4 More or less equality?

Facts, debates, and policies related to the Nordic model

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The topic of income inequality has become a new nexus of research among historians and social scientists recently.[1] Piketty (2014) has famously argued:

> Inequality is shaped by the way economic, social, and political actors view what is just and what is not, as well as by the relative power of those actors and the collective choices that result. It is the joint product of all relevant actors combined.

Given that redistribution is a core element of the Nordic model and understood as key to the development of social trust and cohesion, all debates about social and cultural polarization are also debates about economic inequalities and the possible policy choices related to those issues. Moreover, in public and political discussion – in Finland especially – income inequality is in many cases conflated with various other forms of inequality in the society. This crucial difference in what is meant by scholarly versus political discourses at large can often lead to inexact policy debates and solutions. In this chapter we concentrate, mainly, on exploring the specific concepts of income inequality that are measurable and definable, especially what they tell us about this form of inequality in Finland and Sweden as our case studies. In addition, we will contextualize these cases through comparisons with the other Nordic countries as well as other polities. However, as we can see from our discussion here, there are striking differences, especially in the public discussions as measured by newspaper articles both in Finland and in Sweden, whether the discussion is focused on societal inequality in broader terms or, more specifically, on income inequality and its ramifications.

In this chapter, we will discuss the period from the late 1960s to the recent years, thus examining *how income inequality has developed in Finland and Sweden, how it has been debated both in research and in public discussions*, and *whether these discussions can be linked to changes in welfare state creation as well as redistribution trends*. This is an interesting period, since welfare states emerged in force during this era, thus offering new policy solutions to various forms of inequality, but it also saw a widespread challenge to welfare states in the policies of Ronald Reagan and Margaret Thatcher, as well as deregulation of many European economies,

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including Finland and Sweden. Finally, we also want to touch on the issue of what kind of data should and could be used to examine these issues, especially from the perspective of income inequality. However, we have to clarify one caveat of our chapter in the outset. We will *not* analyze the actual policy debates in the Finnish and Swedish political arenas, since that would require a chapter of its own (and they are, to a certain extent, covered in the other chapters of the book). Instead, we more broadly focus on the potential linkages in the evolution of Nordic welfare and tax policies.

This chapter is organized as follows; we will first introduce data and methods (Data and methods: research, discourses, and policies) and examine the *facts* (Economic inequality: what do we know) – that is, what do socio-economic data tell us about income inequality over time – and we will explore certain debates over how they are measured as well. Next, we analyze the *research*, especially on Finnish economic policies and inequality over time, as well as *discourses* on these topics in the media (Discourses on income inequality, mainly newspapers) in Finland and Sweden, to be followed by a discussion of the *policies* adopted (Nordic redistribution trends and welfare impacts). Finally, we will conclude with a broader discussion of the development trends and future prospects.

Data and methods: research, discourses, and policies

Our first goal here is to review some of the quantitative evidence, especially the various socio-economic indicators, to evaluate trends in polarization from the Nordic perspective. As shown recently via global comparisons by Leandro Prados de la Escosura,[2] the global polarization in terms of social well-being has declined steadily since World War I. Similarly, as discussed by Jan Luiten Van Zanden et al. (2014), global well-being on the whole has increased dramatically since the 19th century. Most of the indicators used in any analysis on well-being are correlated with GDP per capita, which is typically viewed as a key measure worth looking at when discussing inequality, similar to wealth. Such indicators, however, only tell part of the story of societal development and polarization, and here we will look at a limited number of indicators of Nordic development during the last century or so. Our working hypothesis is that the story is similar with all of the Nordic countries; although, here the main focus in the comparisons is on Finland and Sweden. However, even a cursory look at the data tells us that while the trends have been visible, there are differences between what we are measuring and between the countries as well. The Nordic countries did not necessarily form a coherent block in economic and social terms. Finally, the Nordic countries today have lower levels of inequality in its various forms than most Western nations.

The aim of this study is to analyze how research was setting an agenda to public debates, and how research and discussions affected the public policies. First, we characterize the main trends and findings in the international and national inequality research. Second, here we focus on some of the key Finnish research papers and reports on inequality as well as the major Finnish (*Helsingin Sanomat* (*HS*)) and Swedish (*Dagens Nyheter* (*DN*)) newspapers to gauge the dimensions of debates. Furthermore, we analyze some of the economic prognostications produced in the debates by analysts and pundits in the public sphere, namely through the lens of a key newspaper. In essence, we intend to analyze their views on future economic outlook as well as economic and societal polarization. We are using here mostly published sources and reports, and major newspapers via their digital collections, using keyword searches. Our initial hypothesis was that economic (or social) data and published research would not necessarily be reflected in these debates, and that national debates can be distorted by groupthink and lack of perspective. However, we had to refine our thinking based on the results, as the public discourse did in fact reflect some of the broader themes arising from scholarship, and on occasion some of the key studies made enough waves to penetrate the public discourse.

Third, we analyze the "changes" in policies vis-à-vis "facts" (research) as well as the debates (discourses). The main policy aspects of this study relate to redistribution policies through taxation and social transfers as well as education and other welfare state policies. We argue that the focus on facts/debates/change is a valuable tool to understand these processes. The so-called RDP model (research-discourses-policies model) is the theoretical model of our study (see Figure 4.1).

