also a financial investment. By fostering a safer and more supportive school environment, we can enhance the well-being and prospects of students, ultimately benefiting society.

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13. Supporting refugee children's mental health and learning in educational and healthcare services

Kirsi Peltonen, Mia Huolman and Sanna Hannula

INTRODUCTION

Over the past few decades, Finland has witnessed profound demographic transformations, characterized by the increasing presence of immigrants and refugees within its population (Chapter 8, this volume; Statistics Finland, 2023). Annually, around 1,000 children apply for asylum in Finland. Of them, about one-fifth come alone, without family (Finnish Immigration Service, 2023). Approximately 80% of all asylum-seeking children are under the age of 14. Additionally, since Russia's invasion of Ukraine in 2022, Finland has received a significant number of Ukrainian refugees. By mid-February 2023, approximately 50,361 individuals had applied for temporary protection, with around one-third being children. Most of these children arrived with their mothers, though some came without a guardian, often accompanied by relatives or family friends. (Finnish Immigration Service, 2023). In general, the relational number of children with foreign backgrounds is growing in Finland, and by the end of 2021, every tenth child came from a foreign background (Pietiläinen, 2022). This group of minors also includes asylum seekers.

Immigration places children at the risk of a vulnerable position, as the migration process tests family and peer network ties. Children who have experienced migration must learn a new language, build social networks, and adapt to a new environment. In this chapter, we refer to refugee children as individuals under the age of 18 who have been forced to flee their country of origin due to a well-founded fear of persecution (UNHCR, 2011).

Refugee children's integration into Finnish society is often hindered by socio-economic hardships, including poverty, discrimination, and difficulties in accessing social and health services (Jasinskaja-Lahti et al., 2018). This

chapter examines some of Finland's existing interventions aimed at mitigating these challenges and fostering successful integration for refugee children. In general, the investment-intervention approach for welfare state policies aims both to mitigate social disadvantages and prevent harmful processes. This dual strategy combines the proactive prevention of negative outcomes through investments and immediate rectification of existing issues via interventions. Specifically, (1) investments in education, health promotion, and human capital help build stocks of capability; (2) services that support flows of positive life transitions ensure successful integration; and (3) social security buffers provide essential safeguards against socio-economic risks (Chapter 2, this volume: Hemerijck, 2013). These measures, when effectively implemented, not only mitigate social risks but also actively build resilience against them, fostering a more inclusive and sustainable society. Investing in preventive and focused actions among refugee children aligns with the core principles of the investment-intervention paradigm, seeking to foster human capital and promote positive life transitions, including in the context of migration. As research suggests, social investment policies aim to support positive life transitions and foster capabilities, enabling individuals to navigate life's challenges and contribute to society more effectively (Morel et al., 2012). By implementing proactive policies that emphasize education, mental health, and social inclusion, Finland can move from reactive to proactive welfare strategies that enhance opportunities for long-term well-being and economic resilience.

Ultimately, the interventions presented in this chapter aim to answer the critical question for immigrant welfare: What specific measures—both investments and interventions—are needed to achieve welfare objectives? By evaluating the effectiveness and cost-efficiency of these policies, and by ensuring the optimal functioning of welfare state institutions, Finland can enhance the integration of immigrants and ensure their meaningful participation in society. At best, these interventions will not only support refugee children's educational and mental health outcomes but also create pathways for long-term inclusion, productive well-being, and economic success.

THE INTERPLAY OF MENTAL HEALTH AND LEARNING

Before we move on to examine the measures taken in the education and healthcare sectors to support the mental health and learning of refugee children, we will first explain how they are interconnected and why supporting refugees is a cross-cutting responsibility for both sectors.

Immigrants, and especially refugees, face many challenges predisposing them to mental health issues, such as conflicts and persecution in their home countries and during migration (Bhugra, 2021). In their host countries, they experience linguistic and cultural differences, possible racism and exclusion,

as well as separation from their family and loved ones (Bhugra, 2021). Discrimination has been shown to significantly impact the psychological well-being and adaptation of immigrants, hindering their integration (Castaneda et al., 2015; de Freitas et al., 2018, Kauppinen et al., 2023).

Research suggests that as many as 23% of refugee children suffer from post-traumatic stress disorder (PTSD) and about 14% with depression (Blackmore et al., 2020). Prevalence of mental health disorders (particularly PTSD, depression, and anxiety) among individuals with refugee backgrounds is significantly higher than among other populations (Henkelmann et al., 2020). On the other hand, research shows that major life challenges such as refugeedom can foster individual resilience (Keles et al., 2018). This means that despite adversities, children can achieve optimal adaptation and even unique capacity in certain areas of development and functioning compared to individuals who grew up in safe environments.

Pre- and post-migration traumatic experiences have indeed been found to be major risk factors for learning problems (Bronstein & Montgomery, 2011). Thus, it is important to discuss mental health and learning together. Low levels of mental well-being cause not only human suffering but also long-term effects on human capital, including challenges affecting children's education and later employment. Learning opportunities in new home countries are vital for immigrant children's well-being and life satisfaction (Cummins, 2021).

Unfortunately, both Finnish (Harju-Luukkainen & McElvany, 2018) and international comparative studies (Areepattamannil & Freeman, 2008; OECD, 2015) show that migrant children commonly underachieve academically, meaning that their school performance does not correspond with their cognitive capacity (Berry et al., 2012; Jonsson & Rudolphi, 2011). A recent comparative analysis of educational outcomes among refugee children in the Nordic countries shows that refugee students have lower school results than their native-born peers in compulsory education (Bakken, 2018). The integration challenges are particularly pronounced in the school system, where refugee children often face difficulties adapting to the curriculum, interacting with peers, and receiving adequate academic support (Kuusisto & Ubani, 2019). Research indicates that poor educational outcomes among immigrant children correlate with increased risks of social exclusion, unemployment, and economic dependency in adulthood (Heikkilä & Pikkariainen, 2008). For a review on the lifelong societal effects of child education, see Chapter 3.

There are many unmet needs among immigrant children and adolescents concerning mental health and education, such as delays in receiving appropriate support, poor engagement and involvement in the design of mental health services, and lack of evidence-based treatments (Fusar-Poli, 2019). However, many good practices and interventions exist. Below we describe different

measures that have been used to tackle this challenge in Finland, and finally the prospects that are still important to set as long-term goals.

THE EDUCATION SECTOR

There are clear geographical differences between areas in Finland regarding how children with multicultural backgrounds are represented (Pietiläinen, 2022). Generally, the cultural and linguistic backgrounds of Finnish pupils are diversifying rapidly in urban areas of Finland, affecting the functioning of entire school communities as well as the well-being of minority children. For example, 19% of the population in Helsinki speak a mother tongue other than Finnish, Swedish or Sami (Helsingin kaupunki, 2024).

The school environment can support a child who is going through the uncertain time of waiting to be granted refugee status (Lähteenmäki, 2013). Schools are not just places for academic learning but also places to support the well-being of children and adolescents. Thus, comprehensive approaches to supporting the successful integration of the growing immigrant population in schools are needed.

Preparatory Classes

One key initiative in integration is preparatory education, which equips immigrant children with essential language and academic skills, enhancing their ability to succeed in mainstream schooling and, ultimately, in Finnish society (Kangasniemi, Martikainen, & Kivistö, 2021). According to the Finnish Constitution and the UN Convention on the Rights of the Child, all children and young people have the right to free basic education. For those lacking Finnish language skills or foundational knowledge across subjects, preparatory instruction provides a pathway. In these classes, students receive education in Finnish, literacy, and key subject areas, with the structure tailored either for a separate group or integrated into basic education according to an individualized study plan. Preparatory instruction emphasizes building study skills and learning readiness, focusing on each student's current capabilities rather than age- or grade-based expectations. For instance, basic arithmetic may be prioritized in math, ensuring students' progression based on what they know. Similarly, non-literate students begin foreign language study with an emphasis on oral skills before moving to written work. Besides Finnish language teaching, preparatory education adjusts content from different subjects to develop essential concepts and methods.

Students who are not native speakers of Finnish, Swedish, or Sámi receive "Finnish as a second language" (S2) instruction, designed for learners who are not yet proficient in Finnish. Schools assess each student's language skills

to determine whether the S2 curriculum is suitable. This instruction may be offered in a separate group or integrated with native speakers, depending on the student's needs. Furthermore, promoting students' native language is crucial for cultural identity and personal growth, with support funded by special state grants. Native language instruction also enhances proficiency in Finnish and other languages, which bolsters students' ability to succeed across subjects. Initially, teaching basic skills, such as literacy or math, in the student's strongest language can be beneficial, with later support in their native language, especially in subjects like social studies.

After a year in preparatory instruction, students move to basic education within their age-appropriate grade. Language development remains an ongoing process throughout basic education, with support and individualized learning plans available as needed. Students may proceed at a personalized pace in subjects like foreign languages or math while participating in regular classes in areas where they can keep up. Learning plans and instructional support can continue for multiple years if required.

According to the curriculum guidelines, immigrant students are entitled to the same support as Finnish-speaking students. For example, they can receive remedial teaching or part-time special education. In addition, the curriculum mandates that the different backgrounds and needs of immigrant students must be considered all instructions. For immigrant parents, there are often concerns about children either assimilating too fully into Finnish culture or being treated unequally due to cultural differences (Säävälä, 2020). Schools play an important role in addressing these concerns by recognizing the importance of equity and combating discrimination, which are central to many immigrant families.

Student Welfare Services

School welfare services in Finland are provided as a multiprofessional collaboration. The team can consist of a school nurse, social worker, psychologist, doctor, special education teacher, and other potential members, including, for instance, the school principal. The presence of school healthcare services and the professionals responsible for implementing them are regulated by law (<https://stm.fi/kouluterveydenhoito>). This means that certain basic levels of healthcare services, including psychological services, should be provided for all throughout Finland and that students should be able to access these services regardless of where they live (<https://stm.fi/kouluterveydenhoito>). This approach has two layers: individual and communal. The communal level interventions can include, for example, lessons for certain classes that have had communal social struggles. Student welfare also plays a key role in guiding and referring students to external support services.

Student welfare can proactively consider the needs of refugee and asylum-seeking children and young people from the early stages of their schooling. Due to their life history, these children and young people may have specific support needs and challenges related to mental and physical health as well as social well-being. Supporting their schooling and studies often requires the involvement of various professionals.

If necessary, immigrant students are entitled to enhanced or special support for learning. The increase in support is based on assessed needs, and the provision of support follows the same stages as for other students. However, a decision for special support cannot be based solely on poor basic skills due to gaps in schooling or developing language skills. Students receiving enhanced or special support continue to also receive the normal support provided to immigrant students, such as Finnish as a second language instruction.

The Collaboration of Migrant Families and School Staff

Mustonen et al. (2023) studied Finnish school administration discourses concerning support for students with a refugee background. There seemed to be a strong understanding of the importance of learning support but uncertainty regarding the need for psychosocial support. The results indicate a continuing need for common policies at the national level to provide long-term support for refugee-background students as well as further teacher training development.

Finally, there are regular health checkups arranged for all students. They serve as good opportunities to observe problems at an early stage. Parents need to be informed about the different forms of support available at school and referral possibilities if potentially needed. It is also important to discuss learning difficulties and related challenges with parents. Säävälä (2012) studied parents who have moved to Finland from abroad and their collaboration with schools: it was detected that the collaboration is more challenging compared to that with native Finnish families. Also, Mustonen et al. (2023) pointed out that school welfare staff have recognized that interacting with immigrant families requires more time and practical skill development than with native families. Immigrant parents may lack language skills and an understanding of the values and practices in the Finnish school system. However, school welfare staff find the interaction rewarding, as immigrants typically show respect and appreciation for education and authorities. Importantly, the role of teachers can be essential in recognizing the need for further support and referring a child forward to other services (Honkanen et al., 2010).

THE HEALTHCARE SECTOR

Under-representation in Health and Social Services

Immigrants and refugees are at higher risk of mental illnesses, such as mood disorders and PTSD (Bourque, van der Ven, & Malla, 2011; Mindlis & Boffetta, 2018). In Finland, however, immigrants have lower levels of mental health-related diagnoses than the natives, except for PTSD, which is more common among immigrants than natives (Kieseppä et al., 2021; Markkula et al., 2017). Different reasons can explain that difference.

Castaneda and colleagues (2020) showed that immigrants with affective symptoms are underrepresented in mental health services. Further, immigrants, including and maybe especially refugees, when receiving services, are treated less intensively than the natives, especially males, those 15–29 and over 60 years of age, and those who are unemployed (Kieseppä et al., 2020). In addition, immigrants from Africa and the Middle East often receive treatment at lower intensity than immigrants from Western countries (Kieseppä et al., 2020). Immigrants from sub-Saharan Africa, Northern Africa, and the Middle East who are diagnosed with PTSD and likely to have experienced the most severe trauma often receive the least intensive treatment (Kieseppä et al., 2021). The longer of residence in Finland and a comorbid diagnosis increase the likelihood of more intensive care (Kieseppä et al., 2020).

