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Unequal Finland

Regional socio-economic disparities in Finland

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About this publication

On the outset and in international comparison, Finland has developed one of the wealthiest and most generous welfare states in the world and with low levels of income inequality and high social mobility. A deeper look reveals deepening regional disparities, leading to the observation that in fact there are four Finlands. Following Finland's post-war industrialisation, the rate of urbanisation and rural depopulation have been rapid, however the country's demographic change and stagnating unemployment rate have increased regional inequalities and put increasing pressure on municipalities. Neither ongoing economic growth nor central government transfers to municipalities and EU-regional funds have helped to balance regional disparities and inequalities. In fact, the measures in place are hardly sustainable and mostly plaster over the increasing difficulties for the worse off regions to provide services to their population. Thus, a new approach for regional development is needed.

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FOREWORD

Finland is known for its high levels of equality and social cohesion. Post-war Finland is a success story. Within the space of two generations the once predominantly agrarian, war-torn country on the north-eastern periphery of Europe has developed into one of the richest and more dynamic countries in the world. It is true that Finland ranks near the top of many lists that measure equality in various countries – be it in terms of income, wealth, education, or welfare, but it is also true that over the last two decades some trends have not been that encouraging. To a certain extent, the country has pioneered many digital developments and has become synonymous for a small and open economy that utilises technical change to further social progress.

However, a closer look reveals an uneven picture of the Finnish growth story. Similar to other European countries, economic, digital and ecological transitions have led to structural change. The capability to adapt to these changes in society and economy is unequally spread, with some regions benefiting from change and others falling behind. There is more and more evidence that social inequalities are increasingly linked to regional disparities. It appears difficult to fight inequalities without addressing the regional divide.

Finland is a diverse country, in which the inhabitants are often faced with different living circumstances based on their place of residence. The cluster analysis undertaken in this report by Stefan Fina and his team at the Research Institute for Regional and Urban Development (ILS) Dortmund in collaboration with our Finnish partners shows that in terms of living conditions, economic indicators and social well-being Finland can be divided into four distinct regions, which we call the “Four Finlands”. Whilst the majority of the population lives in dynamic urban regions, more than 1 in 4 Finns live in areas that do not reach the same level of welfare. Moreover, more than 1 in 10 Finns live in areas categorised as lagging with higher rates of unemployment and poverty, higher dependency ratios and lower income levels as well as a lower provision of public services. Although in comparison to other countries and societies these levels of inequalities may seem slight, disparities in Finland are at the centre of the political debate and can be seen to contribute to a rising dissatisfaction with the country's democratic, political, and social institutions and conventions.

The success of the Finnish development model and the ability of public institutions to guarantee equal living standards and

equal chances for individuals crucially depend on the way in which non-urban areas and small cities will be integrated into the development strategy. There is a vicious circle that needs to be diffused: on the one hand, some “forgotten areas” are falling behind in economic activity, causing high-skilled people to move away. This in turn results in worsening infrastructure and public services. On the other hand, highly urbanised areas, where economic activity is concentrated, attract more and more people so that there is increasing competition for jobs, higher living and housing costs and higher risk of social exclusion.

Can we think of a development model that offers equal opportunities and high standards of living regardless of one's place of residence? The challenge we want to highlight, for national as well as for European policymakers is that it is impossible to provide opportunities and equality for all individuals regardless of their economic and social background, unless regional inequalities are addressed.

The results of this report underline the need to overhaul the economic and social policies on a national as well as on the EU level. The authors point to the importance of an equal level of welfare provision throughout the country. In order to achieve that, they suggest changing the way regional disparities are thought of. Policies should be directed towards investing in people and not in administrative structures.

Without the intervention of the public sector, no opportunities are going to be generated. It is not only a matter of placing a stronger emphasis on the needs of lagging regions, it is rather the need to understand economic development as sustainable over time only if all areas develop and attain higher levels of well-being.

The same approach should be taken at the EU level; the example of Finland shows the need to adjust the scope of EU-cohesion policies and understand that many other European policies can help to address social and regional divides; the EU green deal, the EU strategy for the rights of the child, the EU gender equality strategy, just to name a few. Regional and structural policies should be more intertwined with other policy programmes such as research and development, innovation, and industrial policy. A broader perspective of economic and social well-being needs to be followed with the EU addressing the issue of social and economic inequalities in all their dimensions. Possible social and economic push

and pull factors of regional development should be considered in the programme and policy designs. Rather than focussing on the spatial concentration of growth and employment effects, the aim should be to attain a more balanced growth picture by forging links between dynamic growth centres and the lagging regions.

This study, which was written with the support of the Finnish Kalevi Sorsa Foundation, is part of a joint FES and FEPS project on regional socioeconomic disparities in five EU member states (Finland, Sweden, Estonia, Italy and Romania). The findings of the national disparity studies form the basis for a European analysis aiming to put forward proposals to reform of the EU approach to regional policy and enhance the EU's ability to contrast cohesion policies. Local development and well-being in all areas of a country is not only a goal for economic policy, rather it is a matter of strengthening democracy and ensuring opportunities and participation for all. Growing geographic inequalities in many EU-member states have been fuelling the rise of anti-democratic movements and forces, questioning the respective democratic and political institutions. To diffuse rising dissatisfaction, EU-member states and EU institutions need to address these inequalities and provide a more even development path.

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1

REGIONAL INEQUALITY OF LIVING STANDARDS IN FINLAND

Finland¹ is a large, sparsely populated country. It is nearly the size of Germany, with only 5.5 million inhabitants, making it the most sparsely populated country in Europe. Being large and small at the same time affects the state, society and the welfare of the population in many ways. Finland has developed into one of the wealthiest and generous welfare states in the world, much like its Nordic neighbours.

Industrialisation and related economic growth in Finland started later than in other European countries. Because of wars, it did not progress very rapidly in early 20th Century. Only after the World War II, since 1945, did the era of wide-scale industry in Finland begin.

The time after the World War II was a time of building the Finnish welfare state. Finland finished paying war reparations to the Soviet Union in 1952, after which gross national income growth started to gather pace (World Economics 2020). GDP grew constantly till the late 1980s, making possible the development of a Nordic welfare state. In the 1960s all Finns got a social security number and universal health insurance was introduced. Primary education was made free for all in the 1970s. During these decades Finland saw expansion of education, along which new generations educated themselves further than their parents. Income inequalities shrank, and life expectancy grew. Life expectancy and most other health indicators have improved until today, but in the aftermath of the recession in the early 1990s, income inequality increased in the latter part of the 1990s and has not significantly decreased since. Unemployment grew to over 6 per cent for the first time in the 1970s and skyrocketed in the recession of the early 1990s to almost 17 per cent. In the 2000s, the unemployment rate has remained at around 7–9 per cent (Statistics Finland 2019, 2021a).

Urbanisation in Finland was slow until World War II. Industrialisation and related change in the structure of the Finnish economy after World War II gave an impetus to the growth of cities, and since the 1960s population redistribution has been rapid. The population has increasingly become concentrated in cities and at the same time the countryside has lost population. The inability of cities to accept an exceptionally rapid influx of movers from the countryside led to the emi-

gration of some 400,000 people in the latter half of the 1960s, most to Sweden.

Migration to cities has been mainly related to employment; the mechanisation of agriculture and forestry made small scale farms unprofitable, whereas the growing industry and service sectors in cities offered plenty of jobs. Production and employment have concentrated more and more in the southern part of the country. Especially Eastern Finland has lost population. Eastern Finland lost its administrative centre Vyborg, which was in the inter-war decades the fourth largest city in Finland, to Russia in World War II. Until the 1990s all cities tended to grow, but since then only the cities with universities and to a small degree other regional centres have grown. At the same time, most of the medium-size regional centres have lost population during the last two decades. Between 2013 and 2018 only 60 of the over 300 municipalities increased their population (Ministry of Finance 2020: 20).