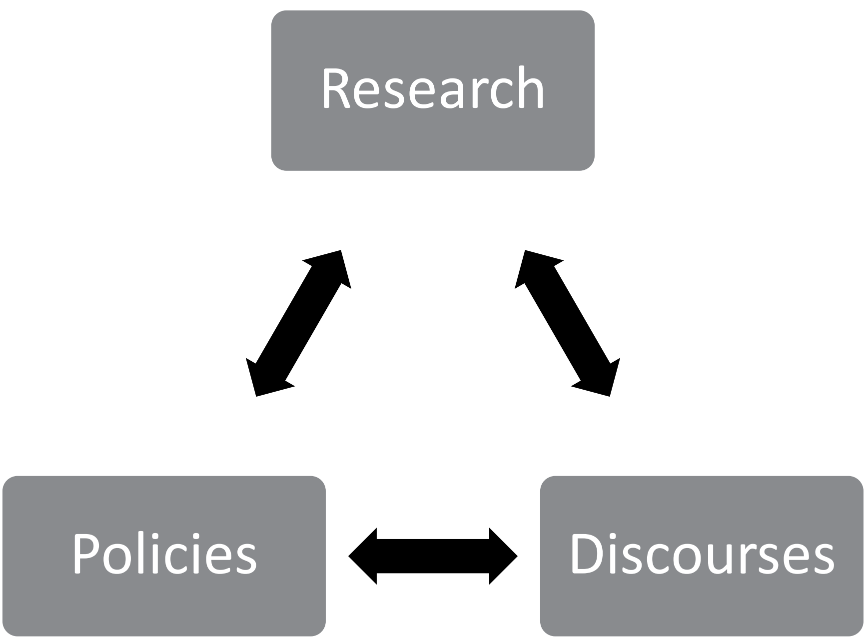

Figure 4.1 The theoretical model of the RDP framework.

Economic inequality: what do we know?

Top income shares

A certain amount of inequality is unavoidable in modern capitalist societies and economies – yet an increase in inequality may in time lead to severe challenges, even societal crises. European history alone has proved this time and again, with bloody revolutions and uprisings. Yet income inequality has also been a component of the most dramatic economic transitions in history, such as the industrial revolutions and globalization waves. In the recent political and scholarly debates, income inequality has become one of the key concepts to explore and to evaluate current-day problems from the perspective of historical development paths, and whether, for example, broad societal changes like welfare policies can temper tendencies toward inequality in its various forms.

In the very long run, there are relatively consistent series on economic inequality only for the top income shares (taxable incomes).[3] Economic inequality, measured on the basis of incomes or wealth, decreased in Western countries in the first part of the 20th century.[4] The inequality continued to decrease until circa the year 1980 (Figure 4.2). The phase of shrinking inequality was reversed after, first in the Anglo-Saxon countries and later in the Central Europe as well as in the Scandinavian countries. Thus, the trend has been toward lesser inequality in the 20th century; however, the experiences of sharp increases of inequality during the last decades have partly reversed that process. For example, in the United States the current-day inequality has reached the levels similar to the first decades of the 20th century. On the other hand, there are countries, for example, Denmark and the Netherlands, that have not experienced the sharp increasing tendency almost at all. Overall, the Anglo-Saxon countries have experienced much sharper increases in inequality when compared with the Central Europe and Nordic countries.

Gini coefficients

Next, we can further characterize the patterns of (income) inequality in the recent decades utilizing household survey data (Figure 4.3). The inequality measured by the disposable incomes at the household level (aka including received and paid transfers and payments) has relatively similar patterns compared with the top income shares calculated from tax statistics seen in Figure 4.2 (taxable incomes). The income inequality has increased significantly starting from the early 1990s to around year 2007, especially in Finland and Sweden. Furthermore, it is noticeable that Sweden was more unequal when compared with Finland in terms of income inequality after the year 1990. This might be explained with the higher capital gains in Sweden. After 2007, the perspective on the Finnish economic inequality depends on the indicators utilized: stagnated (absolute income inequality), decreased slightly (consumption inequality and income inequality), or increased (wealth inequality).[5]

