

# 1. The Finnish social security system and innovations paving the way towards a just and equal society

Raili Lahnalampi

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President Martti Ahtisaari, the Nobel Laureate for Peace, who worked in the Northern Ireland Peace process, has said: “The Nordic model has not come about in a vacuum, but has required a lot of hard work and sincere commitment – both from political leaders and the citizens. The challenge is not only how to create wealth, but also how we use it. Even though the interdependency in today’s world is a fact, the main responsibility for creating egalitarian policies lies with the nation states.”<sup>1</sup>

Social security systems have in most cases their roots in the economic and social history of their respective countries. The basic idea of the Finnish model – or more generally the Nordic model - is to pursue universal welfare state policies, which means that public programmes, services and social transfers are designed to serve everyone living in Finland.

In building the base for social safety nets, Finland used its social security funds to build up industrial infrastructure and promoted economic growth and combined gender equality with high levels of labour force participation. A conscious decision was to make social investments in children to promote human capital accumulation and boost intergenerational mobility. This was important to ensure an economically and socially sustainable society.

The Finnish welfare system now faces new challenges. How to ensure the financing of the services as age dependency ratio increases, how to prevent social exclusion and how to address the needs of minorities. Major social and health reforms are under way while at the same time we face enormous challenges including climate change, geopolitical competition and a war in Europe.

Finland and Ireland are both open export-driven prosperous democracies. Finland is physically five times bigger than Ireland and has about the same size of

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<sup>1</sup> <https://researchportal.helsinki.fi/en/publications/a-recipe-for-a-better-life-experiences-from-the-nordic-countries>

population as Ireland. Ireland is a “young” nation (median age 38) while Finland is already “greying”. We share an urban – rural divide and the challenge to offer social services in all parts of the country also into the future. In this article, heavily based on two professional literature sources<sup>2</sup> for which I am grateful, I will discuss some of the key principles and practices that we in Finland have introduced in building a society based on egalitarian principles. I believe it is important to share lessons learnt, when we face increasingly complex challenges in providing social safety nets for our people. There is no “one size fits all” - model and comparing social security systems has proven difficult, but learning from each other’s experiences can be inspiring and of mutual benefit.<sup>3</sup>

## **My own story is part of the Finnish social evolution**

The story of the Finnish welfare system is part of my own story. I was born in the 50s as the youngest child of nine to a farming family in a small rural village on the west coast of Finland. My father had a basic education and an enduring experience of almost five years in the war against the Soviet Union. My mother – quite exceptionally at the time - had obtained a vocation as professional milkmaid.

Our farm was small and all children worked in the fields and at home. The municipality provided the basic public health and social services to support us. I remember very well, when the community nurse came to our home to make the routine check-ups and give us the “frightening” vaccinations. It is very clear that without the maternity grants, free education, free school meals and basic health services, it would not have been possible for us children to gain an education and meaningful occupations. I was the first and only one to go to the university and get a degree.

## **Early assets and corner stones for the Finnish social development**

Finland was a very poor country 100 years ago, but it had some characteristics that helped build a society that is now known as a Nordic welfare state.<sup>4</sup> These

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<sup>2</sup> <https://researchportal.helsinki.fi/en/publications/recipe-for-better-life-experiences-from-nordic-countries> and [https://www.researchgate.net/publication/322538566-Hyvintivaltio\\_yllittaa\\_jalkensa](https://www.researchgate.net/publication/322538566-Hyvintivaltio_yllittaa_jalkensa)

<sup>3</sup> <https://sosiaalivakuutus.fi/mista-mittarit-sosiaaliturvan-kauneuskilpailuun-%E2%80%92-ken-on-maista-parhain-sosiaaliturvassa/>

<sup>4</sup> <https://docslib.org/doc/11785551/how-finland-became-finland>

features were the early pillars, which laid the ground to build a well-functioning democracy. The main characteristics have been categorised as follows.

Local communities were isolated and early on had to take responsibility on basic services, including education. Education was initially made available through the so called “roving countryside schools”. My mother attended such a school and I remember, how in matters such as mathematics and culture, she had an amazingly wide knowledge of the issues. Reading and writing became widespread. One motivation for this was that these skills were a requirement for marriage.