As a result of income growth and demographic changes, the demand for basic services, whose provision by law has been increasingly made a municipal responsibility, has increased. As a result, the significance of municipalities has increased both as a share of the public sector and also as a share of the whole economy. In most European countries, municipalities do not have to provide as many services as in Finland. Elsewhere, many services provided by the municipalities in Finland are provided by intermediate levels of government, special purpose districts with their own revenue sources, federal states or central government. In this respect the Finnish public sector is exceptionally decentralised to municipalities, which have strong financial and functional autonomy guaranteed by the constitution.

On average, Finland and the Finns are doing very well in comparison to other states. High levels of welfare are created and maintained through extensive and inclusive services, education, and open democratic processes. However, a closer look reveals a reality that is much more diverse and varied than statistics at the national level and international comparisons show.

¹ The research in this publication refers to mainland Finland.

1.1 MEGATRENDS OF URBANISATION AND AGEING

Finland is an ageing society. Finland already has one of the oldest populations in Europe and the share of over-65-year-olds of the population is predicted to increase from the current 20 per cent to 26 per cent by 2030 and to 29 per cent by 2060 (THL 2020). The generations born during the post World War II baby boom have now reached retirement age. Moreover, and for reasons partly unknown, birth rates dropped particularly sharply in the 2010s. As a result, in this respect Finland fares the worst among the Nordic countries. In the coming decade, Finland's working-age population will decrease by approximately 3,400 people per year. At the same time, more and more people move to (or are born in) cities. A rapid structural change from an agricultural society to an industrial society and further to a service society in merely 40 to 50 years has meant that regional disparities have grown: jobs in the countryside have been in decline, while the service economy has flourished where people reside – in cities.

The trend of ageing combined with the trend of urbanisation in an already sparsely populated country leads to a reality in which the people living in rural areas age even more rapidly than the urban areas, creating imbalances in needs for services, revenue and resources. For example, there are currently enough school buildings, but many of them will soon be in the wrong places. This creates an asymmetry in the costs for society.

As more and more of the younger, more educated population live in the urban areas, the public income, economic activity, and resources become concentrated in these areas. At the same time, more rural areas face increasing need for healthcare and elderly services with an increasing dependency ratio. Another side of the same issue is segregation of education, employment and consequently the increasing internal migration of working age women to cities with universities. The proportion of women aged 20–44 has increased in bigger cities and decreased especially in smaller towns and the countryside where the dependency ratio is most problematic to begin with (Ministry of Finance 2020: 67). This is not a new phenomenon but has been developing since the 1970s and cause for a wide public discussion for the entire 2000s.

Political discussion around these issues have been challenging in many ways. It is in part so because the question where one lives is deeply personal and touches upon fundamental rights, such as freedom to choose place of residence. The lagging areas are economically worse off than prospering cities and their catchments, which affect the lagging municipalities' ability to provide adequate social and healthcare for their residents – a responsibility stipulated in the law.² A system of state transfers to local governments is in place to level out the access to and quality of public services between mu-

nicipalities (see subchapter 1.4). This has effectively meant that wealth generated in urban areas has been transferred to those, often small and rural, municipalities that fare economically poorly and cannot sustain sufficient levels of public services on their own. This has led some people to ask why well-faring urban areas should subsidise badly-faring areas, as nobody is forced to live in these areas. At the same time, people living in lagging areas are asking why they do not have the same level of services as people living in more densely populated areas. This is an oversimplification of the debate, but nonetheless captures the main lines of argumentation.

The issue has provoked controversies which are manifested in the Finnish political party landscape: The Centre party has so far “owned” the agenda of rural areas and small towns. Being originally an agrarian party, its support is surprisingly high when compared to the support for centre parties in other Western societies. Much of this has undoubtedly been due to the urban–rural divide of the country. It is notable that the Centre party plays almost no role in big cities, but in many small municipalities it has the majority of seats in the municipal council. However, the Centre party's continuous and rather drastic decline in support (around 20 per cent in the 2015 parliamentary election, and around 10 per cent in polls in February 2021) may indicate that the political landscape is changing, and regional policy might be up for grabs for other parties as well. At the same time, the right-wing populist party the Finns has gained more and more support, also in the rural areas. The party was founded in 1995 following the dissolution of the Finnish Rural Party, and its success can be connected to urban-rural-divide though it cannot be explained fully by it.

1.2 DEBATE ON INEQUALITY IN FINLAND

In international comparison, income inequalities are low and social mobility is high in Finland. However, there are disadvantaged groups and individuals, and it is well known that intergenerational inequalities persist particularly among families with accumulated disadvantages (see Eskelinen et al. 2020: 148). It is also noteworthy that, just like in other parts of the world, wealth inequalities in Finland have grown since the 1980s (Riihelä/Tuomala 2020a: 57–58). The early 1990s was a watershed in relation to economic inequality in Finland: from the 1960s through to the end of the 1980s Finnish welfare services and benefits expanded, income inequalities shrank, and the economy grew. The recession of the early 1990s marked a turning point in this development. Mass unemployment put pressure on the social security system, resulting in cuts in basic social benefits both during and after the recession in the mid-1990s. In 1993, taxation of earned income and capital income were separated, and the tax on capital was radically lowered and flattened, as opposed to progressive tax on earned income. This reform meant that those owning capital were able to benefit from the rapid economic growth in the latter part of the 1990s, whereas particularly people living on social benefits lost both relatively and even absolutely. Subsequently, income inequalities grew swiftly and rather steeply in the latter part of the 1990s

² A social and healthcare reform is underway. If realised as planned, the reform will move social and healthcare services from around 300 municipalities to 21 regions and the city of Helsinki by 2023.

(Kiander 2001: 115–117). The ideology of building a welfare state was replaced in the 1990s by an ideology that stressed competitiveness in the global markets.

The steep rise in income inequalities slowed down in the 2000s and income inequality was more or less steady throughout the 2000s. However, it never returned to the pre-recession levels, and wealth inequality has grown even since the financial crisis of 2008. A major reason identified for this is the separation of tax on capital income and earned income, which has allowed cumulation of wealth and differing taxation based on the type of revenue rather than on the amount of it. The Finnish tax system is actually progressive only in regard to taxes on earned income, which constitutes just 7 per cent of all state tax revenues. When other types of taxes, such as consumer taxes and social insurance payments, are taken into account, the Finnish taxation system is, surprisingly, regressive in what comes to the wealthiest 1 per cent (Riihelä/Tuomala 2020b). Yet, the Finnish tax system is constantly debated as if it was exceptionally “harsh” in taxing the rich and redistributing income. This is a position actively promoted by the influential Finnish Business and Policy Forum (EVA), whose leader frequently refers to Finnish tax policies as “lustful for taxes” (“himoverottaja”). This commonly voiced exaggeration has made the debate on income and wealth inequalities rather contentious, as any suggestion to reform the tax system to be more redistributive faces abrupt and powerful opposition from interest groups representing the rich. Finland is really no island and similar trends in wealth inequalities as found elsewhere are to be detected here as well.

Moreover, income and wealth inequalities are intertwined with other dimensions of inequality, such as inequalities in education and health. The levels of education and/or income are linked with several aspects of health, and the difference in life expectancy between the poorest and richest men in Finland is almost ten years (in women the difference is about five years). Life expectancy has increased for all groups since the mid-1990s, but the disparities remain and have even grown slightly (Aaltonen et al. 2020: 69). Despite explicit political will to narrow socioeconomic health inequalities, they have remained stagnant in Finland since the 1970s (Aaltonen et al. 2020: 86). Universal measures to improve public health have overall been successful, but they have disproportionately benefited the wealthiest and highly educated. Employees have access to employer-provided private healthcare, whereas the unemployed, children and the retired are dependent on public healthcare. However, it is noted that the reason behind health inequalities is not so much in the healthcare system itself, but overall social inequalities related to unemployment, housing, poverty, and living conditions (Aaltonen et al. 2020: 86). Municipalities have an important role to play in policies related to all these, including social and healthcare services. The ongoing national social and healthcare reform is set to transfer responsibility for organising social and healthcare services from some 300 municipalities to 21 regional authorities and the city of Helsinki by 2023. One aim of the reform is to improve equality in access to services, as now the service level (both access and quality) differs from one municipality to another – despite nationally binding leg-

islation. It remains to be seen whether the reform will materialise, and if materialised, whether it will meet its goal on equality.