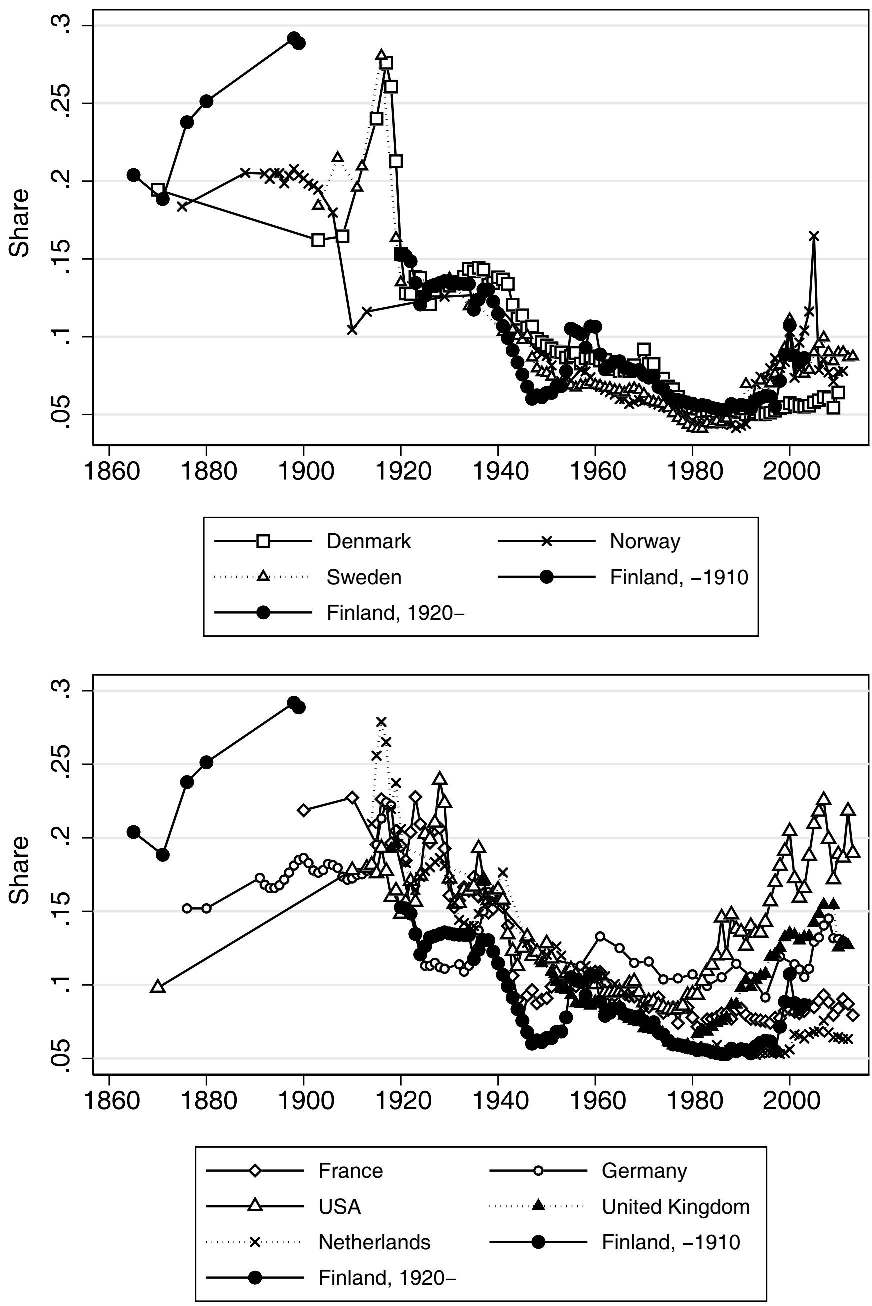

Figure 4.2 Top 1 percent income share in Scandinavia (a) and in the Central Europe as well as Anglo-Saxon countries (b).

Sources: Finland, 1865–1910 (Roikonen & Heikkinen 2018), Finland, 1920–2004 (Jäntti et al. 2010), Germany 1876–1880, USA 1870–1910 (Lindert & Williamson 2016, 173), other (WID database).

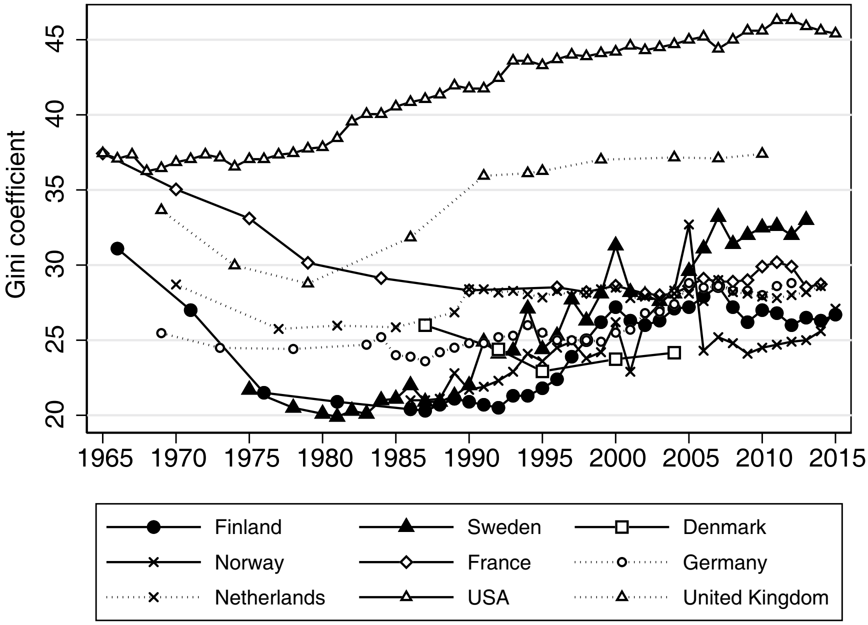

Figure 4.3 Gini coefficients for disposable incomes from 1965 to 2010.

Sources: Finland (Official Statistics of Finland 2019), Sweden (Statistics Sweden 2019), Denmark and the United Kingdom (LIS) (Milanovic 2016). Other (The Chartbook of Economic Inequality 2019).

Note: Swedish and Finnish data include capital gains.

The income inequality estimates from tax and survey data are slightly different, due to three obvious reasons: first, the concept of income is different, since the taxable incomes do not include taxes and transfers as well as other non-taxable income sources; second, the inequality measurements are different – that is, the top-income share versus Gini coefficient; and, third, the tax statistics are based on individual records, whereas the surveys were collected at the household level.[6]

The disparities with data raise questions about how we should handle these types of issues – especially since these types of subtle methodological and analytical differences are not obvious to politicians and the lay public – and which sources we should prefer to use. According to Burkhauser et al. (2012), the household surveys have severe problems in capturing the top incomes due to under coverage, underreporting, and top coding. In addition, there are many other sources of incomes that are not captured (such as capital gains in the USA). However, the tax statistics have limitations as well. The tax records are hampered by a changing concept of taxable income (e.g., deductions, preferences between income sources). Furthermore, tax evasion is a problem, especially among the top-income groups. In addition, the poorest people are missing in the tax filers' data. Regardless of these differences, according to empirical studies,[7] the top-income shares arising from tax data are relatively good proxies for overall inequality and can be a useful substitute for other measures of inequality.

Both types of inequality data and measures have possible pitfalls, and according to Alvaredo (2011), the survey-based Gini coefficients should be corrected by using the more complete top-income data from tax records. Therefore, some National Statistical Offices have decided to utilize registers to impute incomes in the income distribution surveys, including Statistics Finland; however, many statistical offices still rely on the answers presented in the interviews.

Finland and Sweden in comparison

As noted before, Finland and Sweden, as well as many other countries, have experienced a reversal of the equalization process from the 1990s onward. As seen in Figure 4.4, the growing difference between the average and median incomes (1) from the 1990s onward supports our earlier findings.[8] Poverty rates (2) followed similar patterns: the "harsh" Finnish recession during the 1990s resulted in a decline in the poverty rate, which is due to the automatic redistribution mechanisms of the welfare state and the decrease in the average incomes.[9] Furthermore, the poverty rates (2) increased in both countries, which indicates that part of the population "missed" the years of growth. The "harsh" recession after 2008 caused decreasing median incomes in Finland that partly lowered relative poverty rates; on the other hand, Sweden did not suffer such a drop in incomes or poverty rates. The increase in the gross earnings of the top decile as percentage median (3) as well as the top 1 percent wealth share (4) followed similar growth trends as noted before, despite the periods of recession in the early 2000s and 2008–2009.[10] Despite the rising contrast with the "haves and the have-nots" in Finland and Sweden, it is noticeable that the developments are significantly different from many other countries. For example, in the United States the average pretax real national income per adult increased roughly 60 percent from 1980 to 2014; on the other hand, the real incomes of the bottom half of the population stagnated during this period.[11] Thus, it is striking that half of the population did not reap the fruits of the economic growth at all during the last 30 years.