Finland was part of Sweden for almost 700 years (until 1806) and that shared Nordic history has had a significant impact on our legal system, respect for the rule of law and trust in authorities and civil service. Corruption has never taken roots in Finland. Today Finland ranks among the least corrupt countries in the world.<sup>5</sup>

One and perhaps the most long-lasting achievement was, that by 1906 both women and men gained full political rights. Women not only voted but stood as candidates for elections. This resulted in 19 influential women being elected to the first Parliament 1907-08, including Miina Sillanpää, who became the first female minister in 1920s. Sillanpää is the symbol of progressive women, who made a permanent difference for equal treatment of women. She proposed several legislative initiatives during her time in the Parliament. She understood the value of making concrete steps of advancement and founded the first “First Home” shelter for single mothers.

In rural Finland, women’s contribution and responsibility in work life had always been equal to men’s as far as farm work was considered. This was the case also in our home. During the wars against the Soviet Union (1939-45) women took charge of many industrial positions and ran the economy, while men were at war. That paved the way to the more general understanding of women’s role in society.

Women’s role in working life and politics from early on was fundamental in defining Finnish society and its social security system. Women worked within the parties, women only parties never really took off in Finland - neither did gender quotas. Working “from within” has not always been easy but resulted in long-lasting reforms. It has also encouraged men to work for equality and made

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<sup>5</sup> <https://www.transparency.org/>

them see the important role women play in developing an equalitarian welfare society.

The strong democratic tradition helped Finland overcome the bloody civil war (1917-18) and the country was able to come together after the war. Multi-party coalitions resulted in consensus-oriented politics. After the civil war (1918) and wars against the Soviet Union (1939-1945), it was widely understood that poverty and inequality needed to be tackled to ensure stability. One driving force for the strong support for social safety nets was that the civil war was partly linked to social and economic inequality in the society.

Hence, provision of equal opportunity became a key objective. Creating an extensive system of child health clinics in 1920s proved to be crucial investment in wellbeing. Uniting the nation was important. Compulsory education and universal army conscription meant that people with different social status shared same classrooms and barracks and that helped to integrate the society.

From early on in the development of the society, basic values and human rights such as freedom of speech and gender equality were cornerstones for the later welfare society. Free education, childcare and healthcare were set up. The first steps toward social safety nets were established.

In retrospect, one can see that most elements of the early developments were closely linked. Education, reliable institutions, dedicated public service paved way to innovative export industries. They lead to resilient market economy and jobs, building the base for tax revenues to pay for improved and universal public services. This has later on developed to an overall “whole-of-society” approach in many Finnish policies and practices.

## **From social security to a welfare policy**

The history of Finland shows that social cohesion in a politically divided country is possible and that the role of social safety nets played an important part in it.

Political integration started early. The civil war was won by the “whites”, but the Social Democrats – that had represented the “reds” - could participate in the first post-war elections 1919 and in 1926 they formed a minority government. After the wars against Soviet Union in 1945 the “Spirit of the Winter War” helped to further unite the nation. Finland had to pay reprisals and resettle over 400,000 evacuees (11% of the population) from the areas that the Soviet Union took as war reprisal. The nation worked as one in this effort.

This social integration process was helped by expanding the social policies, implementing extensive land reforms and modernising the education system. Insurance funds as investment capital played a crucial role in modernising the country.<sup>6</sup> The national (people's) pension scheme (kansaneläke) was established in 1937. In a capital-poor country, the state deliberately used the new pension system to accumulate capital for investments. The funds were used to electrification, building roads and other basic infrastructure for industrial development. Later, the employment-related pension funds that began to accumulate in the early 1960s facilitated industrialisation and promoted economic growth, which in turn enabled the expansion of social policies.

The people's school (kansakoulu) was crucial not only as an educational institution but in equalizing the society. A great invention was the universal child benefit allowance set up in 1948 and two years after over a million children benefitted from the programme. The allowance was paid to the mother and for many women that meant the first "money of their own". That gave them certain independence and helped embed gender equality.

## **Basic structures of the present Finnish social security system**

Finland enjoys one of the most advanced and comprehensive welfare systems in the world, designed to guarantee dignity and decent living conditions for all. Although the development of social security started already in the 1930s, the basic structures of the present Finnish social security system were built within a generation – or about in 30 years - starting from the 1960s during the industrialisation of the Finnish economy.<sup>7</sup>

The Finnish social security system reflects the traditional Nordic belief that the state can intervene benevolently on citizens' behalf.<sup>8</sup> Core to the system are social insurance (i.e. pensions, sickness and unemployment benefits, workers' compensation), welfare (i.e. family aid, child-care services, services for the disabled) and a comprehensive public health system.