As for education, the overall level of education has risen sharply over the decades. In the 1970s, three quarters of the population (15 years and older) had only primary level education, whereas in 2018 this was the case only for one quarter. The rise in the overall education level in part explains the high level of social mobility. Particularly universities of applied sciences, established in the early 1990s, have made it possible for children of parents with secondary education to receive a higher education degree. The universities of applied sciences have hence narrowed the educational gap in relation to children of university educated parents (Kailaheimo-Lönnqvist et al. 2020: 97, 105). This is interesting from the regional perspective, as universities of applied sciences form a net across Finland, including medium-sized cities. Having a higher education facility is often very important for towns and regions around them, because it guarantees a certain level of attractiveness among young individuals and supplies an educated workforce for the local labour market.

But challenges lie not only in tertiary education but also in primary and secondary education, which is the municipalities' responsibility. The risk of dropping out of upper secondary education affects, in particular, those who have started in vocational education and training as well as young foreign-language speakers. Furthermore, the risk of not completing upper secondary level education is manifold for young people with an immigrant background compared to the majority population. What is more, young women are more prone to choose upper secondary school, whereas young men choose vocational training (Kailaheimo-Lönnqvist et al. 2020: 105–111). So, the municipal-level education system should balance not only socio-economic disparities but also disparities that derive from different ethnic and language backgrounds, as well as gender.

1.3 STRONG LOCAL AUTONOMY, DIFFERENTIATED CAPACITY

Finnish municipalities have both strong autonomy in decision-making and a broad set of service responsibilities defined by legislation. Responsibilities include early childhood, primary and secondary education as well as universal social and healthcare services. The combination of strong autonomy and the municipal provision of a wide scope of services makes it harder for the central government to direct the different areas than in many other countries. The financial autonomy of the municipalities is secured by the Constitution. Moreover, the functions and responsibilities of the municipalities must be defined through legislation, further strengthening their position; the government cannot just allocate tasks to local administrations. It has to do so through the process of law-making. Municipalities, on the other hand, are free to take on more duties and tasks if they so decide.

Municipalities are also significant employers and providers of welfare and services. For example, education, social and

health services as well as many other services in the fields of employment, infrastructure and urban planning fall under local administration, and the around half a million municipal employees form nearly one fifth of all working people.

However, there are significant socioeconomic disparities between municipalities. Municipalities with low employment lack sufficient tax revenues which they need to provide services. These municipalities are often the same municipalities whose population is elderly, which amplifies the need for health services in particular. Internal migration away from these municipalities further weakens their situation. Hence, in some areas economic viability of the municipalities is lagging and there are few options to improve the situation with current structures and requirements, given the vast responsibilities of municipalities ranging from infrastructure to education and healthcare.

1.4 METHODS FOR BALANCING OUT DIFFERENCES

1.4.1 EXISTING NATIONAL METHODS AND REFORMS

Methods for balancing regional disparities and inequalities are in place in Finland. The main formal way of balancing the disparities and creating possibilities for the lagging areas to continue to provide services is a central government-maintained redistribution policy. Finland has an extensive system of central government transfers to local government, which is meant to balance out some of the differences between the municipalities and to ensure that they can meet their comparably extensive service responsibilities. As part of the system, there is an element of an adjustment to the transfers according to tax revenue. This is known as the tax revenue-based equalisation of central government transfers to local government. All municipalities receive government transfers, but the sums vary wildly. For example, Utsjoki, a rural municipality in northern Finland received almost 6,000 euros per resident in 2020, while Kauniainen in the capital region got just 9 euros per resident. The average in mainland Finland was circa 1,700 euros. The central government transfer system covers about one fifth of municipalities' expenses. The system has been tinkered with here and there over the years, but in essence it has remained the same.

A major reform that is on its way, on the contrary, is the long-overdue social and healthcare reform. The reform is motivated by the need to ensure equal access to and good quality of services for all and curb rising social and healthcare costs. One of the main reasons for the reform has been the widely shared understanding that the current system creates vast inequalities between people in different areas. While all sides agree on the need to reform, multiple governments have failed to accomplish the reform for over a decade. The difficulty lies in its complexity and the sheer scale, and it is no minor detail that it will drastically change the role of municipalities if realised: they will no longer be responsible for providing social and health services. This major task will be moved to the new regional authorities (Helsinki is a notable

exception, as it will remain responsible for these services in the future). These new regional authorities will be created from scratch, meaning creating an extra administrative level between the state and municipalities, and e.g. introducing regional elections. The plan of the current government (2019–2023) is to organise the first regional election in early 2022, and have the new legislation take full effect in the beginning of 2023.

1.4.2 EU FUNDING FOR REGIONAL AND RURAL DEVELOPMENT

In addition to the national reforms and methods for balancing disparities, the European Union has a role to play through its cohesion policies. Finland receives assistance from the European Regional Development Fund (ERDF), European Social Fund (ESF), European Agricultural Fund for Rural Development (EAFRD), and European Maritime and Fisheries Fund (EMFF), all of which are part of the European Structural and Investment Funds (ESIF). During the programme period of 2014–2020 Finland was among those who got the least: overall ca. 3.8 billion euros out of total ca. 461 billion euros for all EU member states. This can be compared to the biggest recipient Poland (ca. 86 billion euros), the second biggest Italy (ca. 45 billion euros) and the smallest recipient Malta (828 million euros; Luxembourg did not get any). Finland was 20th on the list. Most of this sum was allocated to agricultural and rural development (EAFRD), ca. 2.4 billion euros. The allocation to regional development (ERDF) was 790 million euros, social development (ESF) 520 million euros, and maritime and fisheries (EMFF) 80 million euros. These sums are topped by national public co-funding, amounting to ca. 8.4 billion euros combined EU and national funding between 2014–2020. If we only look at the agricultural and rural development fund (EAFRD), Finland fares better than the average among the EU-27, being the 11th biggest receiver. If the national agricultural co-funding is taken into account, Finland lands at 9th (ESIF 2015a; ESIF 2015b).

Approximately 70 per cent of the ERDF and ESF were allocated to sparsely populated eastern and northern Finland. They were allocated under the Finnish operational programme “Sustainable Growth and Jobs 2014–2020”, which put emphasis on improving the competitiveness of SMEs, research and innovation, the shift to low-carbon economy, reducing unemployment, investment in education, and combatting social exclusion (European Commission – Structural Funds Programme of Finland).

While funding from the ERDF and ESF is not very visible in the public debate, this is not the case for agricultural funding. In fact, much of the debate around Finland's EU referendum in 1994 revolved around agricultural subsidies. The loss of national competence in agricultural funding was the main argument of the “no” campaign, and the need to maintain national aid for the northern regions of Finland has remained on the agenda of Finland's EU budget negotiations throughout the years. Because agricultural policies fall under the EU's Common Agricultural Policy (CAP), the use of national funds to support agriculture must be approved by the European Commission. So far, Finland has been able to hold on to the

Nordic aid, which has meant that Finland has been able to support agriculture in central and northern regions: 90 per cent of the national aid has been allocated to the northern regions, which in 2018 equalled 296 million euros. The national aid comes on top of the fully EU-funded direct payments, which in 2015–2020 could amount to 524 million euros for all of Finland.

While EU funding can be perceived as important for sparsely populated areas and particularly for farmers, it has not really changed the big picture of inequality between well-off urban and lagging rural areas. The structural funds and CAP might be directed to the countryside for the most part, but they are not the only EU policies at play. It remains an open question whether policies such as the European Green Deal, European Semester and European Pillar of Social Rights can be tools for reducing inequalities more effectively in the future, both regionally and otherwise.