Discourses on income inequality

Societal planning and the question of inequality

One of the roles of human and social sciences today is to provide tools for societies and governments engaged in societal planning. A plethora of academic research, surveys, and statistics are produced daily to serve this goal. Since World War II, and especially during the past decades, the university sector alone has grown enormously globally. In addition, human and social sciences have grown as fields, which can be seen in the pure number of research

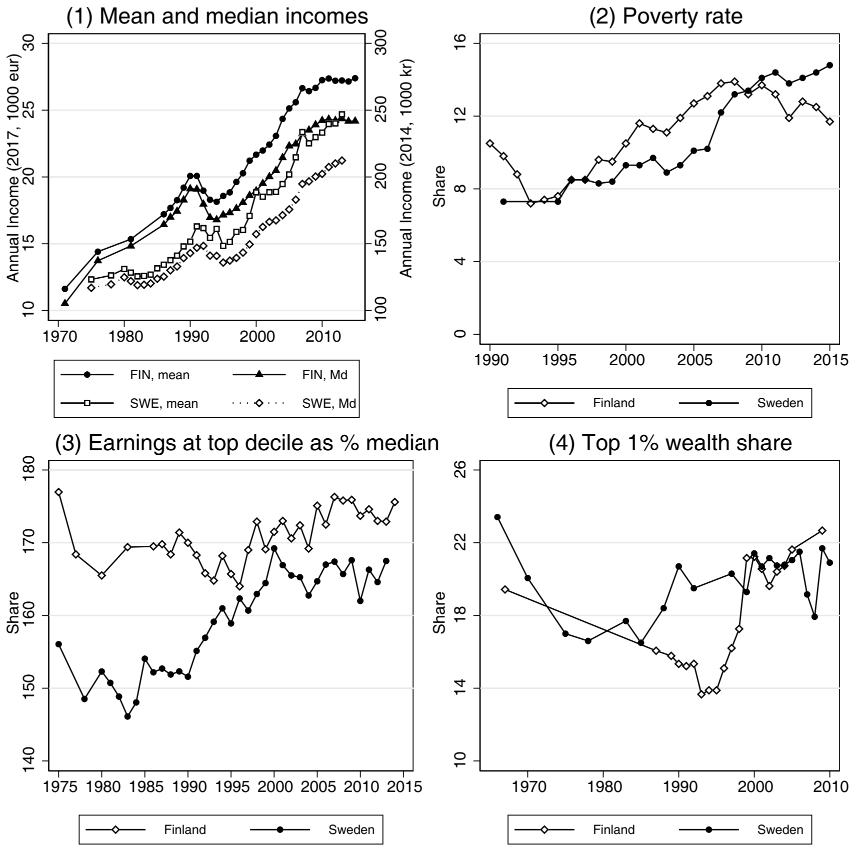

Figure 4.4 Finland and Sweden in comparison. Note: (1) Equivalent annual income (household income divided by modified OECD consumption units). (2) Percent living in households with equivalent disposable income below 60 percent median. (3) Personal gross earnings. (4) Share of top 1 percent in total individual net wealth.

Sources: The Chartbook of Economic Inequality (2019). Mean and median incomes from Finland (Official Statistics of Finland 2019). Mean and median incomes from Sweden (Statistics Sweden 2019).

outputs in terms of publications. Moreover, a whole industry of consultants has emerged to serve both private and public actors,[12] as well as research institutes and think-tanks of various kinds and with different political agendas to satisfy the need for information.[13] Thus, there is a massive, and growing, amount of information available for decisions-makers to use – even to the extent that the reliability of "politicized" information has been questioned time and again by both politicians and researchers. In essence, the problems and mediums faced by the scholars and policy-makers in the 1970s were completely different from today, as we now are living in an age of information overload and "fake news",[14] whereas 50 years ago there were fewer voices and the media landscape was simpler – and the impact of the Cold War was a limiting factor too.

This information provided by human and social sciences to understand our contemporary world and to make wise decisions for the future includes also information that is specifically aimed at predicting the future. Today, perhaps the most influential predictions are related to demography and climate change[15] – the latter, often thought to be the domain of mathematics and natural sciences, is also a topic that humanities and social sciences address using a variety of qualitative and quantitative methods. Using human and social sciences to predict the future emerged as an important part of societal planning during and after World War II. The Cold War era, particularly, produced projections, forecasts, scenarios, and other forms of predictions of world development that were essential when governments and corporations made decisions on current affairs – these predictions, in turn, have had and will have an impact on global politics today as well as in the future. Indeed, the Cold War era created ideologies suggesting, as Jenny Andersson (2012) has noted, that socio-economic and political problems might be "scientified" and predictable as "hard sciences". This development gave rise to new disciplines such as futures studies and futurology that changed the future as an object of science, whereas it previously had been more of a concept of utopian imagination. Only recently historians have also turned to the study of past visions of future.[16] Furthermore, in Sweden and Finland, future studies gained a role in societal debates early on.[17] Nevertheless, the bulk of this social forecasting has been conducted by "old" human and social science disciplines. While during the 1970s sociology paved the way for societal planning, it is economics that has been a vital force in forecasting during the past three decades or so.

These academic debates and "hot topics" on societal issues and forecasting were also highly cited in the public discussions featured in the newspapers. Thus, they made their way to influence the public opinion and consequently the political decision-making. This can be seen, for example, in the fact that the results of *some* academic research became widely referred to in major newspapers in the Finnish and Swedish cases, as we can see here. However, an open question is, though, why some research passes through the public and political spheres with barely a mention, whereas others do not.

From today's perspective, it is relatively easy to anachronistically show how "good" or "bad" the predictions made in the past were.[18] However, it is equally interesting to see in which conditions the analyses and predictions were made and which attributes they were based on. Moreover, even though information on societal developments and (good or bad) predictions for future did exist, all the information was not necessarily adopted into use due to political reasons or it was dismissed in the public discussions for one reason or another. Similarly, we have a number of cases of academic discussions that were dominating both the political and the public debates. As we can see in the following, income inequality is not an exception in this perspective: on the contrary, different aspects of income distribution were emphasized in different time periods, following (mainly) the results achieved in academic discussions. Moreover, some key politicians themselves actively wrote about income inequality – including such a prominent figure as Urho Kekkonen (1952).