Largely, these phenomena are in line with the reverse care law (see Chapter 4). The reasons behind lower levels of received mental health services and diagnosis among immigrants in Finland include their reluctance to use these services due to cultural and religious attitudes as well as negative experiences in healthcare services (Kieseppä et al., 2020), linguistic difficulties, differences in the perception of mental illness, lack of trust, and unfamiliarity with the healthcare system (Giacco et al., 2018). There also seems to be difficulties in accessing psychological care for immigrants and a lack of confidence in treating immigrants and working with interpreters among mental health professionals, which might also affect how these services are provided and how they are used by immigrants (Gartner et al., 2024). Moreover, many refugee families struggle with trust in authorities due to past experiences with persecution or systemic barriers, further complicating their access to essential support systems (Liebkind & Solheim, 2020).

Legislation and Mental Health Care Services for Refugees in Finland

Several laws and frameworks guide the organization and implementation of the mental health services in Finland. The Health Care Act ensures access

to health services, including mental health care, for all residents, including refugees. The Mental Health Act provides guidelines for the organization and delivery of mental health services. The Child Welfare Act ensures that the mental health needs of children are addressed as part of the overall welfare services. The Act on the Integration of Immigrants and Reception of Asylum Seekers promotes the integration and equality of immigrants in society and ensures support and care for asylum seekers and beneficiaries of temporary protection. The UN Convention on the Rights of the Child guides policies and practices to ensure that children's rights are upheld, including their right to mental health care. Together, these laws ensure necessary mental health services for refugee children.

Further, the use of interpreters in mental health services is governed by laws. The Act on the Rights of Patients ensures their rights to understand information provided to them and to communicate effectively with healthcare professionals, necessitating the use of interpreters when needed. The Act on the Integration of Immigrants and Reception of Asylum Seekers accentuates the importance of providing services in an accessible way to immigrants and refugees, which includes the provision of interpreters. The Language Act establishes the rights of individuals to use their own language in interactions with public authorities, including health services. Further, the Mental Health Act also supports the necessity of interpreters when required. These laws oblige the provision of qualified interpreters in mental health services to ensure effective communication and understanding. However, the interpretation services are not always arranged when needed in practice.

The Finnish healthcare system is comprehensive and has universal health coverage. Services are mainly public and organized by "well-being services counties" for their residents. Services are also provided through the private sector and NGOs. Services are divided into primary healthcare and specialized medical care. Public healthcare services are usually free, or the price is reasonable. Mental health care services are similarly organized through a combination of health services provided by well-being services counties or city services, specialized child and youth psychiatric services, and support from NGOs (Kieseppä et al., 2020). In general, refugee children are entitled and included in all the same mental health support services as native children (Heinonen et al., 2018). For instance, Global Clinic, a non-governmental organization (NGO) offering healthcare services for people without official identity documents, does not receive children since they are expected to be helped at public healthcare services.

However, taking holistic care of the whole immigrant family and caring for asylum seeker children who have come alone have been recognized as specific challenges (Heinonen et al., 2018). Further, the services for immigrants have been criticized for large regional differences both in availability and in quality

(Kiesepä et al., 2020). Special programs and interventions are often only locally provided in a certain area or by certain public healthcare units or NGOs for a limited time. Castaneda and colleagues (2018) further point out that even though the regional differences are known, there is no consistent national policy on improving these services for refugees and immigrants. However, in recent years, Finland has invested in improving the supply and implementation of evidence-based mental health care programs and services in general.

Next, we present some effective and newly developed solutions for previously presented issues. These interventions not only facilitate trauma recovery but also provide essential coping mechanisms that may act as buffers against future discrimination and social exclusion.

Examples of Good Practice

The Barnahus model, an initiative to support children who are suspected to have experienced physical or sexual violence, both of which are more common among immigrant populations (Lahti et al., 2024), was launched in Finland in 2019. The Barnahus model consists of multiprofessional elements of criminal investigation, child protection, and physical and mental health care. Support to all these elements is ideally received from the same place (Stefansen et al., 2017). The Barnahus model has been implemented nationwide, aiming to reduce the regional differences in these services for all residents, natives as well as immigrants. However, the implementation is still in progress, continuing in regional Barnahus units. As a part of the Barnahus initiative, mental health professionals have been trained in trauma-focused cognitive behavioral therapy (Tf-CBT). Tf-CBT is an evidence-based treatment for traumatized youth (Thielemann et al., 2022; Working Group set up by the Finnish Medical Society Duodecim et al., 2025), showing evidence of effectiveness among refugee children as well, yet more research is needed (Chipalo, 2021). In the implementation of Tf-CBT, regional coverage of trained professionals has been considered, as well as sufficient regional networks of trained professionals, availability of clinical supervision for these professionals (via training of supervisors), and ongoing training of new Tf-CBT experts (a permanent Tf-CBT homebase has now been set up in the Helsinki and Uusimaa region hospital district HUS).

From the beginning of 2021, the “Therapies to Frontlines” initiative has trained practitioners in cognitive short-term therapies, guided self-help programs, interpersonal counselling (IPC), and the Cool Kids anxiety-management program for children and adolescents—interventions for school healthcare professionals on a national level (<https://terapiatetulinjaan.fi/lapset-ja-nuoret/terapiat-etulinjaan-toimintamalli-tuo-tyokaluja-lasten-ja-nuorten-mielenterveyspalveluiden-kehittamiseen/>)—to tackle, for example,

depression and anxiety among children. The initiative has developed low-threshold mental health and psychosocial support interventions nationally for primary healthcare services (<https://terapiatetulinjaan.fi/terapiat-etulinjaan-malli/>). This initiative reduces the regional differences in availability and quality of mental health interventions and can be used with natives as well as immigrants. However, the initiative does not provide specific approaches to multicultural clients, and applying these interventions for them needs to be done locally in wellbeing services counties.

Even though the above-mentioned programs aim to enhance the mental health care services for all, these investments and improvements do not directly address some of the key aspects lacking in relation to refugees and immigrants. Implementing these evidence-based interventions to also serve immigrant and refugee children specifically remains a future challenge. We should further invest in improving the cultural sensitivity and cultural competence in these services to better address the specific needs of immigrant populations, recognizing the unique challenges they face.

Focusing specifically on immigrant families, a group intervention called "Being a Parent" was developed in Finland as part of the Barnahus initiative (Laajasalo et al., 2024). This group intervention aims at fostering institutional trust and consists of the following topics: the Finnish service system, parenting practices supporting the child's development and well-being of the family, as well as children's rights (Sibbie et al., 2024). The program aims to address the challenges faced by immigrant parents, who often have very limited knowledge of social and healthcare services, make minimal use of them, and have low trust in them. These issues can create barriers to integrating into Finnish society. High acceptability and perceived benefits were reported by the participants of the intervention, but institutional trust was not changed (Sibbie et al., 2024). Extensive further research is needed to determine the most effective approaches for tackling these challenges and to understand how best practices can be implemented effectively, permanently, and safely within social and healthcare structures. Nevertheless, Being a Parent in Finland is an important step in the right direction.

The culturally sensitive parenting interview was prepared as part of the Finnish Institute for Health and Welfare-coordinated national support system for refugee mental health work (PALOMA project, 2019–2021). It was developed to enhance discussion among immigrant parents and to assess and respond to different needs of multicultural families. The interview outline intends to assist professionals working with immigrant families with children. The aim of the interview is to gain the best possible understanding of the family's situation and the parents' thoughts. The method has been observed to be potentially useful and received positively (Korkeala et al., 2021). The PALOMA project consisted of consecutive projects that concentrated on

understanding the mental health needs of the multicultural population and responding to those needs. Currently, PALOMA has a permanent hub and is coordinated by the Finnish Institute of Health and Wellbeing. PALOMA offers information and training for professionals in multicultural and culture-sensitive procedures and supports professionals working with immigrants.

Regarding the help for trauma-exposed refugee children and adolescents, Teaching Recovery Techniques (TRT) have been implemented in Finland, primarily to support refugees. This is a structured group intervention designed to support recovery and survival after exposure to trauma and is therefore not only aimed at treating PTSD but IS also preventive (Yule et al., 2013). Iitla Children's Foundation and Finnish Red Cross have implemented TRT since 2022 by training professionals, maintaining professional networks, developing materials, and conducting research on TRT in Finland.

Regarding asylum seeker children arriving alone to Finland, both public healthcare and social services, as well as different NGOs, provide support in various forms, such as housing, legal help, and psychosocial support. In general, plenty of NGOs provide many different programs and interventions to support refugee children for varying lengths of time. They are arranged both individually and in groups.

Finally, services are increasingly adopting trauma-informed approaches to address the specific psychological impacts of displacement and trauma experienced by refugee children. This has been promoted by the PALOMA project and the Therapies to Frontlines initiative. Finnish child welfare services aim to adopt trauma-informed approaches in assessing children's needs and developing individualized care plans. Child welfare workers and psychologists work together to ensure that children are provided with safe environments and that their traumatic experiences are addressed sensitively. Programs such as therapeutic foster care and trauma-specific therapy are increasingly common.

As a cross-cutting issue, using interpreters causes certain challenges for both school and healthcare settings. If parents are struggling with language, it is typical to ask their child to interpret. However, this double role is not ideal, nor is it in accordance with the laws and guidelines. Using the child as an interpreter might be harmful to the child's development and the parent-child relationship. Finnish legislation requires the use of interpreters when needed to ensure a common understanding is reached. Working with interpreters improves the exchange of information and accessibility of the services. Interpreters can also act as cultural mediators, providing cultural context and knowledge to both mental health professionals and clients.

SUMMARY AND FUTURE PROSPECTS

In Finland, most children thrive, yet many challenges persist in fully realizing children's rights. The UN Convention on the Rights of the Child draws particular attention to the status of vulnerable children such as children with disabilities and children belonging to minorities (United Nations, 1989). Based on this convention, a parliamentary committee in Finland prepared the Child Strategy in 2020 (Government of Finland, 2020). The vision of the Child Strategy is a child- and family-friendly Finland with a focus on respecting the rights of the child. The Child Strategy has raised awareness of children's rights and promoted efforts toward more equitable treatment within society. Regarding refugee children's well-being, there is a lot of knowledge in Finland about supporting immigrants, but the lack of coordination hinders models being rolled out nationally (Castaneda et al., 2018). Incorporating children's rights and well-being into political decision-making still requires concrete actions.

In this chapter, we have introduced some of the current investments and interventions offered to refugee children. These include rights to basic education and universal healthcare as stocks, with preparatory classes and "Being a Parent in Finland" intervention as flows supporting the life transition from immigrant to an active part of Finnish society. Further, we have discussed some specific interventions offered to refugees to tackle their possible mental health issues, strengthening their capabilities further and buffering them against negative outcomes of adverse life experiences. Yet, the following measures should be strengthened.

Educational and healthcare services should be developed in a more culturally sensitive direction and tailored to the specific backgrounds and experiences of refugee children. This includes training and employing multicultural and multilingual staff and enhancing cultural understanding. The use of professional and adequately trained interpreters that are bound by confidentiality is essential in mental health settings to maintain trust and privacy. Schools can be pivotal in identifying needs and facilitating access to mental health resources, and teachers have a key role in the lives of children and youth. The role of school can be seen as essential in recognizing and referring forward, but these practices are not always well resourced. Referring a child forward to more specialized services and transferring information can be challenging due to strict privacy regulations (Honkanen et al., 2010).

Refugee children, like other children in vulnerable situations, need a more needs-based and flexibly structured service system. For the time being, services intended for children are not always consistently available everywhere, and accessing them may in fact require more resources than some children

or families possess. Many children also face discriminatory structures or inflexible practices in situations where they need support or help the most. A child's circumstances may simultaneously involve several factors exacerbating their vulnerable position in different ways. This challenges the authorities and other actors to weigh the child's best interests sensitively, to engage in multiprofessional cooperation, and to improve the accessibility of services.

Mental health services for immigrant children and adolescents are integrated into broader health, education, and social support but should be conducted more concretely. Sufficient human resources should be guaranteed so that employees have enough time to organize translation services and provide the extra support needed for integration, which often takes longer than with children and parents born in Finland. Further, the integration of specific, needs-based interventions into the services needs to be secured. These services should not be based on limited-time project funding.

Programs intended for refugee children and adolescents should prioritize trauma-informed practices, recognizing the unique stressors and traumas faced by these children. Training providers in these issues is essential. At the same time, it must be ensured that the child is encountered in all activities as an agent rather than just a victim of their circumstances. Alongside trauma-informed approaches, we should further emphasize the resilience-informed approach, too, and integrate these two approaches further into our services. Focusing on monitoring, evaluation, and early identification of mental health issues and preventive measures can mitigate long-term impacts. Training for educators and community leaders can help in recognizing signs of distress.

Implementing interventions and systems to assess their effectiveness ensures they remain responsive to the evolving needs of refugee children. Interventions and their effectiveness need to be researched (see Chapter 4). There are many locally innovated small-scale support program ideas around Finland that are not studied and thus their effectiveness is not shown. One particular challenge is that different interventions for immigrant children vary greatly in their mechanisms and theoretical backgrounds. Consequently, these interventions cannot be assessed as one entity. Robust implementation and sustaining structures, as Chapters 12 and 14 suggest should be enhanced.

All in all, when designing effective services to support the learning and mental health of refugee children in both the education and health sectors, the focus should be on the strengths that diverse cultural backgrounds bring to individuals, communities, and societies.