2

FINLAND TODAY: WELFARE BETWEEN DYNAMIC URBAN AREAS AND LAGGING AREAS

The socio-economic situation in Finland today has come a long way. Being largely an agrarian country with limited economic opportunities throughout much of the 20th century, Finland ranks among the most advanced welfare states in the world today. At the same time, historical disparities persist, and 21st century transformation pressures in a globalised world expose the Finnish economy to new drivers of inequality and diverging living conditions:

- Employment rates are highest in the coastline regions around the urbanised areas of Helsinki, Vaasa and Turku, also in inland urban agglomerations like Tampere, Kuopio and Joensuu. In these areas diverse job opportunities match the skill levels of a young and highly educated workforce.
- Commuter belts near the large cities benefit from the strong urban labour markets and have therefore the best living conditions in Finland. Despite the fact that the urban centres drive economic development, not all urban residents benefit equally. Limited income opportunities can lead to risks of poverty in cities like Turku, Tampere, Oulu, Vaasa and Jyväskylä. A frequent reason can be found in (transforming) sectors of the labour market where jobs and qualifications do not match. High living costs are a particular problem in the capital region and in some other big cities.
- The capital region is different. The exceptionally strong economy of Helsinki (including Espoo and Vantaa) outperforms all other Finnish regions. For most people living conditions in the capital region are therefore very good. At the same time, this is the area where income inequalities are the highest and lower income households face increasing living costs.
- In contrast, border regions in the East and vast rural areas with low population density and economic opportunities are increasingly exposed to demographic ageing and out-migration. Remaining job opportunities are frequently associated with health and care related activities for a comparatively high share of dependant people.
- By international standards, Finland shows an impressively low level of income inequality across the country. Higher inequality can be found within larger cities where salaries of low-income households can be significantly below average and lead to risks of social exclusion in the future. At this point in time, however, Finland has a relatively low level of people at risk of poverty compared to other European countries. Moreover, women's labour market participation is comparatively equal (Statistics Finland 2019).
- Thriving urban areas in Finland are not nearly as overcrowded and exposed to infrastructure pressures as other European city regions. This current assessment, however, should not be taken for granted. Continued population growth gives rise to increasing living costs in Helsinki, Tampere and other dynamic cities. Low-income households are likely to be excluded from rising living standards if market-driven forces lead to issues of affordability, for example in housing.
- Such countrywide assessments recognise the significant achievements Finland has experienced over the last decades. At the same time, emerging risks for socioeconomic stability can be identified in the aforementioned rural and eastern parts of the country. Average incomes are significantly lower, access to digital infrastructure is limited, non-working and elderly people need to be supported by a shrinking population base, people participate less in elections. Economic development in Finland runs the risk of leaving such areas behind.

Despite these challenges, Finland still stands as a role model for the welfare state amongst European countries. As such, rising prosperity and wealth are one side of the coin. Stability, safety, equality and human rights are equally important – valued within the country, and highly regarded from the outside. Strategies to deal with future economic development in the light of current immediate (e.g. pandemic-related) or long-term transformation needs (e.g. climate change, global integration) require new governance concepts to ensure continuity of the Finnish model. Based on this viewpoint, the analysis of socioeconomic disparities in this report focuses on an integrated assessment of Finland's preconditions for future development. It discusses current spatial variations of strengths and weaknesses in the light of future risks and challenges for the country. Selected indicators inform on (1) economy, employment and the labour market; (2) educational opportunities and life chances; (3) prosperity and health; (4) state action and participation; and (5) internal migration patterns. The next section explains the methodological approach to define these topic areas for Finland.

2.1 THE CLUSTER ANALYSIS

The strengths and weaknesses of Finland's geography are diverse. Indicators used to capture their spatial variation and differences were chosen for their explanatory power for selected topics. They stand as proxies for unequal developments that can be associated with geographical framing conditions and interpreted in comparison with developments elsewhere in the country. Next to the choice of indicators the administrative level for input data is important. Values for indicators can more clearly be attributed to the policy environment if the area of observation represents the sphere of influence for political action and governance accurately. Despite the fact that national and state policies as well as local decisions always interact to some degree (e.g. through subsidies and financial transfers), indicators for the municipal level³ show more informative value than overarching administrative levels where data is aggregated and resulting averages can lead to a blurring of spatial patterns. The study therefore focuses on local living conditions and local government capacities to provide future-proof framework conditions for socioeconomic development.

The novelty of this report is the integrated analysis of a comprehensive set of indicators on the municipal level in a geo-statistical procedure known as cluster analysis. Indicators are representative measures for five dimensions of equality: (1) economy, employment and labour market, (2) educational opportunities and life chances, (3) prosperity and health, (4) state action and participation, (5) migration. Single indicator maps are combined into areas with similar strengths and weaknesses in comparison to the national average. The resulting map informs about a spatial typology of disparities in Finland: the so-called Disparity Map of Finland. It is important to read the map in conjunction with statistical information on the bandwidth of indicator values that form a cluster. Moreover, a brief text interpretation portrays the visible spatial patterns with a view towards explanatory factors.⁴

1. **Employment rate, demographic dependency ratio, turnover of establishments of enterprises per person** (*Economy, employment and labour market*): *Employment* is the basis for economic participation. Higher employment rates demonstrate a successful match between the job opportunities a region has to offer and the skill levels and preferences of the local and regional workforce. Employed people usually generate the funds for dependant people through their tax and social insurance contributions. The *demographic dependency ratio* indicates the ratio of dependant people to working age people. Higher values pinpoint towards higher demands of dependent people and higher pressure on private and public funds to support them. High values are frequently an implication of demographic ageing and out-migration of working-age people. The *turnover of establishments of enterprises per person* measures business-related economic activity of new enterprises. Higher values show where businesses,

start-ups and entrepreneurship are more successful in comparison to areas with lower values.

2. **At-risk-of-poverty rate for children, highly qualified people** (*Educational opportunities and life chances*): An upbringing in *poverty* is a significant burden for children. Many studies show that concentrations of poverty can lead to negative milieu-specific effects for the realisation of life chances. The share of *highly qualified people* emphasises the importance of education in this respect. Higher values show where more people have the prerequisites to compete on an increasingly competitive labour market if matching job opportunities exist. The current match, however, is only part of the picture. Higher education levels are also associated with higher potentials for personal development and reorientation on a transforming labour market.
3. **Median gross income, employees in social welfare and health care, home loans** (*Prosperity and health*): *Income* is fundamental to cover the cost of living. Insufficient income leads to exclusion and pressure on families and/or the welfare state to cover living costs for dependent people. *Home loans* stand for the variation of living costs across the country. High home loans not only show where the real estate market is not as affordable as elsewhere. Higher costs for housing are frequently associated with higher other expenditures in more expensive regions. The share of *employees in social welfare and health care* is used as a proxy for the importance of the health sector in a region. Higher shares can be constituted by high demand, for example in regions with high shares of elderly people, or high demand for specialised services in comparison to other form of employment in a region.
4. **Broadband provision, voter turnout** (*State action and participation*): *Broadband provision* is an increasingly important prerequisite for digital participation and respective business opportunities where accomplishments or deficiencies of state action in the provision of the respective infrastructure become evident. High numbers of connections signify where more people use internet services and are therefore better equipped to face the challenges of the digital age. The share of people who vote at national elections shows people's interest in democratic participation. Higher shares are frequently attributed to higher levels of education and wealth, affluent and educated people are more likely to vote. Certain "hot" topics and the specific appeal of personalities can motivate to vote in addition. This can also be seen as a positive contribution to participation.
5. **Internal migration balance** (*Migration*): The balance of in- and out-migration can be interpreted as an early-warning indication of spatial mismatches between people's expectations for the realisation of life chances on the one hand, and the significance of deficiencies that motivates migration on the other. Demand and supply of infrastructure, stability of the labour market, and many cultural and societal inequalities are associated with migration patterns and the resulting population base. In this context, internal migration can be interpreted as an expression of locational preferences and the perception for desired living conditions in the Finnish population.

³ LAU 2 (local administrative unit level 2 defined by the European Union).