Emergence of inequality as a topic in social sciences

In economics, the GDP (per capita) is the basic measure for research, and it is also used in societal planning and modelling[19]. Though the GDP has severe challenges as a metric, it still is "widely understood and respected" as the best measure of economic development so far developed.[20] The GDP is a measure of the aggregate economy constructed to help in the study and understanding of macroeconomic growth and its components, and the theory behind the measure was mainly developed in the 20th century, mostly during and after World War II. Since the 1950s, the distribution of this growth nationally and internationally has received a growing attention among economists, social scientists, and economic historians.[21] The 1950s also saw the rise of a research focusing on income and wealth distribution, including new journals such as *The Review of Income and Wealth* and *Economic Development and Cultural Change.*

The roots for studying the unequal distribution of wealth and income can be traced back to the mid-19th century, especially as a response to the Industrial Revolution, and to the writings of Karl Marx and his contemporaries.[22] The early studies of income inequality were also noted in Finland, and some influential studies were already made during the first years of the 20th century.[23] The most common metric to study inequality, the Gini coefficient, was developed by Corrado Gini (Ceriani & Verme 1912) – though it was more widely adapted as a tool in research to study income and wealth inequality only during the 1970s.[24] There were some early attempts to model income distribution in Finland, Sweden, Denmark, and Norway already in the 1940s, 1950s and 1960s[25] – as well as in studies published for international audiences.[26]

The quality of such research in general, and the ones dealing with income and wealth equality in particular, is dependent on the quality of data. The national statistical agencies were thus approached to compile suitable data, although in the Finnish case only from the late 1960s onward.[27] Also, the first historical studies since the early 20th century on income inequality were published in the early 1970s,[28] although it was not until the late 1970s when more adequate data were made available.[29] In the 1970s and the 1980s, Hannu Uusitalo (e.g., 1975, 1977, 1989) was especially actively publishing research on income inequality.

Internationally, comparable data to analyze income distributions have been produced in many countries since the early 1970s.[30] Studies by the OECD on income distribution were based on these data and also included Finland and Sweden.[31] The first international comparisons were made in Finland in the early 1970s.[32] International studies by, for example, Anthony B. Atkinson (1970) and Amartya Sen[33] influenced also the Nordic scholars during the 1970s. Subsequently, Erik Allardt (1976a, 1976b) compiled a comparative study on welfare dealing with Nordic countries in the 1970s. His study, as well as certain similar ones,[34] was only possible as the first statistics were compiled.

However, topics related to the income inequality did not rise to the center of the social science debates until the 21st century, not least because of the Pikettys famous *book Le Capital au XXIe siècle* (Piketty 2013) and its translated English version (2014). Especially in economics, the debates focusing on income distributions and inequality were almost instantly promoted from a category of "semi-interesting topics" to be alongside with the big questions such as the causes of the growth of GDP or other big debates about macroeconomic development.[35]

Public press reflecting the research

The first Finnish statistics and research on income inequality published during the 1970s also gained attention from the public press. The major Finnish newspaper, *HS*, published widely on topics related to income inequality during the first years of the 1970s (Figure 4.5), although during the latter part of the decade the topic ceased to interest it. On the other hand, before the late 1960s, there were hardly any newspaper articles on the topic. Thus, the new research managed to set the agenda and, moreover, introduced the concept also to the public debate. In fact, some of the first articles in *HS* directly referred to the

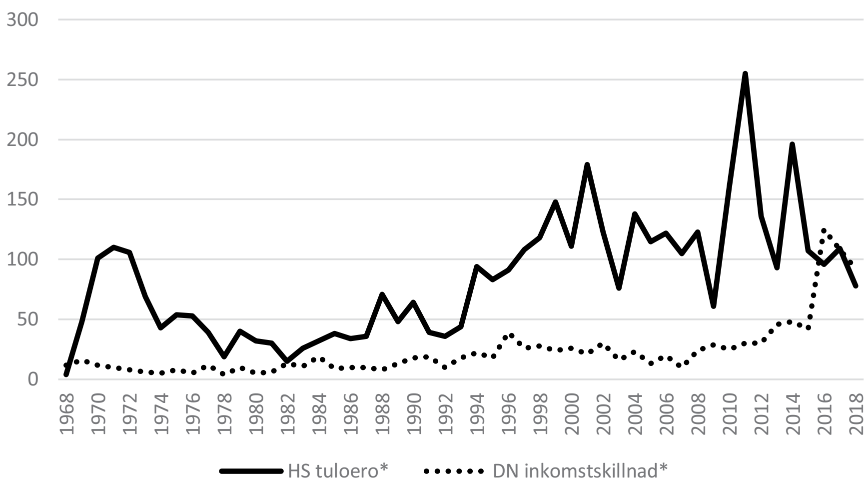

Figure 4.5 Articles on income inequality published in *HS* (Finland) and *DN* (Sweden), 1968–2018. Note: *HS* counted by pages (one occurrence per page) until the turn of the 1990s and thereafter by articles (one occurrence per article).

Sources: *HS*, The Päivälehti Archives, Helsinki (retrieved 14 January 2019); The Royal Swedish Library, The Dagens Nyheter Digital Archive (retrieved 10 January 2019).

new research and statistics.[36] Moreover, the statistics and research also interested the politicians, which, in turn, was discussed in the pages of newspapers as well. In particular, several left-wing politicians made statements about wishing to equalize the income distribution.[37] During the late 1980s, however, there were more right-wing politicians claiming that an increase in income inequality might be an option as well.[38] In Sweden, however, the topic did not hold similar appeal among the journalists, as shown by the number of articles published in *DN*, the major Swedish newspaper. Nevertheless, there were debates in the late 1960s and the early 1970s, especially on wealth distribution, in both Sweden and Finland.