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14. From research to reality: digital parent training for managing disruptive behaviour in children

Terja Ristkari, Malin Kinnunen and Marjo Kurki

INTRODUCTION

Behavioural problems in early childhood represent a significant public health challenge with lasting impacts on individuals, families, and society. These problems are often unrecognised in primary healthcare settings, highlighting the critical need for evidence-based screening tools to support early identification and psychosocial interventions. Early parent training interventions aimed at strengthening parenting skills and preventing the escalation of children's disruptive behaviour can serve as cost-effective strategies to reduce the burden on mental health services and promote psychosocial well-being.

This chapter presents the development, research, and implementation of Voimaperheet – a model combining early detection of children's behavioural problems and an evidence-based, digitally assisted parent training programme designed to fit the primary healthcare system in Finland.

The chapter examines the rationale for early parent training interventions and the challenges in identifying and supporting children with behavioural problems. It presents the structure, content, and effectiveness of the Voimaperheet parent training programme, based on evidence from randomised controlled trials and implementation research. In addition, the chapter presents the benefits of a digitally delivered intervention to provide children's mental health services. Finally, it discusses opportunities for integrating such interventions into routine services. Through this case study, we aim to demonstrate how scientifically validated interventions can be translated into sustainable public health strategies, and how targeted, early interventions may serve as part of a broader social investment-intervention framework.

BACKGROUND

Untreated mental health problems in children and young people and the related psychosocial problems in families are a challenge to both public health and society as a whole. In Finland, the “wellbeing services counties” are in charge of social and healthcare services. Mother and child health clinics offer preventative healthcare services for children and families. Originally, they were founded to prevent physical public health issues. However, based on the Health Care Act (338/2011), they need to respond to their clients’ increasing psychosocial needs. This includes prevention of mental health problems and early detection of mental health disorders.

Anxiety and depression during pregnancy; behaviour, concentration and hyperactivity challenges in children below school age; and anxiety in school-age children are some of the issues that the primary healthcare services must respond to. This allows for the prevention of health problems and related human suffering and costs in the future.

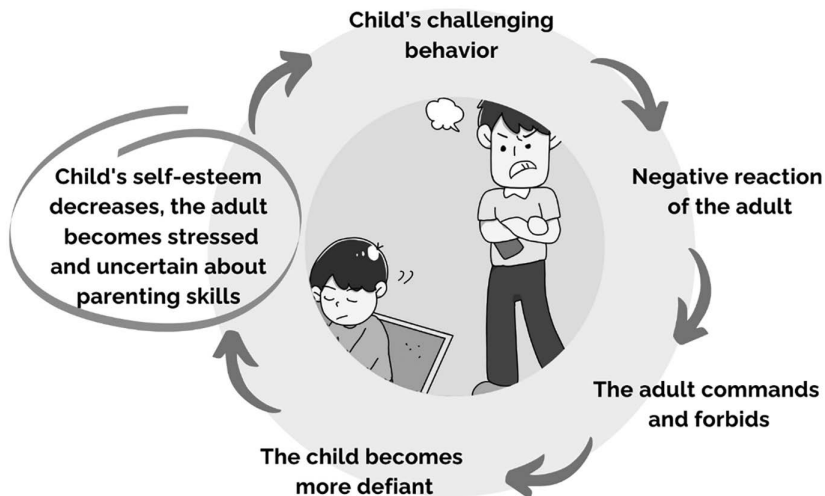
Many genetic and environmental factors impact a child’s behaviour. The environment has a great impact on the positive development of a child. In the life of a child, various protective factors, such as sufficient care and attention, age-appropriate challenges and demands, good general health, and an environment that supports the child’s development in other ways, are vital. The life of a child can also include behavioural risk factors, such as genetic developmental issues, an unstable environment, child neglect, and issues faced by the parents, such as mental health or substance abuse problems or challenges of parenting. The child’s behaviour is also impacted by various situational factors. They can be related to environmental stimuli, the child’s energy levels, nutrition, etc. It is important to understand that the behaviour of a child cannot be explained by one single factor.

When trying to understand behavioural problems in a child, it is important to be aware of children’s normal psychosocial development. Issues should not only be treated as behavioural problems or disorders when any variations from normative development are based on expert assessment. These assessments may include various symptom questionnaires, a survey of the problems the child experiences, and more detailed interviews with and assessments of the child and family. Parents may find the child’s behaviour problematic even if no behavioural problems or disorders have been clinically diagnosed. This may lead to the interaction within the family becoming negative, which in turn may increase the strain on daily life and create a tense atmosphere. Such negative interaction patterns can reinforce problematic behaviours through negative cycles, where both the child and the parents escalate their responses, further increasing family stress (Patterson, 1982). The following diagram illustrates

how parent training can change the interaction from negative towards positive (Figures 14.1 and 14.2).

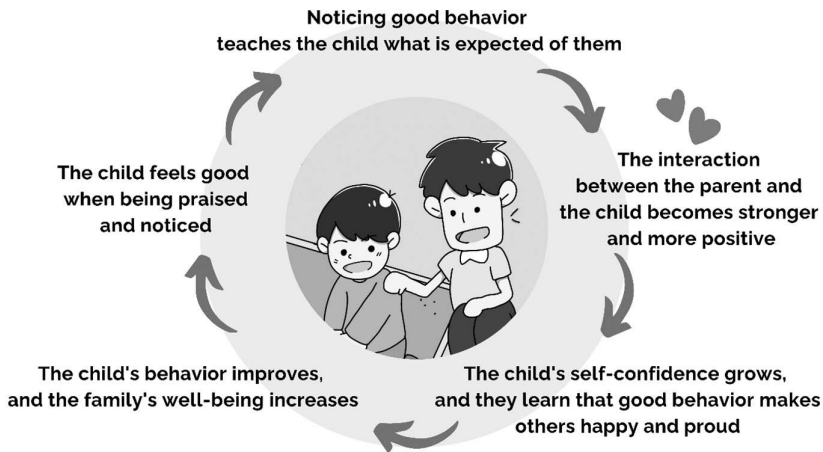
According to the latest International Classification of Diseases (ICD-10), behaviour problems in children and young people are classified into oppositional defiant disorders and conduct disorders. Repeated or continuous irritability, aggression, defiance, and asocial behaviour which differs from the behaviour of other children of the same age is typical of both disorders. Oppositional defiant disorders and conduct disorders also cause issues in various everyday settings, e.g., at home, in early childhood education, or at school. Oppositional defiant disorder in children below school age typically includes irritability, defiance, disobedience, and objections. As the child grows older, conduct disorders typically include aggression, increased asocial behaviour such as lying and stealing, and sometimes even robberies and hurting others (Working Group set up by the Finnish Medical Society Duodecim et al., 2018).

Many longitudinal studies show that different evolutions can be identified in conduct disorders (Bevilacqua et al., 2018). These are: behavioural symptoms limited to childhood, long-term behavioural symptoms which begin in early childhood, and behavioural symptoms which begin in youth. In general, behavioural issues tend to be more common in boys than in girls. Studies



Source: Authors' own, based on G.R. Patterson's (1982) coercive family process theory.

Figure 14.1 Example of a negative parent-child interaction cycle



Source: Authors' own, modified from G.R. Patterson's (1982) coercive family process theory.

Figure 14.2 Example of a positive parent-child interaction cycle

show that approximately 34% of boys and 10% of girls suffer from behavioural symptoms which are limited to childhood. Meanwhile, approximately 8% of boys and 5% of girls suffer from long-term behavioural symptoms that begin in early childhood (Odgers et al., 2007). Various studies show that children whose long-term behavioural symptoms begin in early childhood face the greatest risk of later psychiatric morbidity, substance abuse, crime, and marginalisation (Odgers et al., 2007; Sourander et al., 2007; Gutman et al., 2018).

It is estimated that approximately 20% of children in the age group that is seen by child health clinics have psychological symptoms, and approximately 10–30% of families require special support (Sourander, 2001; Gyllenberg et al., 2014). Longitudinal studies from childhood into adulthood have shown that behavioural problems in childhood have a strong link to many health problems, mental health disorders, suicide rates, crime, and marginalisation (Sourander et al., 2007).

EFFECTIVE EARLY TREATMENT OF BEHAVIOUR PROBLEMS

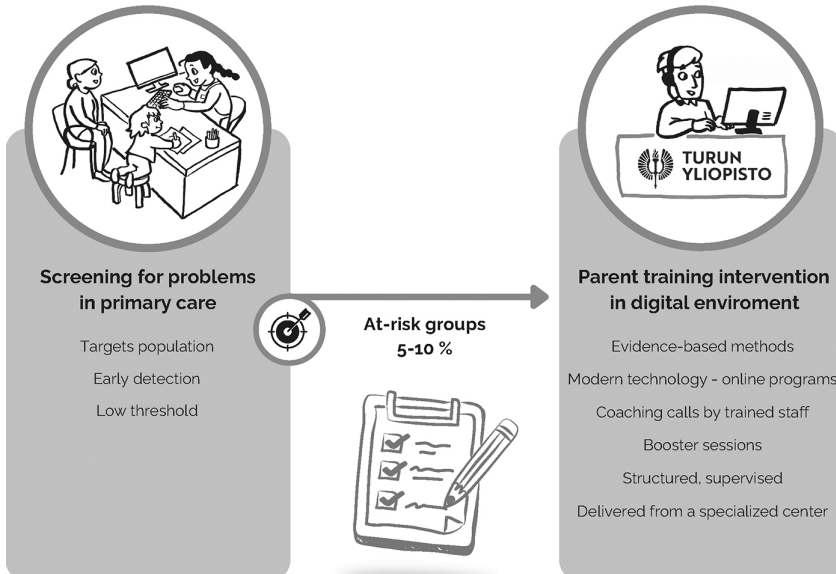
Disruptive behaviour problems in childhood can be effectively addressed by early parent training interventions which teach parents how to identify,

manage, and prevent these problems (Piquero et al., 2016). Parents are provided with skill training and modelling, and they are taught how to reinforce good behaviour. These strategies and skills also strengthen the child's emotional, cognitive, and social development (Kazdin, 1997). Strong evidence based on randomised controlled trials (RCTs) has shown that parent training is effective and that the gold standard treatment is improving parenting skills and reducing disruptive childhood behaviour (Eyberg et al., 2008; Kaminski & Claussen, 2017). However, only a minority of parents who would benefit from parent training actually receive it (Kazdin & Blasé, 2011). The most significant barriers to participation include financial costs, practical factors such as where they live and transport to appointments, waiting times, and the social and personal stigma associated with mental health problems in children (Reardon et al., 2017). Digitally assisted interventions may help to increase the reach of these programmes, reduce stigma, and overcome the practical barriers to participation.

DEVELOPING THE VOIMAPERHEET MODEL

The Research Centre for Child Psychiatry at the University of Turku was founded in 2009. Initially, the centre focused on epidemiological research into mental health problems, but the need for intervention studies was also identified. The researchers at the centre knew that basic behaviour problems in children were often not detected or treated, and families only received treatment when the problems had become more severe, continued over a long period, and put stress on the child, the family, and the staff at daycare or school. The treatment that was offered was random, and it was not based on effective, evidence-based methods. Effective, evidence-based parent training was rarely provided. The families' situation was worsened by the fact that healthcare services were not offered in all parts of the country, there were often long distances to travel to access healthcare, and by other barriers to accessing treatment. The Research Centre began a collaboration with a Canadian research group that had created and studied a parent training intervention which was carried out using remote methods, namely workbooks and phone calls (McGrath et al., 2011; Lingley-Pottie et al., 2013). As a result of the development work carried out by our research group and multilevel adaptation of the Canadian programme, we created a parent training programme which was placed on a digital platform.

Working with child health clinics, we developed a model based on population-based screening. At this time (in 2010), it was decided in the Government Decree on maternity and child health clinic services that the extensive health examination would be carried out on four-year-olds rather than five-year-olds, and the focus was shifted to identifying psychosocial problems in families,



Source: Authors' own.

Figure 14.3 The Voimaperheet model: from screening to intervention

which created an opportunity for our research group to offer child health clinics as a simple method for identifying high-risk groups. Many child health clinics lacked a validated method for identifying the family's psychosocial well-being and the child's strengths and difficulties, behaviour, emotional life, hyperactivity, and prosocial relationships. The Voimaperheet model is the first evidence-based method implemented in Finland that combines early detection of behaviour issues carried out at child health clinics with a parent training intervention carried out via the internet and by phone (Figure 14.3).

THE VOIMAPERHEET CHILD HEALTH CLINIC QUESTIONNAIRE

The purpose of the Voimaperheet child health clinic questionnaire is to give child health clinic nurses a simple method which makes it easier to survey a family's psychosocial problems. The method helps nurses to identify families whose children have behaviour issues which put pressure on the family's daily life and who could benefit from parent training. The questionnaire collects background information on the parent and child and also includes a section on

the child's strengths and difficulties (Strengths and Difficulties Questionnaire SDQ) as well as an irritability questionnaire (Affective Reactivity Index – Parent Report ARI-P).