⁴ **in bold**: indicator name; *in italics*: topic group

Figure 1 shows the resulting spatial typology for Finland in the national disparity map. The clusters are semantically framed with labels derived from the interpretation of indicator values and additional information on the geography of their delineation. Table 1 gives a summary overview of indicators that characterise the single spatial types. Arrows are used to symbolise the mathematical value of indicator values (very high: ↑; high: ↗; average: ○; low: ↘; very low: ↓). In some cases high values stand for a positive locational factor (i.e. high values for average incomes, high employment rates), in others they are rather negative for life chances (i.e. high at-risk-of-poverty rates or high values for home loans). For this reason an additional colour background (shades of green = rather positive or very positive; light grey = average; shades of red = rather negative or very negative) is used to indicate the assessment of values in terms of strengths or weaknesses of a region – always to be interpreted in comparison to the national averages. The combination of the disparity map and its constituting statistical values aims to help interpretation. An interactive web map allows further investigation of values for all input variables and their combined effect in the disparity map.⁵

2.2 FOUR FINLANDS

The disparity map shows that Finland can be differentiated into four spatial types with distinct socioeconomic advantages and disadvantages. The colours in the legend use associative colours on purpose: shades of green show areas that currently fare better in the overall assessment, and seem to be better prepared for the challenges of the future – at least for the majority of people. The ocre colour shows areas that frequently have indicator values close to the national average. The violet colour is used to map out areas with a majority of negative indicator values – areas in need of dedicated policy attention. Based on this colour interpretation, the map shows basically three settings for disparities: average, above average, and below average.

1. Average: **Average Finland** (ocre in figure 1) is home to 0.95 million people (17.2 per cent of the total Finnish population of 5.5 million inhabitants) and 109 municipalities (37.2 per cent of a total of 294 mainland municipalities). It forms a wide circle from the Southern inland regions across western parts of the country to sparsely populated but large municipalities in the North. This spatial type is characterised by a majority of indicator values close to the national average (see table 2).
2. Above average: The generally better off **prospering capital region and urban catchments** as well as **urbanised areas with risks of social exclusion** (light and darker green in figure 1 frequently form adjacent delineations with an urban core as the nucleus for growth and prosperity. The spatial extent can be understood as the area of reach for functional relationships between

core and suburban or exurban commutersheds on the one hand, and other spill-over effects from the urban core. Economies of scale play a decisive role in the explanation of the economic attractiveness of these areas: High quality infrastructure and services, human resources and the proximity to regional and supra-regional markets generate economic advantages that frequently outweigh higher locational costs for business entrepreneurs and enterprises. Continued growth, however, can lead to new risks of social exclusion if economic benefits are unequally distributed and remain intangible for parts of the population. This is substantiated by data on income inequality that shows significantly higher values in the municipalities of the two clusters described here.⁶ This assessment becomes a risk for future development when increasing demand conflicts with limited resources. Market forces are then likely to start a vicious cycle of rising living costs that in turn put pressure on the housing market. Subsequent segregation and/or displacement of disadvantaged households can lead to knock-on effects for example upon traffic and aspects of social cohesion. These two spatial types are inhabited by the majority of the Finnish population: 3.95 million people (71.6 per cent of the Finnish population) live in the 76 municipalities (25.9 per cent of all the Finnish mainland municipalities) of these two clusters.

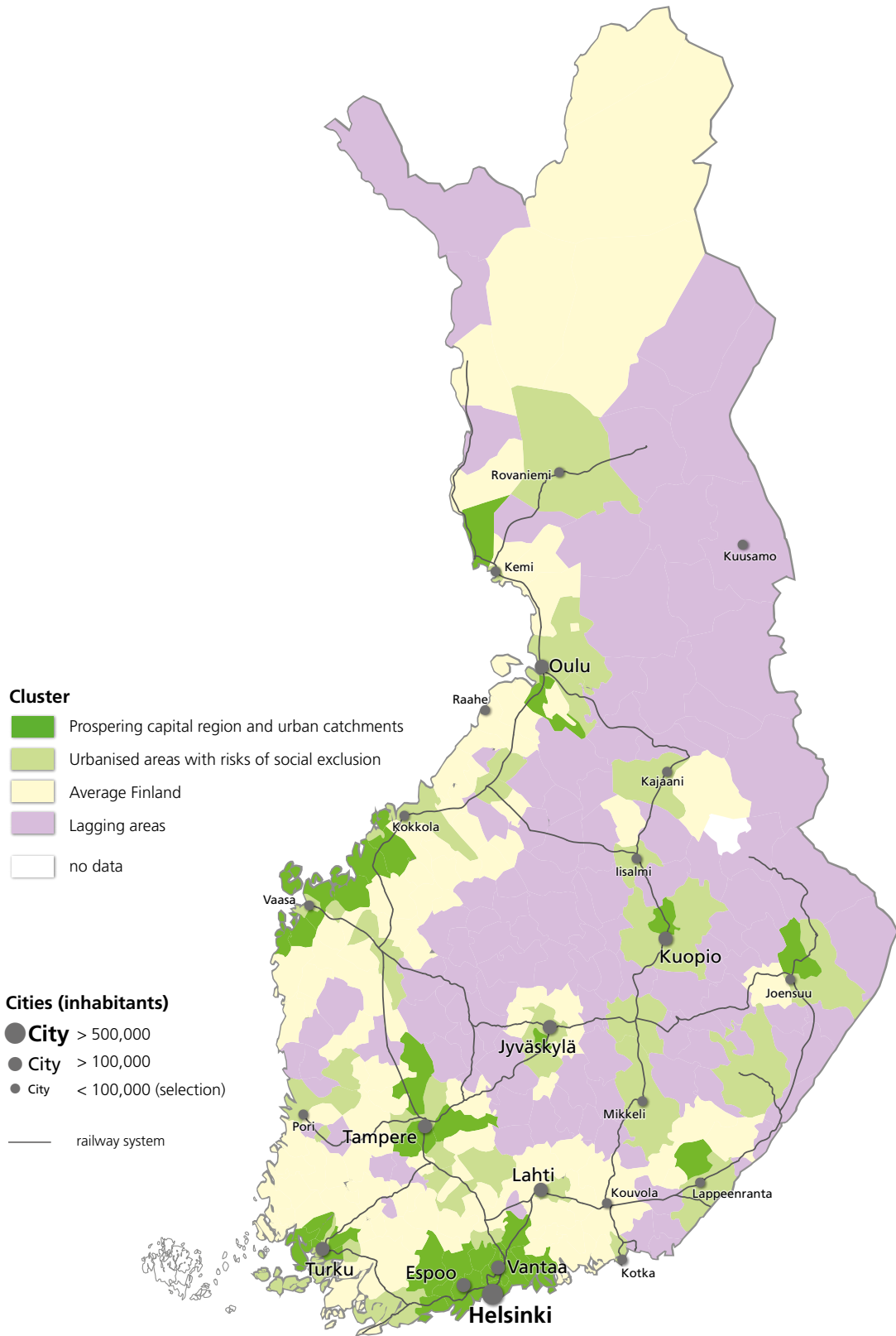
3. Below average: The **lagging areas** of Finland (violet colour in figure 1 contrast the developments in the urbanised areas and their catchments. This is where young people leave the countryside in large numbers, for educational purposes, searching for job opportunities and/or urban lifestyles. The population is therefore older on average. Some areas struggle with vacancies on the housing market and oversized infrastructure due to a shrinking population base. The remaining workforce needs to support more elderly people and children. The share of employees in the health sector is comparatively high. Many people work in industry, mining and agriculture. The outlook in lagging areas can potentially become problematic if old industries, e.g. in mining, run out of resources and phase out, and/or (digital) automation processes lead to a replacement of labourers and continued shrinkage. In total, the sparsely populated lagging areas are populated by 0.5 million people (10.5 per cent of the Finnish population) in 109 municipalities (37.2 per cent of all Finnish mainland municipalities).

This summary characterises and visualises the patterns of disparities at a glance. The definition of such spatial types also lends itself to the evaluation of structural and social policies in the future. Table 2 lists all indicators with their minimum and maximum values by spatial type, including the place names. The table therefore shows the current bandwidths of indicator values for each type.

⁵ <https://fes.de/unequal-finland>

⁶ Income inequality measured by the Gini coefficient yields an average of 25.49 and 26.03 for the municipalities in these two clusters (Lagging areas: 24.60; Average Finland: 24.50). See data on income inequality at <https://sotkanet.fi/sotkanet/en/haku?g=470> (23.12.2020).