Nevertheless, the academic research on income inequality was not widespread in the Finnish case during the 1970s, yet it contributed to an increasing trend during the 1980s, and especially during the 1990s, which is when income inequality increased as well (Figures 4.1–4.4). The discussions in the 1980s concentrated on topics such as spatial differences[39] in incomes, or differences between different groups in society, or, in the Finnish case, between farmers and factory employees.[40] Thus, scholarship was following, and amplifying, the interests of the two major political movements: the Centre Party (former Agrarian party) and the Social Democrats. Spatial differences in incomes, though, were discussed already in some studies published in the 1950s and the 1970s.[41] During the 1980s, research was reflected also in the pages of major newspapers.[42] Furthermore, the research on income inequality was slowly turning from sociology toward economics,[43] and even historical analyses appeared.[44]

During the turn of the 1990s, more specified analysis on income inequality were published on topics such as education,[45] taxation,[46] and generational differences.[47] However, perhaps the most influential stream of study emerged on the gender imbalance of incomes. The influential studies by Joan Acker were noted also in Finland and even translated into Finnish,[48] and several studies were published on the topic by scholars that have since been major contributors in the Finnish economic research circles.[49] Markus Jäntti's studies (e.g., 1993), for example, were especially influential at the time. These studies also gained public attention, which can be seen in the rising trend of related newspaper articles at the time. Nevertheless, it was not until the mid-1990s when the topic of income inequality really boomed in the Finnish public discussion, which can also be discerned from the output of articles in *HS* (Figure 4.5). This was mainly caused by concerns about the new statistics suggesting an increasing trend in income inequality; interestingly, a similar increase in public discussion in Sweden did not emerge until the 2010s. Furthermore, the Finnish case shows that the level of articles remained higher in the 2000s when compared with the 1980s. The 1990s was a decade of extremes in Finnish economic history too – the first half featured an intense recession, and the second half fast economic growth and the rise of the IT sector. These extremes likely also contributed to the public interest on inequality.

Was there, then, a link between the facts, research, and public discussion on income inequality? Based on the brief description of major trends in Finnish income inequality, research literature, and timing of published statistics, as well as the articles published in major newspapers, one might assume that the link does exist (Figures 4.1–4.5). On the other hand, the public interest toward inequality (articles published in *DN*) remained low in Sweden despite the increasing income inequality and the rising international debates on inequality in the social sciences. Our study here suggests that the main reasons for change in income inequality are relatively similar in Finland and in Sweden: capital incomes, taxation, and redistribution.[50] Why, then, did the discussion on income inequality get more space in Finnish newspapers than in the Swedish ones? One plausible reason might be the more rugged economic cycle in Finland: first the 1990s recession; then the rapid growth, with the rise of Nokia and the IT bubble; and lastly the recession in 2008 following the ten-year period of slow growth. Finland witnessed massive unemployment in the last 30 years; this was justly discussed in newspapers. Moreover, the welfare state creation had longer roots in the Swedish case, and the critiques of this political reality had large hurdles to overcome.

The topic of income inequality was introduced in Finnish academia especially during the turn of the 1960s and the 1970s when the first statistics appeared. This was also clearly shown in the pages of *HS* at the time. However, even though the number of academic studies increased in terms of both scale and scope throughout the 1970s and the 1980s, the issue was less debated in the public press – though there was a slight increase during the 1980s. In Sweden, the number of newspaper articles was even less significant. Here though, the keywords used might at least partly explain the difference. Nevertheless, it was not until the 1990s and the rising concerns over increasing income inequality in Finland that the number of articles published on the issue got a boost.[51]

There seemed to be a tendency of overestimating income inequality in both political and public discussion. For example, a newspaper article in 1973 claimed that income inequality was higher in Finland than in the other Nordic countries. Though this claim was based on research, it does not entirely hold if we look at the statistics compiled afterward (Figure 4.3). Moreover, inequality was on a declining trend at the time.[52] Six year later another article claimed that income inequality had declined slowly in Finland – although according to our Figures 4.3 and 4.4, the development was relatively fast.[53] Especially at the turn of the 1970s and the 1980s, newspaper articles referred to research showing that, indeed, the decline of income inequality was slowing down in Finland.[54] Moreover, more general discussion on "inequality" was more pronounced in both Finnish and especially Swedish press during this period, as can be detected from Figure 4.6. This, in turn, might have led to a confluence of both the public discussion and the political debates: whereas there is no statistical evidence of an increase in *income* inequality in Finland and Sweden during the 2010s (Figures 4.1–4.4), there certainly are many other types of inequalities present in the society that to a certain degree threaten the Nordic model, as discussed in a number of chapters in this volume.

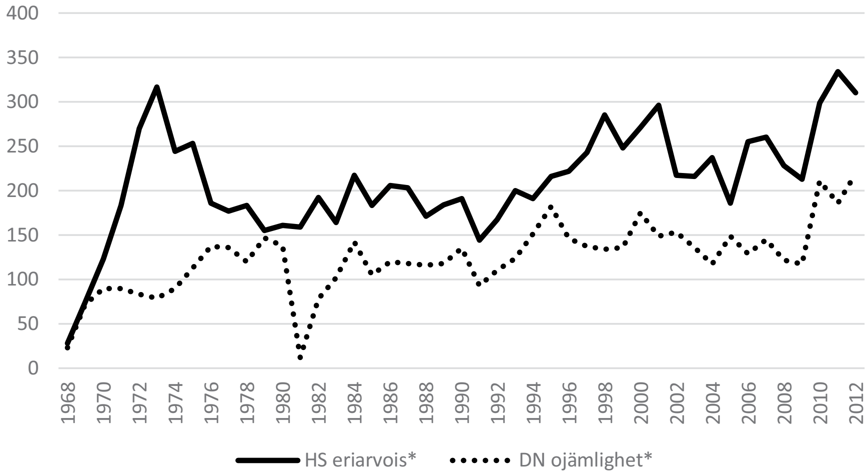

Figure 4.6 Articles on "inequality" published in *HS* (Finland) and *DN* (Sweden), 1968–2018.

Source: See Figure 4.5. Concepts such as *eriarvoisuus* (in Finnish) and *ojämlighet* (in Swedish) refer to inequality more broadly (like social, cultural, or educational) compared to *tuloero* (in Finnish) or *inkomstskillnad* (in Swedish) in Figure 4.5. Both can be translated to mean "income inequality" in English. Thus, discussions on "income inequality" in particular and "inequality" in general have somewhat been mixed with each other in both public and political discussions, especially in Finland.