Finnish social security is divided into residence-based social security support (i.e. family allowances, student financial aid, maternity allowance, sickness allowance, child care subsidies) and employment-based social security (i.e.

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<sup>6</sup> <https://researchportal.helsinki.fi/en/publications/recipe-for-better-life-experiences-from-nordic-countries>

<sup>7</sup> [https://www.julkari.fi/bitstream/handle/10024/129153/Suomalainen\\_sosiaaliturva\\_2006.pdf?sequence=5](https://www.julkari.fi/bitstream/handle/10024/129153/Suomalainen_sosiaaliturva_2006.pdf?sequence=5)

<sup>8</sup> [https://www.expat-finland.com/living\\_in\\_finland/social\\_security.html](https://www.expat-finland.com/living_in_finland/social_security.html)

unemployment allowance, retirement and old-age pensions, accident insurance and security against disability and illnesses, earnings-related).<sup>9</sup>

Residence-based social security is financed by tax and it is administered by Kela (the Social Insurance Institution of Finland).<sup>10</sup> Earnings-based social security is financed by contributions to private pension companies and social security funds, and it is administered by the Finnish Centre for Pensions (Eläketurvakeskus). Eligibility for most social security is based on having a permanent residence, and the benefits can in principle be claimed only by those who live in Finland.<sup>11</sup>

## The challenges and limits of the welfare society

The society and people's demands are not the same as they were when the original welfare framework was built, so it is important to discuss the present challenges to the welfare system. The way people perceive the role of the state is changing. But perhaps the major factors that affect the system, and its sustainability, are global. Globalisation, digitalisation, technological transition and climate change, all place complex demands and limits on nation states and on how they should and can function. Luckily, the European Social Survey<sup>12</sup>, that monitors the trends in welfare attitudes, show that the overall support to income distribution in the EU is still strong.

The five principles of the Finnish and in more general of the Nordic model have been categorised as follows: social productivity; equality and equity; universalism; public responsibility and solidarity. Considering these principles in a critical way the authors of *Hyvinvointivaltio ylittää jälkensä* (The welfare state crosses its borders)<sup>13</sup> have discussed the strengths and weaknesses as well as the limits of the Finnish welfare system. I believe the book raises some important questions and viewpoints about the system, and I will sum up the main findings and add some other comments below.

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<sup>9</sup> <https://www.kela.fi/social-security-in-finland>

<sup>10</sup> <https://www.infofinland.fi/fi/settling-in-finland/finnish-social-security>

<sup>11</sup> <https://stm.fi/suomen-sosiaaliturvajarjestelma>

<sup>12</sup> [Europeansocialsurvey.org](https://europeansocialsurvey.org)

<sup>13</sup> [https://www.researchgate.net/publication/322538566\\_Hyvinvointivaltio\\_ylittaa\\_jalkensa](https://www.researchgate.net/publication/322538566_Hyvinvointivaltio_ylittaa_jalkensa)

## The tenets of the Finnish welfare model<sup>14</sup>

**Social productivity** discourse looks at the nature of the investment in terms of whether it is a productive investment for the society or only a cost for the private sector. A key issue is the financing, how the revenue is collected and what are its limits. Traditionally, in a market economy, necessary economic growth and employment rates are seen as *sine qua non* for the revenue base. In order to safeguard the welfare state in the future the state needs to ensure a production base through technological innovation and investments in education. Recently, it is acknowledged that we need to take into account also the ecological limits of the planet. The main argument for public social services is that a well-functioning and prosperous economy needs healthy and prosperous people.

**Equality – equity:** The Finnish welfare system is based on the equal treatment of people and the pursuit of economic equity. Our conviction is that widespread inequality will, on the long run, be negative for everyone’s wellbeing as well as to the society as a whole.

The goal of equality, most notably between rich and poor and between men and women, is the key to egalitarian thinking. The Finnish welfare state model has helped women to enter into the labour market and it appears to have lowered the income differentials between women and men. There is of course still a lot to do to achieve equal gender relations inter alia, pay and occupational segregation of jobs.

It is argued that the equalitarian welfare state diminishes the motivation to work and that redistribution is an obstacle to economic growth. Empirical findings seem to suggest the opposite.<sup>15</sup> Finland experienced a deep economic recession in the early 1990s. This forced the Finnish government to make difficult welfare cuts in order to reduce social spending and avoid further increase in public debt. The crisis showed that the system was able to absorb macro-economic shocks and stabilise living conditions when needed. The model showed its ability to transform itself in a socially justifiable way.