THE DIGITALLY SUPPORTED VOIMAPERHEET PARENT TRAINING INTERVENTION

The Voimaperheet parent training intervention is based on consultation methods which have been in use for a long time, and which have been deemed effective. The programme is carried out on a website which has been designed for this purpose. The Voimaperheet intervention differs from other mental health treatment programmes offered in a digital environment in that it also contains personal coaching over the phone, which is a key part of the intervention. Coaching over the phone with a professional family coach allows goal-oriented and personalised work to solve the problems the family is facing and reach the goals they have set. Under the guidance of a family coach, the parent practices skills that strengthen their parenting, such as positive interaction and rewarding, sharing attention, pre-empting transitions, planning everyday situations, collaborating with daycare staff, and managed restraint of the child (Figure 14.4). (Sourander et al., 2016; Sourander et al., 2018).

The family coach contacts the families every week at a time that suits the families best. During the intensive coaching phase, the family's functioning often improves considerably. In order to maintain these skills, we offer a booster call after the basic phase, as well as revision via digital tools. To ensure programme fidelity, the coaches are supervised and regularly monitored to make sure they adhere to the protocol. Alongside supervision and staff performance evaluations, this provides systematic quality assurance. The Voimaperheet parent training intervention is produced centrally at the Research Centre for Child Psychiatry, and it does not rely on any healthcare resources. This also allows us to guarantee the treatment programme's high quality and method fidelity (Sourander et al., 2016; Sourander et al., 2018).

THE VOIMAPERHEET STUDY

Our groundbreaking study was the first RCT (2010–2014) to use a digitally assisted parent training programme after young children with disruptive behaviour problems had been identified through population-based screening. A total of 464 parents of 4-year-old children were randomised into the Voimaperheet intervention group ($n=232$) or an education control (EC) group ($n=232$). The 11-week digitally assisted parent training intervention is composed of parent training materials delivered via an interactive platform and weekly coaching over the phone. The RCT showed that the parent training



Source: Authors' own.

Figure 14.4 Central themes in the Voimaperheet parent training intervention

intervention group demonstrated significant improvements between the baseline and the 24-month follow-up in the child's disruptive behaviour and other psychopathology measures, and in parenting skills when they were compared with the EC group (Sourander et al., 2016; Sourander et al., 2018).

This study was unique in that it included a large number of preschool children with high levels of disruptive behaviour problems who were screened from the general population when they attended their annual medical check-ups at 4 years of age. The findings provided valuable guidance for planning effective psychosocial services at an early stage: i.e., population-based interventions for preschool children who are at a high risk of facing later adversities. Another important finding of our study was that the intervention group made significantly less use of child mental health services than the EC group during the follow-up period. The study revealed the effectiveness and feasibility of a digitally assisted parent training programme offered to parents of preschool children with disruptive behavioural problems screened from the general population. The findings emphasised that identifying children at risk in the community at an early stage enabled us to provide an effective parent

training programme for a large number of families, including many who would not have participated in clinic-based services.

THE IMPLEMENTATION STUDY OF THE VOIMAPERHEET MODEL

After the RCT study, we implemented the Voimaperheet intervention in primary healthcare settings to see how it would work in the real world. In our implementation study, we compared the treatment characteristics and effectiveness of the Voimaperheet parent training intervention between the families who received the intervention when it was implemented as normal practice in child health clinics and the families who received the same intervention during the randomised controlled trial. The implementation group comprised 600 families who were recruited in the Voimaperheet intervention between January 2015 and May 2017 in a real-world implementation. The RCT intervention group comprised 232 families who were recruited between October 2011 and November 2013. There was no difference in the changes in the children's psychiatric problems or the parenting skills when the implementation and RCT groups were compared. The children's psychiatric problems improved, including externalising and internalising problems and callousness. Parents reported that their parenting skills had improved, and they demonstrated less distress in dealing with their children at the 6-month follow-up. The web-based and telephone-assisted Voimaperheet parent training intervention was effectively implemented in real-world settings (Sourander et al., 2022a).

We also studied the programme's feasibility in the treatment of behaviour problems in children aged 3–8 in a social care context at Special Family Counselling Centres during the COVID-19 pandemic. The centres worked as part of a network with other organisations, such as schools, social services, and child protection, and were administratively part of social services. The study showed that the parent training programme was effective when it was used in a specialist clinical setting during the pandemic. The programme led to significant improvements in children's externalising symptoms at 6 and 12 months after baseline. It improved most of the psychopathology symptom domains we measured, including parent-reported externalising, internalising, hyperactivity and peer problems, irritability, and prosocial behaviour. The participants reported significant improvements in parenting skills as well as child psychopathology and functioning. Satisfaction was high, and dropout rates were low (Sourander et al., 2022b; Sourander et al., 2024). Based on these findings, the Voimaperheet intervention seems promising for broader scaling in the context of social services.

To summarise, our implementation studies are valuable, as research into the implementation of digital mental health interventions in routine care is

scarce. There is also a lack of effectiveness studies when digital parent training programmes are implemented in real-world practice. The great majority of adult psychiatric disorders begin in childhood or adolescence (Sourander et al., 2009). Therefore, research into the implementation of effective, evidence-based treatments in real life plays a key role in child mental health service research (Sourander et al., 2008). The implementation of the Voimaperheet is in line with the National Mental Health Strategy and Programme for Suicide Prevention 2020–2030, which emphasised sufficient available resources for primary health and social services to provide mental health support for children. The programme also proposes strengthening the support for parenting and age-appropriate support for children in their local environments, such as child health clinics, and other social and healthcare services (Ministry of Social Affairs and Health, 2020).

At the national level, a new legislative reform, the therapy guarantee for children and young people, specifically addresses the implementation of evidence-based psychosocial interventions for children in primary healthcare and social services (Ministry of Social Affairs and Health, 2025). This guarantee is closely related to the treatment of children's behavioural problems and the implementation of the Voimaperheet programme. This would be a cost-effective investment which could also prevent serious mental health problems and marginalisation. The strategy of using population-based screening of children at an early age to offer parent training using digital technology and telephone coaching could be a promising national public health strategy for providing early intervention through primary healthcare for a variety of mental health problems in children.

FUTURE INTERVENTION RESEARCH AND DEVELOPMENT

In future, it is essential to investigate what works for different families and who will benefit most from interventions. This knowledge will help prioritise individuals for certain interventions and allow for the referral of others to different types of services and for the creation of personalised interventions (Shriver & Allen, 2008). Parent training programmes can be delivered in both guided and unguided formats. Guided interventions are proven to be more effective and tend to have higher user satisfaction and engagement rates due to the added support and personalised feedback. Unguided interventions, on the other hand, can be a good option for those who prefer self-paced learning or have milder issues (Kaminski et al., 2008). There is also a need for all families to have access to equal and easily available services in their own language. Behavioural problems in childhood are common, both among the native population and among immigrant preschool children. Getting help is challenging for

immigrant families, and supporting parenting in these cases requires cultural sensitivity. Finnish research has not studied parental guidance for immigrant families and the long-term aim is to develop low-threshold, culturally sensitive digital services for the primary healthcare system that support the well-being and psychosocial functioning of families with children under school age.

Regarding personalisation, the benefits of personalisation and the appropriate dosage of the intervention required to achieve effectiveness are not known (Nye, Delgado, & Barkham, 2023). The implementation gap refers to the difference between the current knowledge of what works and how it works, and the application of this knowledge in real-world practice. We also need to know how the intervention should be modified to improve its efficacy, namely by taking into account the individual characteristics of the children and their parents. It is important to look at childhood psychopathology, such as comorbidity profiles, functioning levels, and severity. We must also look at how parents deal with problems, such as how harsh, negative, or abusive they are towards the child. It is also important to study the content of the interventions, such as the structure of the programme and the coaching and guidance provided. Personalised digital tools can provide multiple benefits that help overcome well-known problems in digital interventions, such as increasing the effectiveness of interventions and reducing costs and drop-out rates (Kaminski et al., 2008).

CONCLUSIONS: FROM EFFECTIVE INTERVENTIONS TO SYSTEM-LEVEL IMPACT

The Voimaperheet model offers a rare example of a well-researched digitally assisted early intervention for addressing disruptive behaviour in young children. The model combines population-based screening at child health clinics with parent training delivered through digital platforms and personal weekly phone coaching—an approach that has proven effective in both clinical trials and real-world settings. Moreover, implementation studies show sustained impact across different mental health service systems, including primary care and social services, even under exceptional conditions such as the COVID-19 pandemic.

Despite this strong evidence, the integration of the Voimaperheet model into the national service system has faced typical challenges: fragmented implementation, regional inequality, and lack of system-level guidance. These are not merely logistical problems but reflect deeper structural weaknesses in how psychosocial interventions are selected, resourced, and sustained within the Finnish welfare state.

By providing early evidence-based support to families, the Voimaperheet parent training programme can be seen as an effective intervention that prevents more serious problems.

In the future, psychosocial interventions need clear plans for their national implementation, and policies should consider these interventions not only as ways to treat problems but as part of a strong prevention system—one that helps maintain the sustainability of the welfare state in light of the population's psychosocial well-being and financial pressures. In this sense, the Voimaperheet model exemplifies how the investment-intervention framework proposed in this book can guide both research and policy towards a more balanced and resilient welfare architecture.

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15. Pension reforms beyond social investment: do social investment and intervention layers exist in Finland's pension system?

Ilari Ilmakunnas, Joonas Ollonqvist and Pasi Moisio

INTRODUCTION

Traditionally, pensions have been the clearest example of a welfare state 'buffer', a form of passive income security that protects individuals from income loss when experiencing retirement transition. However, Finland's pension reforms increasingly reflect the logic of the social investment paradigm, which aims to enhance human capital, facilitate life-course transitions, and support long-term labour market participation (see Chapter 2). By introducing a flexible retirement age, life expectancy adjustments, and incentives for extended working lives, these reforms have gradually moved Finland's pension system beyond a purely redistributive model towards a framework that optimises labour market participation, sustains economic productivity, and mitigates financial pressures on the welfare state.

Yet, despite these social investment-oriented changes, pensions remain distinct from other welfare policies that explicitly combine investment and intervention layers. This raises an important question: to what extent does Finland's pension system incorporate elements of both social investment and intervention? While pension reforms have actively shaped incentives to prolong careers and smooth labour market transitions, they have not traditionally been framed as interventions that directly target acute social risks or vulnerabilities. Examining Finnish pension policy through this lens allows us to explore whether elements of intervention, such as targeted measures for disadvantaged groups, are present within what is still primarily a long-term income security system.

Many countries have reformed their pension systems in recent decades due to population ageing. The target has been to contain the rise of public pension spending. The applied policies include lowering the level of pension security, prolonging working lives (typically by means of increasing retirement ages, providing individual options for flexible retirement, or both), and building multi-pillar pension systems (with a greater role of occupational and private pensions) (Hinrichs, 2021). Nordic pension systems, including Finland's, have evolved incrementally towards greater financial sustainability and individual responsibility. Key reforms include linking retirement age and pension benefits and adjusting these based on changes in life expectancy, introducing other automatic adjustment mechanisms, giving flexibility to retirement transition, and strengthening incentives for longer working lives.

This chapter will highlight and discuss the major pension reforms in Finland that have occurred approximately every ten years: specifically in 2005, 2017, and the reform negotiated in 2025. With regard to the pension reforms, Finland is an interesting case for several reasons. First, Finland has succeeded in conducting major pension reforms that have had relatively broad consensus. Second, Finland has, in practice, a one-pillar pension system consisting of public pensions.¹ Some have suggested that the de facto one-pillar pension system explains the success of Finnish pension reforms (Väänänen & Liukko 2023). The reforms in the Finnish pension system have been characterised by being mainly incremental and parametric. Path dependency has also been evident (Kautto, 2017; Kuivalainen & Kuitto, 2022; Hinrichs & Kangas, 2003). These changes emphasise earnings-related benefits, shift risks to individuals (e.g., through a longevity adjustment), and maintain broad coverage and social legitimacy through gradual, consensual reforms (Kautto, 2017; Hinrichs & Kangas, 2003).

In addition, Finland is among the countries that are ageing at the fastest pace in Europe. The old-age dependency ratio, the share of the old-age population compared to the working-age population, is among the highest in Europe (Eurostat, 2025). For this reason, this chapter gives a view of pension reform in the context in which the effects of population ageing are already occurring.

The outline of the chapter is as follows: first, we describe the Finnish pension system and how pension reforms are decided in the Finnish system. Second, we illustrate the most recent major pension reforms in Finland. Third, we make conclusions about pension reforms in Finland. The chapter does not aim to be a comprehensive description of the Finnish pension system and its historical development; rather, the aim is to describe the recent major pension reforms

¹ Occasionally, Finland is considered to have elements both from the first and the second pillars (a hybrid model) (Ebbinghaus & Gronwald, 2011).

that have affected earnings-related pension schemes and how the elements of social investment and intervention in the pension system have strengthened due to these reforms.

FEATURES OF THE FINNISH PENSION SYSTEM

The Main Characteristics

Instead of being a multi-pillar system, the Finnish statutory pension system is based on first-pillar pensions (i.e., a public pension pillar): employment-based, earnings-related pensions and residence-based, national and guarantee pensions.² The role of second- and third-pillar pensions (industry- or employer-specific pensions, and private voluntary pensions) is minor. The level of earnings-related pensions is based on nearly all employment, and all employees, self-employed people, and farmers are covered by the scheme. Earnings-related pensions related to private sector employment are provided by pension insurance companies. The public sector has its own pension provider. The earnings-related pension scheme is partially funded following the pay-as-you-go principle. The largest part of earnings-related pensions paid is funded by the pension contributions paid that year (by employees, self-employed people, and employers). Assets from the pension funds and the investment return of the funded pension components are used for financing the remaining part. National and guarantee pensions are funded by taxes.