Figure 1
The Finnish disparity map

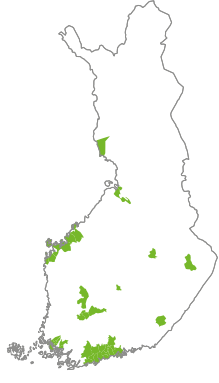
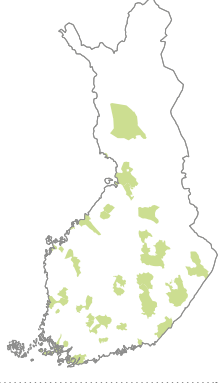
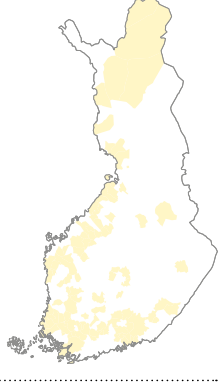
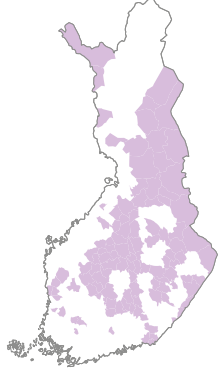


0 100 km

Geodata: eurogeographics, Geofabrik GmbH, OpenStreetMap Contributors 2018

Source: Own illustration.
Data: Statistics Finland (see Appendix A for a detailed list), Finnish Transport and Communications Agency (Traficom), Finnish Center for Pensions, Eurostat.
Clusters and indicators refer to mainland Finland.

Table 1
Spatial typology of socioeconomic disparities in Finland

Characterisation	Indicator assessment	Spatial delineation
Prospering capital region and urban catchments (43 municipalities; 1.94 mio. inhabitants)		
<p>Highest employment rates, highest incomes and population growth, high turnover per person for newly established businesses and best qualifications of the workforce: This spatial type grows around the economic powerhouses of Finland with the capital region as the forerunner. Equally, the social dimension performs above average: very low dependency ratios and very low risks of a life in poverty for children go along with high levels of participation in voter turnouts. Most households are connected to broadband internet, the average value for jobs in the health and welfare sector is likely to show the high share of specialised medical institutions that provide services for larger catchments. The continued in-migration of people from within Finland and the influx of migrants from abroad stabilise the population base, but also put pressure on the urban system. The very high levels of home loans act as an early warning indicator in this respect: Growth leads to competition for resources like affordable housing, high demand leads to rising living costs.</p>	<p>Employment rate: 78.6 % Dependency ratio: 64.0 % New business turnover p.P.: 267,000 EUR Child poverty risk: 8.2 % Highly qualified: 22.8 % Median gross income: 41,367 EUR Jobs in health: 513.6 per 10,000 inh. Home loans: 114,046 EUR Voter turnout: 76.1 % Broadband: 70.6 % Internal migration: -1.1 inh. per 1,000⁷</p>	
Urbanised areas with risks of social exclusion (33 municipalities; 2.01 mio. inhabitants)		
<p>Larger cities outside the capital region and surrounding municipalities benefit from lucrative urban labour markets and business opportunities in this cluster. It is characterised by high in-migration and population growth especially in working age people, leading to a very low dependency ratio. Turnover of newly established businesses is high and attracts high shares of highly qualified residents. This cluster is also home to important universities that attract in-migration for educational purposes. Median incomes remain on a level close to the national median due to a more diverse social strata, including a larger share of low-income households. A higher proportion of people work in health and care related jobs compared to the Finnish average. Infrastructure provision as indicated by broadband accessibility is above average. The risk of poverty for children is average, as is the participation level expressed by the voter turnout.</p>	<p>Employment rate: 70.4 % Dependency ratio: 64.8 % New business turnover p.P.: 259,000 EUR Child poverty risk: 12.7 % Highly qualified: 19.6 % Median gross income: 30,996 EUR Jobs in health: 905.1 per 10,000 inh. Home loans: 87,277 EUR Voter turnout: 70.3 % Broadband: 75.2 % Internal migration: -9.7 inh. per 1,000</p>	
Average Finland (109 municipalities; 0.95 mio. inhabitants)		
<p>This is the cluster with a majority of indicator values close to the national average. Average values can be found in the dependency ratio, new business turnovers, highly qualified employees, gross income, the share of jobs in the health sector, home loans, the voter turnout and the internal migration balance. Deviations from the national average relate to a slightly higher employment rate in this cluster, a very low risk for children to be brought up in poverty, and a higher number of households connected to broadband internet. The complete absence of below average values is striking but must not be mistaken for an absence of problems. It is likely that the labour market in parts of average Finland will be exposed to transformation pressures in the future when automation processes in industry, mining and agriculture continue to replace human labour. Municipalities closer to Finland's economic hubs and urbanised areas are likely to fare better in this respect, due to nearby alternatives.</p>	<p>Employment rate: 73.8 % Dependency ratio: 77.1 % New business turnover p.P.: 194,000 EUR Child poverty risk: 12.2 % Highly qualified: 13.4 % Median gross income: 33,477 EUR Jobs in health: 505.5 per 10,000 inh. Home loans: 75,159 EUR Voter turnout: 72.0 % Broadband: 55.6 % Internal migration: -33.9 inh. per 1,000</p>	
Lagging areas (109 municipalities; 0.58 mio. inhabitants)		
<p>Finland's geography is characterised by vast, sparsely populated areas with limited resources for human enterprise and sometimes inhospitable natural living conditions. In the North traditional farming and tourism offer sources of income. In other areas industry and people rely on limited resources, e.g. in the mining of raw materials. Employment opportunities are closely related to the existence of such resources, but also exposed to decreasing labour intensities due to automation and mechanisation. This cluster is therefore characterised by indicator values mostly below the national average, average turnovers of newly established businesses and an above average share of employees in the health sector due to a relatively old population in frequent need of medical services. Better than average values can only be found for the indicator of home loans. This is due to very low real estate prices in areas of very limited and decreasing demand.</p>	<p>Employment rate: 67.1 % Dependency ratio: 84.8 % New business turnover p.P.: 196,000 EUR Child poverty risk: 16.7 % Highly qualified: 10.2 % Median gross income: 29,322 EUR Jobs in health: 570.8 per 10,000 inh. Home loans: 58,378 EUR Voter turnout: 67.7 % Broadband: 43.3 % Internal migration: -47.2 inh. per 1,000</p>	

Value key: very high values: ↑ high values: ↗ average values: ○ low values: ↘ very low values: ↓

How to interpret: very positive (green) positive (light green) average (yellow) negative (orange) very negative (red)

Source: Own illustration. Data: Statistics Finland (see Appendix A for a detailed list), Finnish Transport and Communications Agency (Traficom), Finnish Center for Pensions, Eurostat.

⁷ The averages of the internal migration balance are negative across all spatial types in Finland. Mathematically, this can happen in the aggregation procedure of the cluster analysis when the data shows a highly unequal distribution. This is the case here: In Finland, only 51 out of 294 municipalities with data for all indicators have a surplus of internal migration. In all other municipalities the population is shrinking.