Also in the equity discourse, the ecological aspect is prominent. It argues that a new concept of sustainable wellbeing - and green growth - is necessary in order to prevent an ecological catastrophe.

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<sup>14</sup> Ibid

<sup>15</sup> <https://researchportal.helsinki.fi/en/publications/recipe-for-better-life-experiences-from-nordic-countries>

**Universalism:** It argued that when welfare support and payments are universal that may necessarily limit the use of more targeted measures to cater for people or different regions or groups. That may make the system too rigid and not flexible enough to accommodate changes. It may also hinder competition and division of labour. Since societal data is essential in running the modern economies the role and ownership of data is part of the discussion related to universalism.

**Public responsibility:** The key to the Finnish welfare model is that the public sector carries the responsibility to provide for welfare. The role of the state can be seen as too little or too much. The main criticism – similar to the issue of equity above - has been that public interventions (may) make people passive. As an alternative, charity or private schemes have been suggested. In Finland one recent phenomena, that can be seen as a contradiction to public responsibility, are “food banks”, centers where people can collect free food. They are operated by charities, but on some occasions supported by the state. A new phenomena are the “Zero Waste” food banks that could be seen as part of sustainable wellbeing.

**Solidarity:** The Finnish model aims for cooperative approaches and collective agreements and tries to regulate and limit the exploitation of individuals and their basic needs. The role of social partners has been crucial for constructing the model. Employer federations and trade unions have played an important role not only in establishing collective bargaining systems, but also many legislative structures. To sustain solidarity amongst the people during times of transformations, the model needs to reconcile risks and uncertainties of the market economy and to cope with changing circumstance.

## **Social investments in children – a key to the Finnish model**

The services for families with children are said to be the key to the welfare model, so it is important to discuss it in more detail.

Direct income transfers to families with children are extensive. The aim is to value and appreciate fully the potential of each individual to the society. Health care benefits for pregnant mothers has been self-evident for a long time. The innovative maternity package (see Box 1) has been made available to all mothers for over 70 years.<sup>16</sup> Services are provided on a universal basis and free of charge. Special services are available for high-risk groups. The model is a ‘dual-earner’ model facilitated by changes in the tax system. Single parents have special supports. Finland relies heavily on public day care arrangements. The primary

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<sup>16</sup> <https://www.kela.fi/maternitypackage>

caregiver is a professional either in a daycare centre or in family care that operates under the public early childhood education and care system.<sup>17</sup>

Since 2005 the Ombudsman for Children, an autonomous and independent authority, promotes the realisation of the rights and best interest of children. The Ombudsman ensures that the position and rights of children are taken into account in legislation and decision-making. The Ombudsman has the power to investigate, criticise and publicise matters important to improving the welfare of children and youth.

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<sup>17</sup> <https://www.kela.fi/lastenhoidon-tuet>

## Box 1 - Maternity Package – Äitiyspakkaus

The first maternity grants were provided in 1938 intended for low-income mothers only. In 1949, the maternity grant was made available to all mothers in Finland. The introduction of maternity grants was prompted by concerns over declining birth rates and high infant mortality. The key element of the system was to provide the mothers access to public health services, so the grant and package are enablers for a larger scheme. A prerequisite for receiving the maternity grant is that the mother must visit a doctor or a maternity and child health clinic for a health check before the 4th month of pregnancy. In practice, this means a health check that you have before the end of week 18. This innovation was a turning point in improving the health of mothers and babies.

Nearly all first-time mothers now choose the maternity package. Only a third of all expecting mothers opt for the cash benefit (at present €170.) For several years now, the fabrics included in the maternity package have been in neutral colours, making them suitable for both girls and boys. The maternity package (56 useful items for the child and the mother) changes every year while staying true that its roots. The idea of giving a set of same clothes for all stresses the principle of all babies are born equal.

Over the years, it has become increasingly environmentally friendly. Many countries have piloted the innovation and Scotland introduced “a baby box” in 2017.