Finland has a flexible retirement age that varies by birth cohort. The lower age limit for retirement is 64 years and six months for those born in 1960, whereas it is gradually increasing to 65 years for those born in 1962. From the birth cohort of 1965 onwards, the retirement age is linked to life expectancy. Currently, the upper age limit is 68 years, but it is gradually increasing to 70 years for those born in 1962 and later.

The national pension can be received if the earnings-related pension is very small or doesn't exist. The guarantee pension provides the minimum level of pension since it is paid only if the total pension income is below a certain minimum level. National and guarantee pensions are administered by the Social Insurance Institution of Finland (Kela). The earnings-related pension is accrued by 1.5% of the annual gross earnings and each euro of accrued earnings-related pension cuts national pensions by 50 cents. Earnings from employment accrue pension from the age of 17 onwards, while for entrepreneurs the age limit is 18. Pension is accrued until the upper age limit for retirement.

² For a history and the origins of the Finnish pension system, see Hinrichs & Kangas, 2003; Kangas, 2009; Kuivalainen & Kuitto, 2022).

There is no pension ceiling or upper limit for the earnings-related pension. Delaying retirement also increases the earnings-related pension by 0.4% for each month past the month of the retirement age. The earnings-related pension in payment is annually indexed by an earnings-related pension index in which the weight of price development is 80% and the development of wages is 20%.

In 2023, one third of the Finnish population received either earnings-related pension or national pension (or both). On average, the pension income received was 1,977 euros per month. Around two thirds of those receiving a pension received only an earnings-related pension, while only 6% received only national or guarantee pension without any earnings-related pension (Eläketurvakeskus, 2024).

The Strong Role of Corporatism in the Finnish Pension System

In Finland's earnings-related pension system, there is a long-standing tradition of tripartite cooperation, meaning collaboration between the government, employer organisations, and trade unions. Also, the organisation representing entrepreneurs may be included in decision-making. The decision-making can be considered as corporatist rather than parliamentary (Kuivalainen & Kuitto, 2022). The role of corporatism is particularly strong regarding the pension system compared to other policy areas (Kuivalainen & Kuitto, 2022; Väänänen, 2023). The labour market organisations (employer organisations and trade unions) already had a role when the earnings-related pension system was founded (see Niemelä, 2011). Both employers and employees also have a crucial role in the funding of the pension system.

The strong role of the labour market organisations is illustrated by the typical decision-making process of the reforms in the pension system: labour market organisations have often agreed on legislative changes together, and then parliament has approved these agreements as laws. Parliament's role in legislative preparation is ultimately quite limited, as reforms are often agreed upon in considerable detail before reaching parliament. Since the government has participated in drafting the reforms and the government in Finland has a majority support in parliament, the passage of the reforms is secured already in the preparatory phase (Väänänen, 2023). Typically, the pension reforms have had broad support in parliament.

The role of corporatism in shaping social policy has weakened in the context of reforms to working-age social security. The parliamentary Social Security Committee was established in 2019 to reform the social security system for working-age individuals, including social insurance schemes. Historically, such reforms, including those for working-age social insurance, were predominantly prepared through corporatist structures. For instance, during the previous similar committee process in 2007–2008 (the so-called SATA Committee),

the entirety of social insurance reforms was handled within a tripartite sub-committee. This approach underscored the strong influence of labour market organisations in shaping reforms through negotiation and consensus. However, recent developments suggest a shift towards more parliament-driven processes, indicating an erosion of corporatism's central role in these areas of policymaking. Labour market organisations still have, however, a pivotal role in the decision-making related to earnings-related pension schemes. To give an example, as it will be shown below, the 2025 pension reform was negotiated solely by labour market organisations, and as part of the negotiation outcome, they proposed that disability pension benefits should be prepared in a tripartite format rather than by the parliamentary Social Security Committee.

RECENT MAJOR PENSION REFORMS IN FINLAND

The 2005 Reform

The 2005 pension reform introduced four major changes: a flexible retirement age, pension accrual for the entire working life, a so-called 'super accrual' rate for older workers, and the life expectancy adjustment of pension benefits. The reform also closed routes to early retirement. These measures aimed to extend working lives, ensure the long-term sustainability of the system, and strengthen the connection between employment and pension outcomes. Importantly, the reform also brought elements of the flow logic of the social investment paradigm into the Finnish pension architecture by enhancing incentives for individuals to remain in the labour market later in life.

Prior to the 2005 pension reform, the full (or default) retirement age in Finland was 65 years. Early retirement was possible from age 60, though it came with a 0.4% monthly reduction in pension. The reform introduced a flexible retirement age model, allowing individuals to retire at any point between 63 and 68. While full pensions could be claimed from age 63, early retirement became more limited: the minimum age was raised to 62, and pensions were reduced by 0.6% for each month of early retirement before age 63. Conversely, postponing retirement past age 68 resulted in an increase of 0.4% in monthly pension benefits. These changes aimed to encourage longer working lives while still offering flexibility in retirement timing.

The 2005 reform also significantly revised pension accrual rates. Post-reform, pensions were determined based on the insured person's earnings over their total career, rather than being weighted more heavily towards earnings in the last years of their career. After the reform, accrual began from age 18, with a uniform rate of 1.5% for ages 18–52 and an increased rate of 1.9% for those aged 53–62. Most notably, a 'super accrual rate' of 4.5% was introduced for ages 63–68. This measure was explicitly designed to motivate workers to

remain employed past the flexible retirement threshold, serving as a key example of how the system combines parametric reform with labour market incentives. In addition, completing a vocational upper secondary qualification or a university degree, and receiving certain social security benefits, would allow one to accrue pension rights.

Additionally, linkage of pension benefits to changes in life expectancy was introduced in the reform. This mechanism, known as the life expectancy coefficient, was introduced to ensure the long-term sustainability of the pension system amid rapid population ageing. The coefficient automatically adjusts the amount of pension benefits downwards based on projected increases in life expectancy, thus distributing the burden of demographic change across generations.

From the perspective of extending working lives, the post-reform developments suggest a clear success. By 2017, a significantly larger share of individuals continued working beyond the age of 63, and retirement at age 66 or later became increasingly common. These changes are reflected in the length of working lives: the median career length among those retiring on an old-age pension in 2017 was 38 years—more than four years longer than in 2006. However, this overall extension of careers was not uniform across the population. In particular, career extension was more pronounced in the public sector—partly due to the abolition of occupational retirement ages—than in the private sector, and among higher-educated groups compared to those with lower levels of education (Nivalainen, 2022). The observed extension of working careers may appear somewhat surprising given that the statutory retirement age was in fact lowered in the 2005 reform. Moreover, prior research on the 2005 reform has suggested that individuals in better health became more likely to retire before the age of 65 (Leinonen et al., 2016), and that the attainment of the statutory retirement age—often accompanied by a change in benefit labelling—plays a central role in retirement decisions (Gruber, Kanninen, & Ravaska, 2022). In fact, the reform shifted the most common retirement age from 65 to 63.

A significant factor contributing to the lengthening of working careers was the reduction in early exit routes, particularly the phasing out of the unemployment pension (also the abolition of occupational retirement ages). This change was especially impactful for lower-educated individuals and manual workers, for whom this pathway had previously enabled early retirement. As access to early retirement narrowed, more individuals continued in the labour market until reaching the statutory retirement age, contributing to the observed increase in average retirement age and longer working lives across the board (Nivalainen, 2022).

Several studies (see e.g., Uusitalo & Nivalainen, 2013; Ollonqvist et al., 2025) have shown that the 2005 pension reform influenced retirement behaviour

through financial incentives. However, the increased accrual rate of 4.5% after the age of 63 was not a sufficiently strong incentive to compensate for the removal of the early retirement deduction for those aged 63 and 64. As a result, the overall financial incentive to continue working decreased for individuals in this age group, leading to an increase in retirements at these ages (Nivalainen, Tenhunen, & Järnefelt, 2020).

The 2017 Reform

The 2017 pension reform introduced changes to ensure the financial sustainability of the pension system in response to increasing life expectancy. The Finnish pension system had undergone some changes after the 2005 reform—for example, early old-age retirement was abolished in 2013. In the 2017 reform, it was decided that the lower age limit for retirement would gradually increase by three months annually starting from those born in 1955. It was also decided that from 2030 onward, retirement age would be linked to life expectancy, with each birth cohort having a designated earliest possible retirement age.

Under the reform, individuals aged 53–62 would temporarily accrue pensions at a higher rate of 1.7% from their earnings. The aim was to encourage individuals to work beyond their earliest possible retirement age by offering a permanent 0.4% increase in their pension for each deferred month. Additionally, earnings from work beyond retirement continued to accrue pensions at the standard rate of 1.5%.

The empirical findings related to the 2017 reform imply that the gradual increase in the retirement age postponed retirement and increased employment. Nivalainen and Ilmakunnas (2023) show that a three-month increase in the retirement age has decreased the share of those receiving old-age pension between the old and new retirement age. At the same time, the employment rate has increased 1.7-fold. The increase in employment is explained by employed persons remaining in work longer due to the rising retirement age (Nivalainen & Ilmakunnas, 2023). In the programme of Prime Minister Katainen (Programme of Prime Minister Jyrki Katainen's Government, 2011) it was stated that the expected effective retirement age should rise to at least 62.4 years by 2025. The average expected retirement age in 2023 was 62.8 years. In other words, this target was achieved ahead of schedule (Finnish Centre for Pensions 2024).

The 2017 reform also introduced elements that may not have produced the intended effects in terms of extending working lives. One key change was the introduction of the partial old-age pension, which replaced the former part-time pension. This new option allows individuals to withdraw either 25% or 50% of their accrued pension starting at age 61, regardless of their employment status. As of early 2025, the eligibility age will rise to 62, and thereafter it will

increase in line with life expectancy, mirroring the adjustment applied to the old-age retirement age. If taken before the earliest possible retirement age, the part of the old-age pension taken as partial old-age pension is subject to a permanent reduction of 0.4% per month.

The partial old-age pension has proven quite popular. Annually, around 12,000–13,000 individuals have opted for it, with notable spikes in 2022 and 2023 driven by exceptionally high earnings-related pension index adjustments due to inflation (e.g., Ilmakunnas et al., 2025). Most beneficiaries claim the pension shortly after becoming eligible (Nivalainen et al., 2021; Ilmakunnas et al., 2025). Importantly, claiming the pension does not typically coincide with any change in labour market status (Nivalainen et al., 2021). Evidence suggests that most working individuals who take the partial old-age pension do not appear to reduce their working hours. This is contrary to the original policy intent, which was to support longer careers by making it easier to combine (part-time) work and partial retirement (Ilmakunnas & Sten-Gahmberg, 2024).

The reform also introduced a years-of-service pension for individuals with at least 38 years of work in physically or mentally demanding occupations. This benefit allows retirement at age 63, provided that the individual's working capacity has also diminished. By contrast, uptake of the years-of-service pension has remained marginal, limiting its overall significance within the pension system (Riekhoff & Polvinen, 2025).

The 2025 Reform

The 2025 pension reform was primarily aimed at improving the long-term financial sustainability of the Finnish earnings-related pension system. The reform was the result of a tripartite negotiation process between the Finnish Government, trade unions, and employer organisations, as outlined in Prime Minister Petteri Orpo's government programme (Programme of Prime Minister Petteri Orpo's Government, 2023). The social partners submitted a joint proposal to the government in January 2025, and the Ministry of Social Affairs and Health initiated the legislative drafting process in February 2025.³

The reform's key objective was to stabilise the contribution rates of the earnings-related pension scheme over the long term, while also aiming to strengthen Finland's public finances. The government set two specific targets: (1) the reform should improve public finances by approximately 0.4 percentage

³ At the time of writing this chapter, the legislative process of the reform is still ongoing. In other words, our description is based on the outcome of the negotiations.

points relative to GDP over the long term, and (2) it should introduce automatic stabilising mechanisms to help the pension system adjust to economic and demographic shocks.

Notably, the reform did not include any changes to retirement age thresholds or to the formula for calculating pension benefits. Instead, its most significant feature was the introduction of greater flexibility in pension fund investment strategies, allowing for a higher degree of risk-taking in asset management. In addition, a new ‘inflation stabiliser’ mechanism was introduced. This instrument places a cap on annual pension index increases if consumer prices rise faster than wages over a period of two consecutive years. The stabiliser is designed to mitigate fiscal pressures and can be activated starting in 2030. Finally, the social partners agreed to maintain the current contribution rate for private sector earnings-related pensions until 2030, providing temporary stability while longer-term mechanisms take effect.

Unlike earlier reforms, which often sought to influence individual behaviour or extend working lives through incentives, the 2025 reform did not include elements related to social investment or behavioural adjustment. All in all, the 2025 reform was more limited in scope than many had anticipated, focusing instead on technical and fiscal parameters rather than structural changes to retirement age or benefit calculations.