Nordic redistribution trends and welfare impacts

In this section we will discuss the broader trends in welfare state creation and tax policies and contemplate whether these deep structural societal changes were linked to the discourses and scholarly debates explored in the previous sections. Regardless, our aim is not to attempt an in-depth analysis of the political contexts linked to the discourse patterns, which would be too ambitious of an endeavor. As we can already see in some of the other chapters in this volume, the Nordic societies underwent dramatic transformations toward more egalitarian societies, mostly in the post–World War II period, based on broad societal and political compromises between major political parties. The early ideals of more egalitarian societies developed before World War II were slowly realized during the postwar decades, and these ideas evolved into fairly encompassing welfare states. Moreover, the critique of welfare states that emerged in the 1980s has also had a profound impact on Nordic welfare states and societies as a whole, since most of the left-wing or left-leaning parties[55] have come to accept some market-based solutions to welfare (and health care) provision and, respectively, the more right-wing or right-leaning parties have become defenders of the core principles of welfare states, albeit with more cautious fiscal policies that would sometimes even lead to government spending cuts and lower tax rates.

In general, the Nordic and other Western welfare states developed as a response to the rise of labor and socialist movements in the 20th century, as well as the slow democratization processes following the industrial revolutions and societal divisions they brought forth in the 19th century. Social spending increased rapidly between 1880 and World War II, and then boomed from the 1950s onward. The latter half of the 20th century witnessed the creation of various types of welfare state, ranging from the Anglo-American model of welfare restraint and individualism to the more universal Nordic welfare provision.[56] The creation of the Finnish welfare state did not begin in earnest until the 1950s, and it was built on the stable institutions and governmental organizations that had evolved over centuries, strong economic growth, and structural changes arising from the post–World War II period. In addition, the ideas and solutions offered by Finland's Nordic and other Western neighbors provided the building blocks of this emerging welfare state. The relatively rapid building of Finland's welfare state proves that it is possible to create such institutions quickly if there are the resources and opportunities to do so, especially as a response to developing societal harmony and equality. Furthermore, it is possible to sustain such institutions if the welfare policies contribute to the economic growth (e.g., by creating human capital). Building and extending the welfare state in Finland during the 1970s and the 1980s occurred despite political parties were relatively far from each other in many facets of policy issues; thus, the thread against this development during the recession in the early 1990s might be one of the explanations why income inequality gained so much attention in the public press at the time (Figures 4.5 and 4.6).

The Finnish, or Swedish for that matter, development was faster than elsewhere in Europe, although hardly unique. And the end result was an encompassing welfare state with highly progressive taxation. This can be seen in the central government spending levels among most Western countries; in fact, they showed little growth until World War I, although there were noticeable differences between them. Subsequently, in the interwar period, especially in the 1930s, the average central government spending increased. After World War II, the effect of the emerging welfare state can be observed until the 1980s. The last phase seems to represent a leveling-off stage (or at least a period of slower growth) for modern welfare states. Thus, the two World Wars appear to have imposed tremendous growth pressures on central government roles in most Western countries. Finland, however, seems to have experienced a strong period of growth in the 1950s, which differs from most of the others, thus catching up to Nordic levels of welfare provision and tax policies, while also entering a period of extremely rapid structural change for its economy. The United States, the embodiment of the Anglo-American welfare model, consistently spent less than the Europeans in the 20th century, whereas Sweden spent much more than Finland in the 1960s and the 1970s.[57]

Therefore, the emergence of welfare states in the postwar period took place in increments. For example, between 1937 and 1960, the percentage of GDP of public expenditures increased at a relatively slow pace, often more related to the increases in defense spending caused by the Cold War. This share was circa 23 percent in 1937 compared to roughly 28 percent in 1960. However, the period 1960–1980 could be described as the real golden age of public sector intervention, with a considerable macroeconomic consensus on the government's role. Criticism of this era of Keynesian dominance emerged in the aftermath of the economic crises of the 1970s, increasing in the 1980s and the 1990s with the arrival of fiscally more conservative governments, especially in the UK and the United States. Public choice and other institutional theorists have since been among the many critics of the welfare states. How extensive was this government growth? If we look at the development of general government expenditures (as a percentage of GDP) in the latter half of the 20th century, we see that the average share increased steadily from approximately 43 percent in 1980 to circa 46 percent in 1996. As Peter Lindert has pointed out, most Western nations did not cut their spending uniformly nor permanently, and globalization has since increased the demand for a government response. Finland certainly belongs in this group as well, having made only small welfare spending cuts in the 1990s and since the economic crisis of 2008.[58]

Furthermore, Finland closely followed the examples of Nordic (mainly Swedish) policy models in the post–World War II period, especially since the left-wing parties had gained significant momentum after the war and other parties would seek to bolster their electoral chances by collaborating with them on certain issues. Other factors that made this possible included the rapid economic growth and the structural changes in the Finnish economy in the 1950s and the 1960s. During the years 1948–1960, public expenditures, which now subsidized government-run health care, social security, and administration, grew at an annual average of 4.4 percent. The Finnish welfare state, however, really took off in the 1960s, when the growth of public expenditures accelerated. The Disability Pension Act and the Old Age Pension Act were passed in 1962, and the Health Insurance Act in 1964. These measures were followed by others, especially in education and health care in the 1970s, which increased the social spending role of the municipalities and local government. Education and health-care expenditures have generally grown fast, although the proportion of current transfers and subsidies increased even faster in the postwar period.[59] The growth in most areas of spending has continued since the 1980s, although the growth has slowed down. The periods of recession, such as the early 1990s and the period since 2008, have put more fiscal pressure, both domestically and from abroad, on the Nordic welfare states. In addition, the recent refugee crisis has added to the burden of the welfare bureaucracies in these countries, and it has led to a political backlash among the Nordic populations, as seen in the rise of nationalist/populist parties, such as in Finland and Sweden, and more stringent immigration policies, like in Denmark.[60]