## Education

The Finnish education system is considered exemplary and ranks high in many surveys. Universal access to education was a fundamental goal from the start of the nation-building and now the aim is to ensure equal opportunity to fully mobilise all available human resources, to boost innovation and economic development.<sup>18</sup> This means, for example, no book no expenses before upper secondary school, secondary and upper secondary education is free, no tuition for universities, a universal support system for students, which covers an important part of the living expenses. The state guarantees study loans, which allows students irrespective of family background to finance their studies. Tertiary education, life-long learning and active labour market policies are

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<sup>18</sup> <https://okm.fi/en/education-system>

part of the education system. The high-class teacher training is a key element. Challenges remain and lately issues related to access to third level education and segregation have emerged.

One great Finnish innovation related to equal education system is the free school meals (see Box 2) and Finland is now leading a coalition to introduce this system as a way to improve food security in developing nations.<sup>19</sup>

### **Box 2 - Free school meals - kouluruoka<sup>20</sup>**

School meals are an investment in equality and the future. They build equality between children from different backgrounds, strengthening equal opportunity.

Finland was the first country in the world to serve free school meals and the system was originally introduced in the 1920s, but free school meals began in the 1940s. Today high-quality free school meals are provided to all students aged six to eighteen. The “raison d’être” is that well-balanced meals improve students’ health and wellbeing which, in turn, improves their learning potential and outcomes. It is one of the elements that contribute to the success of Finland’s education system.

Nutritional school meals are a part of every student’s education in Finland. They act as a holistic pedagogical practice to teach children about nutrition, good eating habits, international food cultures, as well as the environmental impact of food. School lunch break routines cover many objectives from the Finnish curriculum implementation and developing transversal competencies like everyday life skills, participation, active citizenship, and building a sustainable future.

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<sup>19</sup> <https://valtioneuvosto.fi/en/-/toward-school-meals-to-all>

<sup>20</sup> <https://toolbox.finland.fi/>

Figure 1



*Photo: Keski-Suomen museo, Pänkänen Antti*

## Looking ahead

The most important feature of the Finnish welfare state is considered its universalism. High quality childcare and school services have provided equal possibilities for all children. Universal access to healthcare is essential for the population's health and wellbeing. Childcare enables both genders to participate equally in paid labour and parenthood. Public services have been important for gender equality in Finland.

The Finnish welfare system is not the same as it was during its “golden years” of the 1980s.<sup>21</sup> Especially after a deep recession of the 1990s and during the following years, cuts were made and conditions added. The privatisation of public services has taken place in order to improve choice and efficiency. According to Hiilamo and others<sup>22</sup>: the Nordic welfare model is still distinct and fares well in comparison with other welfare state models on most dimensions of welfare.

The main challenge is to ensure sustained financing of the services. The proportion of older people and the resulting demand for social and health services is increasing, while the number of people in the labour market is decreasing. Given the relatively low birth rate it is estimated that we will need about half a million immigrants in Finland by 2060. To mitigate the situation a major wellbeing services reform has been agreed upon in order to make the system more efficient.<sup>23</sup> The implementation is due to start January 2023.

One of the key assets of the Finnish society is the high level of trust in institutions and fellow people. This has played a crucial role in developing the social security system. At the core of universalism is a sense of commonality and that is built on trust. It provides for the legitimacy of the public institutions and the redistribution of income.

In order to ensure that we can sustain the welfare state, taxpayers need to have confidence in the system. Fortunately, the system itself builds trust, because everybody enjoys some benefits of the system at some stage of their life.

If the welfare services are perceived as unfair, too generous or seen as financed by growing tax burden or bigger public debt, the trust in the system may weaken. The media and factual public information play a key role in supporting an open and factual discussion. Solidarity requires that people continue to trust each other and the authorities, and that they are ready to support political parties that want to invest in the welfare system. The welfare system also needs to move with the times; life styles and working practices are experiencing huge transformations. People’s expectations are changing. The society needs to be able to respond to increasingly diverse demands and situations.

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<sup>21</sup> <https://sosiaalivakuutus.fi/sosiaaliturvan-kauneuskilpailu-osa-11-suomi-maailman-kattavin-sosiaaliturva-polkee-paikallaan/>

<sup>22</sup> <https://researchportal.helsinki.fi/en/publications/recipe-for-better-life-experiences-from-nordic-countries>

<sup>23</sup> <https://stm.fi/en/social-security-reform>

The high rankings of Finland in many country surveys, including being “the World’s Happiest Nation”<sup>24</sup> for the past five years, do not mean that our problems have been solved. We have challenges, but the strong social safety net has demonstrated its strengths also in the globalised and interdependent world.

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<sup>24</sup> [worldhappines.report](http://worldhappines.report)