DISCUSSION

While Finnish pension reforms have primarily focused on ensuring the long-term financial sustainability of the system, they have also incrementally introduced elements that reflect the flow dimension of the social investment paradigm. The introduction of flexible retirement age (2005), ‘super accrual’ incentives for late-career work (2005), and linking retirement age to life expectancy (2017) are emblematic of a shift towards policies that aim to manage life-course transitions and encourage prolonged labour market participation. These reforms do not merely adjust system parameters; they reflect an underlying logic of supporting positive transitions in later working life, aligning with the flow-oriented goals of social investment. However, direct interventionist features remain limited and selective, with only a few targeted instruments, such as the years-of-service pension. Thus, while social investment thinking is increasingly visible in Finnish pension policy, its integration remains primarily incentive-based rather than intervention-driven.

It may be that the institutional design of the pension system significantly influences not only how reforms can be conducted but also whether elements of social investment and intervention can be embedded within it. Comparing Finland and France, Väänänen and Liukko (2023) highlight how structural differences shape pension reform processes. Finland’s de facto one-pillar

pension system, where national and guarantee pensions address poverty and earnings-related pensions provide income maintenance, allows policymakers to adjust accrual rules and retirement incentives without triggering fundamental debates on income redistribution. This technocratic and financially driven approach, often shaped by expert evaluations, contrasts with France, where pension reforms are deeply embedded in questions of intergenerational solidarity and social cohesion (Väänänen & Liukko, 2023).

While Finland's model treats intergenerational equity primarily as a financial risk management issue, France's system is more explicitly rooted in public trust and redistributive legitimacy (Väänänen & Liukko, 2023). These differences illustrate how the structural foundation of a welfare state determines not only the balance between social investment-oriented labour market incentives and traditional income security measures but also the extent to which pension policies can incorporate targeted interventions. In Finland, pension reforms affecting pension benefits have largely relied on broad incentive structures rather than direct interventions, raising the question of whether there is space for more targeted policy measures that address specific risks related to inequality, employment trajectories, or late-career vulnerabilities.

Despite the emphasis on policies aiming to prolong working careers and postpone retirement, there have been some policy changes that could be interpreted as targeted interventions. In line with many other countries (OECD, 2023), in 2017 Finland introduced a pension that makes it possible for those with long careers in physically strenuous work and with reduced work ability to retire earlier. While only a very few have been able to benefit from the pension scheme, the future will show whether this scheme has a larger role, especially as the retirement age keeps increasing. From 2005 onwards, taking care of young children at home has accrued pension benefits. This affects inequalities in pensions caused by disparities in career breaks.

The Finnish reforms assessed in this chapter, including the 2005 and 2017 reforms and the 2025 reform that is still in the legislative process, established measures such as introducing a flexible retirement age, raising the retirement age and linking it to life expectancy, adjustments to contribution levels, and reductions in pathways to early retirement. While the 2005 reform was more about modernising the earnings-related pension scheme (Kautto, 2017; Kuivalainen & Kuitto, 2022), more recent changes have focused on strengthening the system's long-term financial sustainability while maintaining its earnings-related structure. In fact, the 2025 reform does not include any changes to current pension benefits.

Regarding the most recent reforms, the Finnish government has set explicit targets for improving public finances, an approach that reflects the broader structural challenges facing the country's fiscal framework (see Chapter 6). This suggests a growing governmental role in pension reform,

driven by demographic pressures and the inevitability of pensions appearing on the political agenda (Väänänen, 2023). At the same time, Finnish reforms remain characterised by path dependency, maintaining core features while incrementally adjusting system parameters (Kautto, 2017; Kuivalainen & Kuitto, 2022). The 2025 reform appears to follow this well-trodden path of gradual change. In Finland, reforms are typically incremental, protect accrued benefits, and prioritise the system's long-term financial sustainability over short-term redistribution.

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16. Lessons from the Finnish Basic Income Experiment

**Henri Salokangas, Outi Sirniö, Heikki Hiilamo
and Pasi Moisio**

INTRODUCTION

The Finnish Basic Income Experiment (FBIE) is one of the few large-scale randomized controlled trials (RCTs) conducted in Finland, providing a unique opportunity to rigorously assess the effects of a concrete policy intervention. Although the experiment is typically framed as an evaluation of unconditional income transfers rather than an intervention in the traditional sense, it embodies the core principles of the intervention-investment approach (see Chapter 2 for a detailed discussion of the investment-intervention framework). It is a direct and structured policy action aimed at influencing individual economic behavior and well-being, offering valuable lessons on how targeted interventions can complement the broader social investment framework. The FBIE goes beyond theoretical discussions on the potential benefits of social investment by implementing and evaluating a tangible policy measure using an experimental design.

Welfare reforms have long sought to address challenges such as poverty, inequality, employment, and fertility. Guaranteed income schemes, means-tested benefits, and unconditional cash transfers seek to support vulnerable groups and reduce the risks associated with homelessness, crime, and social exclusion. Interest in basic income (BI) has grown, especially during the COVID-19 pandemic, when many governments failed to adequately support those facing income shocks. Although much debate has focused on poverty reduction and employment incentives, less attention has been paid to how BI could affect economic autonomy and perceived security in different policy contexts.

Unlike universal basic income (UBI) proposals, which can be costly and could displace targeted support (Hoynes and Rothstein, 2019; Acemoglu, 2019), the FBIE used a targeted and budget-neutral design. It focused on long-term unemployed individuals, particularly those outside active labor market

programs. This approach reflected concerns that broad UBI schemes may provide shallow support while reducing targeted services. COVID-19 subsidies illustrated this risk by offering wide but inadequate aid. FBIE aimed to test whether increased autonomy could improve employment and well-being outcomes in a cost-effective way.

This study offers a harmonized evaluation of the effects of the Finnish Basic Income Experiment on a broad set of outcomes, using high-quality register data. In addition to reviewing previously published findings on employment and income responses (Verho et al., 2022), we provide new and integrated evidence on psychiatric healthcare services, fertility, and geographic mobility. These outcomes were included in the experiment's pre-analysis plan and reflect plausible channels through which basic income could influence well-being. Some of these outcomes have been explored in earlier studies (Simanainen, 2025; Hämäläinen et al., 2025), but presenting them together using a consistent empirical framework (see Chapter 4 for an overview of evaluating interventions and their effectiveness in welfare state contexts) allows for a more holistic assessment of the broader effects of basic income. Our goal is to contribute to the literature on both the intended and unintended effects of income support programs and to see whether these effects remain once this support is removed.

The FBIE, implemented in 2017–2018, was the first non-voluntary, nationwide randomized basic income trial in an advanced economy. It targeted 2,000 long-term unemployed individuals aged 25 to 58, who received a guaranteed monthly income of €560, replacing their conditional unemployment benefits. The control group included approximately 170,000 individuals. The reform was designed to test whether incentives ('carrots') encouraged job-seeking and entrepreneurial activities better than obligations ('sticks') (De Wispelaere et al., 2019). The treatment removed requirements to seek employment or participate in labor programs and allowed participants to keep additional earnings, thereby eliminating many of the administrative and financial disincentives associated with working while receiving benefits.

Three key mechanisms may explain why the experiment improved participants' well-being. First, it allowed the unemployed to retain additional earnings, enhancing income stability. Second, the absence of sanctions provided greater individual freedom. Third, reduced bureaucracy lowered the stigma associated with unemployment benefits, especially for those unemployed long-term.

Despite these design features, initial findings showed limited employment effects. While receiving basic income significantly reduced participation tax rates, no statistically significant impacts were detected on employment in the first year. A modest positive effect emerged in the second year—equivalent to 6.6 additional days worked – but its interpretation is confounded by a

concurrent policy reform that tightened job search requirements for the control group only (Verho et al., 2022). These findings indicate that in contexts with already comprehensive income protection, improving monetary incentives alone may not meaningfully alter labor market behavior. Recent studies have also found that receiving basic income led to higher voter turnout (Hirvonen et al., 2024), shifts from public to private healthcare usage (Simanainen, 2024), and changes in fertility in some subgroups (Simanainen, 2025). A recent analysis indicates that the basic income may have reduced psychotropic drug purchases by 8–11% (Hämäläinen et al., 2025), consistent with earlier survey evidence of improved well-being (Kangas et al., 2021).

The literature from other contexts suggests that income stability may indeed yield benefits beyond employment. Prior studies have linked income gains to reductions in psychological distress and improvements in life satisfaction. For instance, the Canadian Mincome experiment reduced mental health-related hospitalizations (Forget, 2011), and randomized cash transfer studies in Africa (Haushofer and Shapiro, 2016) and lottery studies in Europe (Gardner & Oswald, 2007; Lindahl, 2005; Cesarini et al., 2016) have found similarly positive effects on well-being. While the contexts and treatment in these studies vary greatly from the Finnish Basic Income Experiment, this body of research gives consistent indication that increasing economic security improves mental health. Fertility responses to different income schemes have also been documented. The cash transfers of the Alaska Permanent Fund Dividend have been found to increase fertility (Cowan & Douds, 2022; Yonzan et al., 2024; Dökmeci et al., 2023) while evidence from the Mincome experiment has been mixed (Forget, 2011; Dökmeci et al., 2023). Overall, universal child benefit transfer programs from the mid-1970s to early 2000s suggest temporary positive effects on fertility (Bergsvik et al., 2021), with similar effects from recent pro-natalist policies conducted in the Canadian province of Quebec (Milligan, 2005) and in Spain (González & Trommlerová, 2023). There is also emerging interest in the effects of cash transfers on geographic mobility, though evidence remains limited. Some studies suggest that stable income can reduce the need to relocate for economic reasons, while others find that added financial security facilitates mobility (Simeonova et al., 2024).

Overall, our general conclusion is that the FBIE had limited effects on most indicators of socio-economic well-being but led to a potentially meaningful reduction in psychiatric medication use, suggesting improved mental well-being. However, once the experiment ended, the outcomes reverted largely to the trajectories of the control group. These findings contribute to a more comprehensive understanding of how income support policies may affect different domains of life. In a welfare state like Finland—where baseline coverage is high and income protection robust—basic income may offer

psychological benefits without significantly altering employment, family, or housing decisions.

While we analyze FBIE in line with other case studies of interventions in this volume, it was not a single, tightly targeted intervention in the conventional sense, but rather a broad intervention program embedded in Finland's social security system. It was conducted as a large-scale policy experiment combining several changes to benefit rules and administration under a unified design. As such, the experiment offers valuable lessons for other countries considering similar policies. Overall, our findings align with the view that basic income does not significantly impact well-being in a welfare state with comprehensive coverage and a sufficient minimum income scheme (e.g., Natili, 2019). These lessons contribute to the ongoing policy debate on basic income's viability, offering insights on how to design and implement such programs effectively across different socio-economic contexts.

THE FINNISH BASIC INCOME EXPERIMENT

The Finnish Basic Income Experiment (FBIE) was implemented in 2017–2018 and included 2,000 participants aged 25–58 who received flat-rate minimum unemployment benefits in the treatment group, and 173,222 individuals in a control group of similar age. Those in the treatment group were guaranteed a tax-free income of €560 per month, replacing their prior unemployment benefits (Verho et al., 2022). Recipients were not required to join any active labor market programs.

Initially intended to study basic income's effects on a broader population, the experiment was limited to unemployed individuals receiving benefits from the Social Insurance Institution (SII) due to political and time constraints (Verho et al., 2022). The SII provides flat-rate unemployment benefits to those ineligible for contributory unemployment allowances. Randomization occurred on 15 December 2016, with information sent on 28 December 2016. Participation was mandatory, supported by a law (Finnish Act (1528/2016)). Using nationwide data, the treatment and control groups were representative of the target population.

From an evaluation perspective, the FBIE can be characterized as an intervention program rather than a discrete intervention. It consisted of a set of rule changes and administrative simplifications applied uniformly to the treatment group over a two-year period. This program-like nature distinguishes it from narrowly defined, short-term interventions often studied in public health or education research.

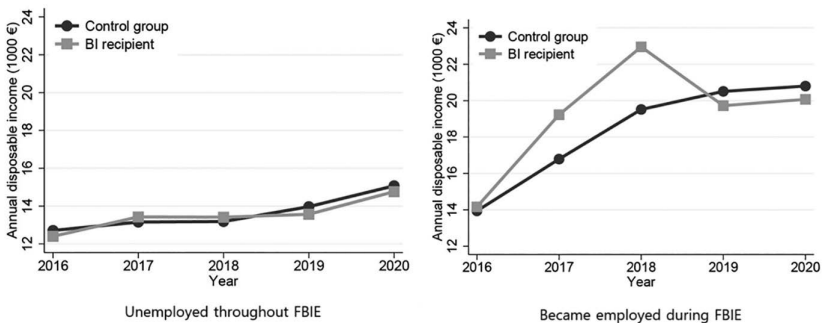
In terms of the research design, the Finnish Basic Income Experiment included many attractive features such as a truly randomized treatment assignment, full compliance, no attrition bias, and prospects for a rich set of

register-data linkages. The experiment is also listed in the American Economic Association’s registry for randomized controlled trials (Hämäläinen et al., 2022). While employment was the primary outcome of the trial, there were multiple secondary outcomes listed in the pre-analysis plan including child-bearing, antidepressant drug purchases, and migration.