Table 2
Bandwidth of indicator values for the spatial types

Indicator	Value	Prospering capital region and urban catchments	Urbanised areas with risks of social exclusion	Average Finland	Lagging areas
Employment rate (%)	Min.	69.8 (Tornio)	62.2 (Kemi)	66.5 (Ylitornio)	57.2 (Puolanka)
	Max.	85.0 (Pedersören kunta)	79.5 (Paimio)	82.9 (Närpiö)	74.5 (Ypäjä)
Demographic dependency ratio (%)	Min.	45.6 (Helsinki)	48.4 (Tampere)	57.2 (Kittilä)	66.9 (Enontekiö)
	Max.	77.6 (Luoto)	81.5 (Harjavalta)	106 (Luhanka)	105.1 (Kuhmoinen)
Turnover of establishments of enterprises per person (EUR)	Min.	131 (Pornainen)	132 (Muhos)	106 (Lumijoki)	102.0 (Miehikkälä)
	Max.	929 (Tornio)	619 (Harjavalta)	473 (Kaskinen)	488.0 (Keitele)
At-risk of poverty rate for children (%)	Min.	4.5 (Masku)	7.3 (Parainen)	5.8 (Hattula)	8.4 (Enonkoski)
	Max.	14.7 (Tornio)	17.4 (Turku)	21.1 (Karvia)	35.6 (Pelkosenniemi)
Share of tertiary educated (%)	Min.	15.2 (Luoto)	11.8 (Pieksämäki)	5.7 (Karijoki)	5.4 (Rautavaara)
	Max.	48.0 (Kauniainen)	29.0 (Tampere)	20.2 (Laihia)	14.8 (Varkaus)
Median gross income (EUR)	Min.	33,743 (Tornio)	26,941 (Joensuu)	27,581 (Forssa)	25,391 (Rautavaara)
	Max.	58,195 (Kauniainen)	37,492 (Parainen)	42,623 (Tyrnävä)	35,400 (Sievi)
Employees in social welfare and health care per 10,000 inh.	Min.	187.1 (Rusko)	620 (Valkeakoski)	192.7 (Pyhäranta)	172.2 (Rantasalmi)
	Max.	865.0 (Helsinki)	1,281.4 (Harjavalta)	872.4 (Kristiinankaupunki)	872.7 (Utajärvi)
Home loans (EUR)	Min.	79,524 (Korsnäs)	55,816 (Harjavalta)	47,880 (Karijoki)	35,166 (Puolanka)
	Max.	215,742 (Kauniainen)	106,712 (Tampere)	105,515 (Askola)	78,178 (Perho)
Voter turnout (%)	Min.	69.7 (Mäntsälä)	61.4 (Pieksämäki)	65.7 (Laitila; Pukkila)	60.0 (Hyrynsalmi)
	Max.	86.2 (Luoto)	75.8 (Parainen)	79.2 (Puumala)	76.9 (Savukoski)
Broadband provision (%)	Min.	34 (Vesilahti)	35 (Pieksämäki)	5 (Askola)	0 (Kaavi)
	Max.	99 (Helsinki; Taipalsaari)	98 (Kankaanpää)	100 (Hailuoto; Sodankylä)	100 (Rääkkylä)
Overall internal net migration balance per 10,000 inh.	Min.	-80.5 (Vöyri)	-66.0 (Kemi)	-150.3 (Kristiinankaupunki)	-120.0 (Kivijärvi)
	Max.	75.6 (Sipoo)	51.5 (Tampere)	83.1 (Kustavi)	14.7 (Pelkosenniemi)

3

NEW POLICIES FOR EQUALITY OF LIVING CONDITIONS AND SOCIAL COHESION

As shown in the previous pages, there are wide differences between the regions and municipalities of Finland. One of the most developed welfare states in the world provides fairly uneven results to its inhabitants in the light of the indicators of this study. One's place of residence defines many aspects of one's life from educational opportunities to employment perspectives to wealth and health services available.

The global megatrend of urbanisation is clearly visible in the data. In a sparsely populated country, the consequences are significant, as the internal migration from rural areas to towns and cities amplifies the effect of the other trend of ageing.

The cities concentrate prosperity as well as segregation and the risk of social exclusion. Apart from the capital region, the areas surrounding the central city attract the most prosperous inhabitants. Suburban towns thrive whilst the cities face numerous challenges and issues of segregation. This, again, is not unique to Finland, nor very extreme, yet a phenomenon worth paying attention to.

The clusters found in this study are uneven in many ways. As the urbanised regions and their catchments contain 3.95 million residents in 76 municipalities, the other two clusters, that include the national average of the indicators and the lagging areas, are formed by 1.53 million inhabitants in 218 municipalities. As the study measures the indicators between the municipalities, this highlights the disparities even more widely. The "Average Finland" cluster contains municipalities with indicator values at the national average. However, the vast majority of people live in areas with above average living conditions. This indicates that the numerous small municipalities are not capable of providing the same living standards to their residents as those with a larger share of the population.

There are structures in place that aim to mitigate this exact problem. However, the current system of central government transfers to municipalities aimed at balancing the differences is clearly not providing the results expected of it. The system has been tinkered with, reformed and re-thought over the decades, but changes within the system do not provide significant change. Taking more resources from especially the capital area and transferring them to other areas is not a sustainable solution. Not only does it increase the is-

sues faced by the cities regarding the lack of resources for all the services needed by the increasing, diverse and young generations, it also does very little to help create jobs, businesses or livelihoods in the rural areas. It mostly just plasters over the increasing difficulties of the worse-off regions to provide services for their population. A new approach to regional development in Finland is needed.

There is a visible disparity between the two better off and two worse off clusters. The dividing line is all the more visible as the national average in most indicators falls on the second last cluster, highlighting the relative difference between the groups even more. At the same time, it is noteworthy that even the second cluster (urbanised areas with risks of social exclusion) are lagging in relation to the prospering capital region and urban catchments. As Finland has a comparatively extensive regional (financial) balancing system that transfers tax revenue from the well-off areas to less thriving regions, the study shows clearly that the current system does not achieve its aims.

The current system of central government transfers to municipalities is the result of a political reality, but the Finnish people deserve a more thorough rethinking of it. Do we continue to try to offer the same for all in all municipalities across the country, when it is evident that that strategy fails? Or could we shift the focus away from the equality of structures (municipalities) to the equality of people? Reforming the administrative structures in health and social services creates a window of opportunity that should be used to assess the system more widely. We should accept and perhaps even accelerate municipal differentiation. To do so, we should rewrite legislation on public services and learn a new way to think and speak about it.

3.1 FOUR RECOMMENDATIONS FOR FUTURE DEBATE

Based on research, there are issues that need more in-depth debate and analysis. Currently, while an unprecedented reform of social and health care services and structures is being implemented, there is a window of opportunity to look at and assess the wider landscape of services, employment and welfare they create in addition to social and health services. This opportunity should be used to launch a discussion on the goals of the welfare state, and how to reach them, rather

than succumbing to a reactionary defence of existing structures. We offer four recommendations for the debate. These aim not to have a final say on the issues, but instead to present a starting point for discussion.

1. **Concentrate on people and accept municipal differentiation**

Municipal differentiation has become widely apparent and affects the municipalities' ability to carry out statutory duties. The current system of central government transfers to municipalities, which just shifts resources from the prospering capital region and urban catchments to other spatial types seen on the disparity map, only helps to increase segregation and inequality within the cities, whilst not being enough to address the issues in the rural areas. The aim of the welfare state has been the creation of as equal as possible living standards, opportunities and welfare for everyone in the country. The debate should move towards achieving that goal, and that requires the ability to discuss solutions not designed for the current administrative structures and concept of municipality.

We need to find answers both to issues of social exclusion in urbanised areas and to the problems of lower living standards in the lagging areas, including the challenge of uneven gender balance in the most rural areas due to combination of low birth-rates, gender-segregated labour markets and internal migration. This, combined with ageing, demands serious answers, which should be found in rethinking the current concept of "unitarian municipality", which refers to the idea that all municipalities in all spatial types seen on the disparity map carry out unitary tasks. In the next few years, many municipalities even in "Average Finland" will find it very difficult to provide even the basic services that are essential to citizens. This is a problem which cannot be answered by merging two or more municipalities into a single new municipality. It seems that the concept of "unitarian municipality" has come to its end and we should accept the differentiation of tasks of the municipalities. The floor is already open for a political discussion since the Finnish constitution does not prevent the legislator from regulating the tasks of municipalities in a way where the tasks of some municipalities are different from those of others.

At the same time, it is important to remember that the differentiation of the tasks of the municipalities must not be at odds with the minimum requirements of regional self-government. The democratic character of municipal decision-making must be safeguarded. Controlled municipal differentiation goes hand-in-hand with respect to subsidiarity in decision-making.

2. **Flexibility on living, working and education**

Every crisis forces us to rethink society somewhat. As the COVID pandemic has shown us, many of the past absolutes are not necessarily valid. More and more people are capable of working outside of the formal place of work. Services that we use can be offered remotely or brought

to our homes, instead of us having to travel to them. These will be growing trends after the COVID period as well. Many of Finland's regions could benefit from multi-location living and working if it was a real option for more families. As the disparity map shows, even the different regions within the spatial area of prospering capital region and urban catchments are areas that are geographically small and far apart.

A number of the health and other services for adults are starting to be flexible enough to make varying living arrangements for the middle class possible, but the reality for many is still that spending significant time at the "second" home is impossible. Making this a real option for all would require more flexible day-care and school arrangements as well as work and service provision. These same flexibilities would benefit the people living in the lagging areas, making it possible to remain, work and set up a family where now it is not a realistic opportunity, or where the limited resources of the municipality are tied up in service production of the past, not in investment for the future.

This requires rethinking many of the functions of the welfare state as they currently are, and there are plenty of factors to consider – from equality of learning outcomes, to the right of children to peers, or for other equality indicators – but if we want to focus on equality of people over structures, these are the discussions that have to be had. The starting point for increasing flexibility on living, working and education could be rewriting legislation on public services and the system of central government transfers to municipalities in a way that they accept that a person can have more than one official municipality of residence and one family can live in several homes in several municipalities.

3. **Focus on the regional centres**

Changing the viewpoint of policymaking from administrative areas to people would make it possible to focus on differences as strengths, in specialisation and services as required rather than current one-size-fits-all models connected to the current concept of "unitarian municipality". There should be a better and stronger emphasis on education-driven growth, employment and strengthening the regional centres, as these clearly create spill-over effects on the neighbouring areas. Regional industrial policy as well as culture and educational opportunities should be emphasised.

Cities in the proximity of prospering capital region and urban catchments as well as urbanised areas with risks of social exclusion do not only compete within Finland but also internationally, creating positive circles of development for entire regions. Achieving ecologically and socially sustainable economic growth for the central cities would benefit the development of the whole country. For the different regions to grow in their strengths they need both strong democratic structures and financial agency on all administrative levels. The health and social services reform will shift the responsibility for or-

ganising health and social services from the municipalities to the regional government level (health and social service areas). It creates a new democratic structure around the regional centres, but there is a need for financial capacity to give strength to it. This would be achieved through regional taxation that is decided at the regional government level.

4. **A small country needs a shared vision and enough information to build it**

For a small country to succeed, there is a definite need for a shared vision of the aims and of the route there. In the case of Finland, there is a need for bridging the urban–rural divide. This study shows that in Finland individuals with academic degrees are mostly concentrated in cities, while municipalities with newly established firms with high turnover per capita are spatially distributed across Finland. Linking these together could provide an opportunity for economic growth. We need better functioning urban–rural links, in infrastructure and connectivity as well as in other fields in order to increase cooperation, create synergies and ultimately raise living standards. All four spatial types with distinct socio-economic advantages and disadvantages seen on the disparity map have their own function in Finnish society. Building better urban–rural links demands long-term planning in more areas than currently take place. It is also important to connect Finland better to continental Europe by projects like Rail Baltica. Long term planning fits with the Finnish political tradition of consensus politics and would also limit the space for populist politics.

The aim of EU cohesion policies is to decrease regional disparities. Instead of pure income redistribution, the aim of the support measures is to enhance investments and employment and achieve higher regional growth rates. Despite the significant budget outlays, evidence of the effectiveness of the support measures is scarce. The disparities between the prospering urban areas – the capital region in particular – and more poorly faring rural areas around regional centres remain. Building rural–urban linkages is something the EU could help with in a very concrete manner: by boosting rail infrastructure. This would be in line not just with the regional development policies but also with the European Green Deal. At the same time, EU policies should take into account that there are inequalities not only between regions but also within (urban) areas. Hence the European Pillar of Social Rights and the European Semester, together with Cohesion Policies and the Green Deal should be developed in directions where multiple inequalities can be tackled simultaneously.

All in all, what Finland needs is a renewed, honest and brave discussion on equality and living standards. To create equality in Finland, we need to find ways to create sustained means to prosper for all areas, rather than simply move money from one area to another.

ANNEX A:

Indicator documentation

Indicator	Definition	Source
Employment rate 2018	Ratio of employed persons aged 18 to 64 to the total population of the same age	Statistics Finland's PxWeb databases
Demographic dependency ratio 2018	Share of dependents aged zero to 14 and over the age of 65, compared with the total population aged 15 to 64	Statistics Finland's PxWeb databases
New business turnover per person 2018	Turnover of establishments of enterprises per person (in 1,000 EUR)	Regional statistics on entrepreneurial activity, Statistics Finland's PxWeb databases
At-risk of poverty for children 2017/2018	Percentage of persons under 18 living in households with incomes below the 60% median in the total population of persons under 18	© THL, Statistics and Indicator Sotkanet.fi 2005–2020
Share of tertiary educated 2018 in the working age population	Share of persons with bachelor, master, doctoral or equivalent level to all persons age 15 or over	Statistics Finland's PxWeb databases
Median gross income 2018	Income and income structure of household-dwelling units, disposable cash income, median, in EUR	Statistics Finland's PxWeb databases
Employees in social welfare and health care sectors per 10,000 inh. 2017	Employees in the social welfare and health care sector per 10,000 inhabitants	© THL, Statistics and Indicator Sotkanet.fi 2005–2020
Home loans 2018	Home loan per residential unit with home loan (EUR) 2018	Statistics Finland's PxWeb databases
Voter turnout at the national election 2019	Share of persons who voted in parliamentary elections in 2019	Statistics Finland's PxWeb databases
Broadband provision 2019	Share of households with fixed network downloads over 30 Mbit/s	Finnish Transport and Communications Agency (Traficom)
Internal net migration balance 2013–2018	Intermunicipal net migration balance, per 1,000 inhabitants in the time period 2013–2018	Statistics Finland's PxWeb databases

ANNEX B: Methodological notes

The spatial typology of Finland was computed in a combined statistical procedure consisting of a principal component and a cluster analysis. This procedure involves three steps. In the first step all variables were standardised by z-score transformation. Then, since many of the 11 selected disparity indicators are potentially correlated, a principal component analysis was conducted in order to reduce complexity and to avoid any potential bias caused by multicollinearity. The principal component analysis merges the initial selection of indicators to a lower number of uncorrelated “super-variables”, so-called principal components. The amount of principal components chosen for the cluster analysis explains more than 90 per cent of total variance in the data. In the final step, a hierarchical cluster analysis using the Ward method was conducted. In this procedure, the initial observations are hierarchically merged using a minimum variance criterion. The point where to stop the clustering procedure, and hence the resulting number of clusters, is chosen by the data analyst. Several solutions have been tested and discussed within the research team. The final typology of four clusters was selected based on its intuitiveness and relevance to identify spatial disparities in Finland.

ANNEX C: Indicator value ranges

Indicator	Year	Value range from...to
Employment rate (%)	2018	57.2 (Puolanka) to 85.0 (Pedersören kunta)
Demographic dependency ratio (%)	2018	45.6 (Helsinki) to 106.0 (Luhanka)
Turnover of establishments of enterprises per person (in 1,000 EUR)	2018	87 (Valtimo) to 929 (Tornio)
At-risk of poverty rate for children (%)	2017/2018	4.5 (Masku) to 35.6 (Pelkosenniemi)
Share of tertiary educated (%)	2018	5.4 (Rautavaara) to 48.0 (Kauniainen)
Median gross income per year (EUR)	2018	25,391 (Rautavaara) to 58,195 (Kauniainen)
Employees in social welfare and health care per 10,000 inh.	2017	172.2 (Rantasalmi) to 1,281.4 (Harjavalta)
Home loans (EUR)	2018	35,166 (Puolanka) to 215,742 (Kauniainen)
Voter turnout (%)	2019	60.0 (Hyrnsalmi) to 86.2 (Luoto)
Broadband provision (%)	2019	0 (Kaavi) to 100 (Hailuoto; Sodankylä; Rääkkylä)
Overall internal net migration balance per 1,000 inh.	2013–2018	-150.3 (Kristiinankaupunki) to 83.1 (Kustavi)

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