Despite the aforementioned advantages, challenges in the experiment’s implementation pose limitations to analyzing the effect of the experiment. Budget and administrative limitations reduced the size of the treatment group, lowering statistical power. Additionally, the unemployment benefit reform implemented in 2018 tightened eligibility for receiving unemployment benefits. This directly impacted the control group mid-experiment, complicating interpretations of the outcomes in 2018 (Hämäläinen and Verho, 2022).

The experiment aimed to enhance economic incentives and minimize barriers to receiving benefits. Treatment group members were not required to seek employment or apply for benefits. They continued to receive the basic income even if they found work, without reductions in earnings. Unlike typical basic income proposals, the experiment maintained consistent taxation and stronger economic incentives.

Figure 16.1 shows financial outcomes for employed and non-employed participants, depicting annual disposable income (expressed in 2020 euros) trends for both groups during the FBIE. Employment by the end of 2018 signifies job acquisition during the experiment. Income levels for BI recipients who remained unemployed matched those of the control group, indicating that



Source: Authors’ own calculations.

Figure 16.1 Financial implications for basic income recipients by employment status during the Finnish Basic Income Experiment

basic income replaced equivalent unemployment benefits. Treatment group members who found employment during the experiment saw a disposable income rise of €5,900 compared to the control group.

In the control group, additional earnings reduced SII unemployment benefits. Prior analyses showed that basic income did not alter days in employment (Verho et al., 2022), but BI recipients had higher disposable income as their benefits stayed consistent, unaffected by employment hours.

The FBIE, offering a guaranteed income floor, resembled unconditional cash transfer (UCT) programs elsewhere but differed in not adding new cash inflows, setting it apart from other UCTs. The experiment eliminated means-testing, allowing recipients to retain benefits regardless of earnings. Unlike programs for specific family types, it was open to all within the target population, making it well-suited to assess basic income's effects on unemployed individuals (Widerquist, 2018).

DATA AND METHODS

Data

The data for this study were collected from three institutions: the Social Insurance Institution of Finland (Kela), Statistics Finland, and the Finnish Institute for Health and Welfare (THL), covering the years 2015–2020.

Data from these sources were linked at the individual level using personal identifiers within the secure remote access environment FIONA, administered by Statistics Finland.

Economic outcomes were derived from datasets maintained by Statistics Finland. Employment is defined as being employed at the end of the calendar year. Social assistance captures whether an individual received either regular or preventive social assistance at any point during the year. Disposable income refers to gross income—including earned income, entrepreneurial income, property income, and current transfers—minus taxes and other compulsory levies.

Information on treatment status, based on the randomized assignment to receive basic income, was obtained from Kela. Data on prescribed psychotropic medications were also retrieved from Kela and included purchases of reimbursed drugs under ATC codes N05A, N05B, N05C, N06A, and N06CA. Fertility outcomes were constructed from THL's Medical Birth Register, which includes detailed information on each childbirth in Finland, such as birthdates, estimated conception dates, and maternal characteristics. We focus on the timing of conception, rather than the date of birth, to assess the effects of basic income on fertility.

For men, fertility was measured by linking individuals to children born during the study period using biological parent-child linkages from population registries. Data on primary healthcare use were obtained from the Register of Primary Health Care Visits (AvoHilmo), from which we constructed a binary indicator for having any psychiatric primary healthcare contact.

For consistency, all outcomes were aggregated at the annual level. The yearly indicators include fertility (defined as any conception leading to a birth during the year), geographic mobility (including internal and international migration), use of psychiatric primary healthcare services, and purchases of prescribed psychotropic medications.

All recipients of basic income are included in these data (N=2,000) along with their control group (N=173,222). We excluded individuals with missing background characteristic values as of the end of 2016 and those outside the 25 to 58 age range (N=181). The final analytic sample includes 1,999 basic income recipients and 173,042 individuals belonging to the control group.

Table 16.1 presents selected average background characteristics of the study sample (i.e., all unemployment benefit recipients at ages 25–58 at the end of 2016) just before the start of the FBIE. The table also reports the same characteristics for the rest of Finland's population within the same age range.

Overall, we observe that the study population is very different from the rest of the population. This difference manifests as lower probabilities of graduating with the matriculation examination and having children, as well as lower income levels among the study population compared to the rest of Finland. All these differences were statistically significant, which means that the results from the experiment have a limited external validity outside its target population.

However, there are no statistically significant differences between the treatment and the control group in background characteristics aside from BI recipients being more likely to be receiving a (partially) means-tested labor market subsidy (LMS) than a non-means tested unemployment allowance as their minimum unemployment benefit. The labor market subsidy is for those unemployed without a work history or those who have received the unemployment allowance for the maximum period. About 48% of BI recipients were women and 25% of foreign origin. About three fourths lived in an urban residential area and a third did not have an educational degree beyond the compulsory level. Most of the studied individuals were living alone. About 15% were in a cohabiting relationship and 30% married. The average age at the start of the experiment was 40.6 years. The treatment group was as likely as the control group to have finished high school, to be born abroad, to have children in the household, and to have prior antidepressant drug prescription history. The average income levels between the two groups were also closely matched.

Table 16.1 Descriptive statistics of treatment and control samples

Variable	Rest of Finland	BI recipient	Control group	Est.	P-value	N
Labor market subsidy	NA	0.871	0.846	0.025	0.002	175,041
Age	41.738	40.807	40.447	0.361	0.110	175,041
Age 40+	0.563	0.516	0.504	0.012	0.290	175,041
Female	0.492	0.477	0.475	0.002	0.874	175,041
HH size	2.796	2.426	2.414	0.012	0.729	170,264
Born abroad	0.078	0.244	0.252	-0.008	0.394	175,041
Urban resident	0.720	0.758	0.759	-0.001	0.926	175,041
Finished high school	0.439	0.210	0.208	0.002	0.829	175,041
Annual income	34966	10586	10611	-24.8	0.793	175,041
Eq. disposable income	30449	16650	16858	-207.4	0.290	170,264
HH decile	6.291	2.643	2.700	-0.56	0.235	170,264
Has children	0.441	0.355	0.348	0.007	0.499	175,041

Notes: This table presents sample means for basic income recipients, the control group, and the rest of the Finnish population aged 25–58. It also reports the differences in sample means between the treatment and control groups, along with the associated p-values from the F-test. With the exception of age, annual income, equivalized disposable income, and household size, all other variables are binary.

Empirical Approach

To investigate the impact of increased economic autonomy in the Finnish Basic Income Experiment, we used a linear probability model, estimated separately for three periods: the pre-experimental period (2015–2016), the experimental period (2017–2018), and the post-experimental period (2019–2020):

$$\mathbf{Y}_{i,p} = \alpha + X_i\beta + \delta_p BI_i + \delta_{i,p} \quad (16.1)$$

where $\mathbf{Y}_{i,p}$ represents a binary outcome variable measured during period $p \in$ [years 2015–16, 2017–18 and 2019–20], BI_i indicates receipt of basic income, X_i is a vector of covariates of observed characteristics measured just before the experiment started, and $\delta_{i,p}$ summarizes the unobserved factors. We use robust standard errors clustered at the individual level. The coefficient δ_p captures the causal estimate of receiving basic income. The random assignment of the treatment ensures that the causal estimate of receiving basic income can be retrieved from simply comparing averages between the treatment and the control group. However, to gain precision in the estimates, in the main regression estimates we use the following covariates: birth year, sex, indicator for urban residency, indicator for being born abroad, indicator for having children, indicator for receiving labor market subsidy, and education level (primary, secondary, and tertiary level) in 2016.

The pre-experimental period of 2015–2016 essentially serves as a placebo regression, and the expectation is not to find any statistically significant differences in the outcomes between the treatment and the control group during this period. The impact of receiving basic income is captured during the experimental period (2017–2018). Even if receiving basic income here means merely temporarily enhanced work incentives and reduced administrative barriers, we refer to impacts of basic income for simplicity.

One notable interpretational difficulty regarding the experimental period comes from the unemployment benefit reform, which was implemented in 2018. This widely criticized reform cut unemployment benefits if the unemployed had not participated in any active labor market programs in the last three months (Kangas & Kalliomaa-Puha, 2019). The reform also affected basic income recipients but only in the case where the recipient applied for unemployment benefits that exceeded the amount of the basic income. The impact of the 2018 unemployment benefit reform is likely to have had a larger impact on the control group because their incentives to seek work and participate in active labor market policies changed more (Verho et al., 2022). Thus, besides receiving basic income, the differences between the treatment group and control group were partially affected by the unemployment benefit reform.

This is likely to affect mostly employment-related outcomes and not so much other outcomes.

Moreover, we examine the post-experimental period to assess potential longer-term or delayed effects of the FBIE. Since participants were informed that the experiment would come to an end by the end of 2018, it is reasonable to expect that any changes observed during the experimental period might disappear afterward, with participants reverting to their prior trajectories once the intervention ended.

RESULTS

Table 16.2 presents linear probability estimates along with robust standard errors for all 14 outcomes, individually assessed across the two distinct time periods. While certain demographic groups in many of the outcomes are likely to be more responsive (e.g., under 40-year-olds in fertility) than the full study population to BI, we consider Table 16.2 to describe the main lessons from the experiment.

First of all, the pre-experimental estimates in Table 16.2 confirm that at the baseline the treatment group and the control group are alike. In this placebo analysis, none of the six estimates are statistically significant at the 5% level. Overall, the pre-experimental period analysis suggests that the randomization procedure was truly random, and that the observed divergences in outcomes in the following periods can be attributed to the impacts of receiving temporary basic income in the FBIE.

During the experimental period (2017–2018), we observe that the probability of being employed increased by 2.8 percentage points, and average disposable income increased by €1,550—findings consistent with Verho et al. (2022). Basic income recipients were also 5.6 percentage points less likely to receive social assistance, which is in line with an improved financial situation for the treatment group. We find no statistically significant effects on fertility or geographic mobility. Regarding mental health outcomes, the probability of purchasing psychotropic medication and having psychiatric contacts in primary care decreased by 1.6 and 1.5 percentage points respectively. This finding aligns with previously reported results from the experiment (Hämäläinen et al., 2025), as well as literature on cash transfers and their positive impacts on mental health (Haushofer and Shapiro, 2016; Romero et al., 2021).

After the experiment ended, outcomes between the treatment and control groups largely converged, as expected given that the intervention did not substantially alter long-term economic conditions. However, one notable exception is that post-experimental disposable income was €350 lower in the treatment group compared to the control group. The employment rate and social assistance uptake returned to levels observed in the control group. Also, effects

Table 16.2 Impact of basic income on various measures of well-being

	Baseline mean	Pre-FBIE period: Est.	Pre-FBIE period: SE	FBIE period: Est.	FBIE period: SE	Post-FBIE period: Est.	Post-FBIE period: SE	N
Economic outcomes:	13167.0	-84.7	129.7	1548.9**	166.9	-348.0*	175.8	175,040
Disposable income								
Employed	0.128	-0.008	0.006	0.028**	0.009	-0.003	0.009	175,040
Social assistance	0.364	-0.008	0.01	-0.056**	0.01	-0.001	0.01	175,040
Social outcomes:	0.024	0.002	0.003	0.000	0.002	-0.003	0.002	175,040
Fertility								
Geographic mobility	0.225	-0.004	0.007	0.011	0.007	0.010	0.007	175,040
Mental health outcomes:	0.200	-0.008	0.008	-0.016*	0.008	-0.013	0.009	175,040
Psychotropic medication								
Psychiatric primary care	0.066	-0.004	0.005	-0.015**	0.004	-0.001	0.005	175,040

Notes: Linear probability model estimates for receiving basic income across three distinct time periods: the pre-experimental period (2015–2016), the experimental period (2017–2018), and the post-experimental period (2019–2020). The control variables included birth year, sex, indicator for urban residency, indicator for being born abroad, indicator for having children, indicator for receiving labor market subsidy, education level (primary, secondary, and tertiary), and taxable income in 2016. Standard errors were clustered at the individual level. Symbols *, and ** refer to statistical significance—10%, 5%, and 1% of the point estimates relative to the reference group.

on psychiatric outcomes were no longer statistically significant, although the estimate for psychotropic medication use remained sizable in magnitude (-1.3 percentage points, or -6.5%).

We also analyzed heterogeneity in the effects by sex and age group. The reduction in social assistance receipts was substantially larger among men (-7.9 pp.) than among women (-3.1 pp.). This aligns with the employment outcome: male recipients of basic income saw a 3.6 percentage point increase in employment, while no statistically significant effect was found for women. The reduction in psychotropic medication use was also found in men (-2.5 pp.), with no significant change among women. For psychiatric primary care visits, the treatment effects were similar for both men (-1.6 pp.) and women (-1.5 pp.). Geographical mobility showed a suggestive increase among women (1.0 pp.) but not among men. Interestingly, after the experiment, geographic mobility remained significantly higher among women (1.9 pp.), while all other outcomes returned to their pre-experiment levels.

Heterogeneity analysis by age suggests that younger recipients were more responsive to receiving basic income. Participants under the age of 40 were more likely to be employed during the experiment (3.6 pp. vs. 1.8 pp.), less likely to receive social assistance (-7.7 pp. vs. -3.1 pp.), and less likely to have psychiatric primary care contacts (-2.5 pp. vs. -0.6 pp.) compared to the recipients aged 40 and older.

DISCUSSION AND CONCLUSIONS

The Finnish Basic Income Experiment (FBIE) exemplifies the investment-intervention framework by demonstrating how experimental methods can assess and refine welfare policies. While social investment strategies emphasize long-term structural reforms, controlled policy trials like FBIE highlight the need for evidence-based interventions that address immediate social risks. The experiment provided robust evidence on both intended and unintended effects, showing that unconditional basic income in a well-developed welfare state does not significantly enhance employment or economic autonomy. However, the absence of strong negative effects is equally relevant for policymaking. Given the high fiscal costs, future discussions should critically evaluate basic income's feasibility relative to alternative policy solutions that balance proactive investments with targeted interventions.

Internationally, the evidence on basic income and similar cash transfer programs is diverse and context-specific. The Overseas Development Institute (ODI) report states that cash transfer programs in various low- and middle-income countries have led to significant positive impacts on savings, investment, and production (Bastagli et al., 2016). However, related evidence from developed countries is limited. This study summarizes the lessons from the

Finnish Basic Income Experiment. This experiment targeted unemployment benefit recipients aged 25–58, of whom 2,000 individuals were randomized to receive a guaranteed monthly income of €560 for two years. While labeled as a basic income experiment, rather than creating a cash influx for the treatment group, the experiment aimed to reduce the administrative burden on the target population—unemployment benefit recipients—and increase work incentives. Thus, the Finnish Basic Income Experiment serves as an example of the impacts of temporarily removing administrative barriers and increasing work incentives in a welfare state.

The general finding is that receiving basic income for two years had negligible effects on socio-economic outcomes but improved mental health. However, these effects largely faded away once the experiment ended. A likely mechanism is the increased economic autonomy, reflected by increased disposable income arising from the participation tax rate during the experiment. Once this income channel ceased after the experiment ended, the outcomes mostly reverted to the paths of the control group. The results imply that the extent to which the FBIE increased economic autonomy during the two-year experiment was not enough to nudge the unemployed to increase employment or to create other considerable changes in life (such as in geographic mobility or childbearing decisions) but was likely to create temporary psychological relief.

The decline in psychotropic medication purchases during the experimental period—particularly among men and younger recipients—raises important questions about its underlying causes. Does the reduction signal improved mental well-being from reduced stress and greater autonomy, or could it reflect reduced access to care, changes in treatment practices, or affordability issues? Work by Hämäläinen et al. (2025) provides a strong argument that the reduction reflects genuine improvements in mental health and not disengagement from care. In Finland's universal healthcare system with generous reimbursement for psychotropic drugs, structural or financial barriers are unlikely explanations. The effect was specific to mental health medications—with no similar decline in other drug categories—and supported by suggestive reductions in mental health-related specialty care. Notably, the decline was strongest among those without prior psychotropic use, pointing to a possible preventive impact. The timing of the effect and its specificity further support the interpretation that basic income improved psychological well-being rather than reduced access to treatment.

Our results on fertility differ from those reported in a prior study which found a negative effect of the experiment on female recipients and a positive fertility response among their spouses (Simanainen, 2025). The prior study employed a different methodological approach, focusing on cumulative fertility, using a restricted analytic sample of individuals under the age of 44.

Also, the outcomes were constructed based on maternity grant data rather than actual information on births.

While we acknowledge that our choice of sample and statistical methods may not be ideally suited to detect subtle fertility effects, we argue that fertility is among the most challenging outcomes to study in the context of this experiment. Childbirths are rare within the experiment's short timeframe and occur predominantly among individuals under the age of 40, effectively halving the already limited sample. Overall, the discrepancy between our findings and the earlier results underscores the importance of clearly defined pre-analysis plans in social experiments—specifying analytical sample construction, outcome definitions, choice of control variables, empirical methods, and conducting power analyses not only for primary but also for secondary outcomes.

Our results and experiences from the Finnish Basic Income Experiment provide valuable lessons for other countries considering similar policies. These lessons contribute to the ongoing policy debate on the viability of basic income schemes, offering guidance on designing and implementing such programs effectively in different socio-economic environments.

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PART IV

Epilogue

17. Can the investment-intervention approach deliver?

**Jani Erola, Pasi Moisio, Johanna Peltoniemi
and Paula Saikkonen**

BEYOND SOCIAL INVESTMENT

This volume has traced the evolution from traditional compensatory welfare models towards a more proactive, service-oriented approach that integrates social investment with targeted interventions. The shift from passive income protection to enabling policies, designed to foster human capital, facilitate life-course transitions, and mitigate emerging social risks, marks a significant recalibration of social policy in Europe and beyond. The social investment paradigm has not been without criticism, particularly regarding its tendency to reinforce inequalities through the so-called Matthew effect. To address this limitation, we propose adding a complementary layer to the model: reactive interventions. By combining proactive investments with timely, targeted interventions, a more balanced and comprehensive approach can be achieved, one that responds both to long-term needs and to acute challenges.

The central contribution of this book is the articulation of the social investment-intervention (SI+I) framework, which integrates interventions into the logic of social investment. Interventions provide a mechanism to address problems where investments alone are insufficient. Through a series of real-world case studies, this volume has demonstrated that a combined approach can render social policies more effective and impactful. The Housing First model shows how direct interventions, providing housing as an immediate right, can establish the preconditions for longer-term investments in rehabilitation and employment. The randomised controlled trials of the KiVa anti-bullying programme illustrate how targeted interventions in schools can transform broader educational and welfare structures. Similarly, the Voimaperheet project and digital parenting support services highlight how technology can expand the accessibility and scalability of interventions. The Finnish Basic Income Experiment demonstrates how large-scale social experiments can

yield critical insights for policymaking, even when the results, such as the absence of employment effects, are null. Taken together, these cases illustrate that interventions are not separate from social investment policies but, rather, one of their most concrete modes of implementation.

WHAT SHOULD BE DELIVERED?

It is safe to say that the welfare state is never a finished project. By its very nature, it is continuously shaped by the dynamic interaction between the state, the markets, the broader socio-political environment, and its citizens. Rather than a fixed entity, the welfare state is better understood as a social and political construction that takes different forms across time, with the expectations placed upon it evolving accordingly. This observation is not new. Already in the early 1980s, Claus Offe (1981) analysed the contradictions and shortcomings of welfare state policymaking and administration. He conceptualised the welfare state as a multi-functional and heterogeneous set of political and administrative institutions whose role is not only to provide or distribute social services and benefits, but also to manage processes of socialisation and to regulate the functioning of the capitalist economy. In this interpretation, the welfare state does not simply alleviate risks or redistribute resources; it also actively shapes the broader conditions of social integration and capital accumulation.

In contemporary welfare states, the socio-political system often generates challenges that the administrative-political system cannot resolve. The welfare state struggles to fulfil its promises and to meet ever-rising qualitative and quantitative expectations. Moreover, it has only limited capacity to influence the global economy or international power relations, factors affecting the political system's capacity to solve problems. In advanced welfare states, sustained productivity requires continuous investment. To attract mutually beneficial collaboration between the state and the market, the public sector must invest in both hard and soft infrastructures. Such investments, however, demand additional funding, collected through taxation on top of the resources already required to maintain the welfare state. At the same time, multinational corporations tend to have little interest in supporting national investments unless these clearly improve their broader market environment.

Today, one clear illustration is the demand for a workforce capable of adapting to the rapidly changing requirements of the knowledge economy. Skilled labour has become a key factor of attraction for corporations. In this context, social policy is often interpreted as a precondition for economic growth, implemented primarily to support the functioning of markets (Morel et al., 2012). Another central issue is power: how to reconcile the interests of employees and employers. Historically, the Nordic countries have excelled in building

consensus between different parties, thereby sustaining both economic competitiveness and social cohesion. The question all Nordic countries are currently facing is whether they will still be able to reach a similar consensus despite the increasingly globalising markets and changing social risks and demographic structures.

Despite longstanding criticism, the welfare state has retained its legitimacy. In the Nordic countries, it remains broadly popular among citizens and, at least in Finland, among political parties as well. Although the welfare state may signify different things to different actors, its symbolic and practical value persists. Even when Nordic governments introduce budget cuts, these are often justified rhetorically as necessary to 'save' the welfare society. Beyond the Nordic context, the welfare state continues to carry positive connotations across Europe. This is reflected in the European Pillar of Social Rights (European Commission, 2025), which outlines principles such as 'equal opportunities and access to the labour market', 'fair working conditions', and 'social protection and inclusion.' These themes echo the central issues that have shaped welfare states worldwide since the Second World War.

Despite the common framework offered by the EPSR, each European welfare state retains distinctive characteristics. The EPSR functions primarily as an ideational frame, one that must be translated into practice at national and local levels. The evolution of welfare states has unfolded at different paces, producing diverse institutional arrangements and nationally specific trajectories. Consequently, citizens' experiences and perceptions of the welfare state also vary across countries (e.g., Toikko & Rantanen, 2017). While citizens are expected to participate in shaping the future of the welfare state through democratic elections, the state itself simultaneously influences citizens' expectations. Yet political interests are not equally represented in decision-making. Individuals with higher levels of education and income tend to report greater confidence in their political capacities, which translates into more active participation. The imbalance does not stem only from the overrepresentation of the highly educated and affluent, but also from the weaker political efficacy of less-educated and lower-income groups. This asymmetry undermines democratic engagement (Shore, 2020). Without effective social investments and interventions, welfare states may succeed in delivering services and benefits, but struggle to foster inclusive political participation.

Research has highlighted the role of social policy in shaping patterns of political engagement. Social policy doesn't just distribute the material resources necessary for participation; it can also, for example, enhance individuals' capacity to engage in politics, but it also has interpretative or cognitive effects by signalling whether citizens' concerns are acknowledged or disregarded by the public sector. Studies have further shown that universal social programmes tend to strengthen political efficacy, whereas means-tested programmes often

have the opposite effect (Shore, 2020). It is fair to note, however, that conditionality in benefits or services does not necessarily undermine political engagement in itself; rather, it is when such systems are experienced as stigmatising that they create barriers to participation (Watson, 2015). In this light, the SI+I approach raises an important question: what, ultimately, should be delivered? If interventions are considered an essential complement to social investment, more research is needed on how their implementation affects political participation and, in turn, the functioning of democratic society.

THE WELFARE STATE IN UNCERTAIN TIMES

We are witnessing a period of profound change in the world order established after the Second World War. The old rules no longer appear valid (Beck, 2000). The rule of law is being questioned and tested even in countries long regarded as stable democracies. The Russian invasion of Ukraine has brought war back to Europe, with energy price shocks as a side effect that further fuel instability and uncertainty across European societies. In the coming years, rising defence expenditures will place additional pressure on public finances throughout Europe. At the same time, biodiversity loss and climate change generate deep concern, particularly among younger generations. The outlook for the future is therefore far from optimistic, casting a shadow over ageing welfare states (Vaalavuo et al., 2025). The golden era of welfare states unfolded in the aftermath of the Second World War, when social security systems expanded into comprehensive forms that have largely persisted until today. Yet the circumstances and living standards of that era were radically different from those of the present. The world around us has changed dramatically, while social security systems still rest to a considerable degree on the ethos of the industrial working society of the last century. This is, in part, a question of power relations. The ethos of the work society has its defenders, who often seek to interpret new phenomena through the lens of established structures – whether in debates on platform work (are platform workers employees or entrepreneurs?) or in the portrayal of economic growth as an unquestionable goal. What is needed, therefore, is a broader public debate about the kind of society we want to live in, and the role that the state and public policies should play in shaping it.

In democratic societies, the future of the welfare state ultimately depends on the kind of decision-makers citizens choose to elect. It remains uncertain how Europe will manage the twin challenges of increasing defence spending and coordinating it at the supranational level. Defence arrangements may strengthen unity and cooperation, but individual countries may also turn inward and focus primarily on their own security. In addition, debates about the erosion of international justice norms in the name of defence may affect

domestic cohesion. Welfare chauvinism, already visible in many countries, further threatens political consensus (Bell et al., 2023).

Even without rising defence expenditures, ageing welfare states face persistent fiscal pressures. Artificial intelligence and digitalisation demand new skills, costly health technologies continue to evolve, and personalised medicine is entering the market, each adding to expenditure. In such a context, it is not clear where the boundaries of public responsibility lie, or what kind of responsibility can reasonably be expected from individual citizens. No single formula exists for determining the best division of responsibilities in constantly shifting circumstances. This is why civic debate and transparency in decision-making are indispensable. Some decisions taken today will inevitably prove misguided as knowledge advances. What matters, therefore, is maintaining an open democratic process through which citizens and policymakers can sustain a shared understanding of the welfare state's core tasks and of the limits of what it can deliver: both now and in the future.

These turbulent times underscore the need to rethink the welfare state. The social investment-intervention (SI+I) framework should not be seen as the final stage in its development, but as the most recent layer in a long historical process (see Chapter 2). Poor relief was once established to replace charity; social insurance emerged to replace poor relief; and since then, the welfare state has been gradually complemented with new responsibilities and functions. Interventions now represent the latest and necessary addition, an added layer that enables welfare states to remain responsive, resilient, and democratic in the face of profound uncertainty.

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