However, on the aggregate, while the postwar Nordic societies have built up extensive social safety nets and invested in human capital, they have also enjoyed a high level of economic growth and living standards, something that Lindert has termed the free lunch puzzle. Why? According to Lindert, the Nordic societies have smartly focused on taxing mostly harmful behavior (i.e. enacting so-called sin taxes, on the use of tobacco, alcohol, gasoline, etc.) to provide societal gains, which has helped them redistribute money for more productive endeavors. In fact, one of the fundamental aspects of the durability and effectiveness of Nordic welfare states pertains to their redistribution policies. Thus, the factor income inequalities (capital, salary, and entrepreneurial incomes) are considerably higher when compared with the disposable income inequalities, such as when adding the social incomes to the factor incomes as well as subtracting taxes that were paid and other payments (Figure 4.7). The crucial fact is that factor income inequalities (1) increased significantly in both Finland and Sweden from the late 1970s to around year 1995; however, the disposable income inequalities remained at similar levels in Sweden until 1990 and in Finland until 1992. In other words, the redistribution activities of the welfare state held the inequalities at similar levels even as the factor or market inequalities increased.

However, the impact of the redistribution policies clearly diminished during the latter part of the observed period: the disposable income inequalities increased even though the factor income inequalities remained stagnant or slightly increased. Evidently, this process can be characterized by the following ratio: the disposable income inequality divided by the factor income inequality (2). Thus, this ratio (2) tells us how much the market income inequalities were decreased by redistribution policies. In both countries, the redistribution

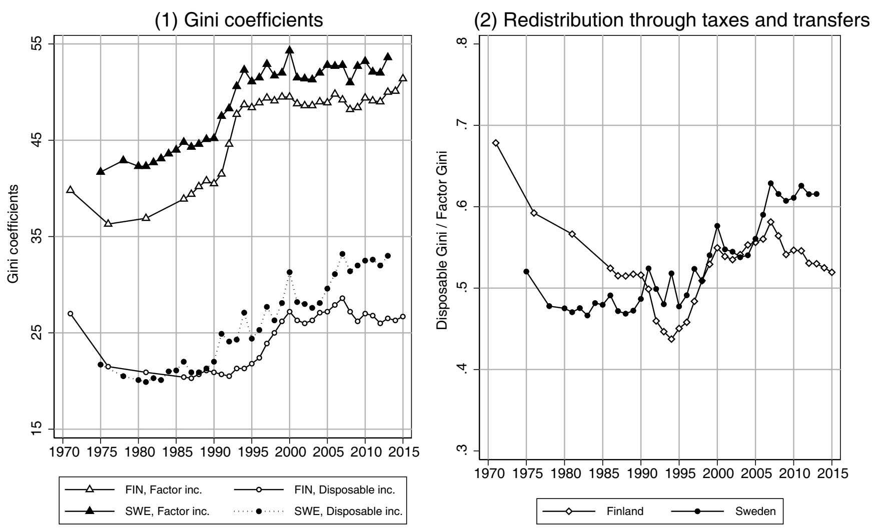

Figure 4.7 Gini coefficients and redistribution in Finland and Sweden (household, OECD-equivalence scale). Note: (1) Gini coefficients are calculated from factor (entrepreneurial + salary + capital incomes, including capital gains) and disposable incomes (factor incomes + social transfers – paid taxes and transfers). (2) Disposable Ginis are divided by Factor Ginis.

Source: Finland (OSF 2019: Income distribution statistics); Sweden (Statistics Sweden 2019: Household finances).

policies reversed around mid-1990s toward less equalizing policies. The next turning point occurred after 2008, when Finland and the rest of the world suffered a recession, unemployment increased, and the automatic welfare state social transfers increased in volume. In addition, the recession was not as severe in Sweden, and the development toward less equalizing policies was at least halted. Nevertheless, it is good to bear in mind that in terms of both of these figures, the level of unemployment and the "automatic" social transfer system were quite crucial, not necessary the policy changes.

One of the key changes in the redistribution policies in Finland was the separation between labor and capital income taxation in 1993, which meant that labor income tax rates were progressive and the capital income tax rates were flat (25 percent in 1993). In addition, the dividends from the rich closed companies were partly tax-exempt (Jäntti et al. 2010, Tuomala 2019). This strengthened the incentives to transform labor incomes to capital incomes since the top marginal tax rate on labor income was considerably higher. Thus, partly due to the changes made to the taxation, the share of the capital incomes in the top 1 percentage increased from 11 percent to about 63 percent between the years 1990 and 2004. Furthermore, whereas the average tax rates of the median incomes decreased only slightly from 22 percent to 21 percent between the years 1987 and 2004, on the other hand, the top 1 percent tax rates dropped considerably from 44 percent to 34 percent (Jäntti et al. 2010).

These redistribution policies were obviously not only aimed at keeping inequality in its various forms, especially income (or in some cases wealth) inequality but also aimed at societally acceptable levels – and what was considered acceptable or desirable obviously changed over time. In fact, the money arising from the redistribution policies also went toward investments in policies that would reduce inequality and provide economic mobility. These types of impacts can be seen in various indicators and outcomes in the Nordic cases. As seen in Table 4.1, in the beginning of the 20th century Finland was clearly

Table 4.1 Average years of schooling in Norway, Denmark, Finland, and Sweden, 1900–2010.

Year	*Norway*	*Denmark*	*Finland*	*Sweden*
1900	5.8	5.6	1.7	5.5
1910	6.0	6.0	2.0	5.9
1920	6.3	6.3	2.7	6.2
1930	6.5	6.6	3.6	6.6
1940	7.0	6.9	5.0	6.9
1950	7.6	7.6	6.0	7.4
1960	8.8	8.9	7.0	8.5
1970	10.0	9.8	7.6	9.7
1980	11.3	10.8	9.5	11.0
1990	12.1	11.4	10.6	11.8
2000	12.4	12.0	11.5	11.5
2010	12.6	12.1	12.0	11.9

Source: Clioinfra database. Available from: https://clio-infra.eu/. (Cited 1 March 2019).

a laggard in terms of schooling outcomes. However, by mid-century, this had changed already, and Finland had started to catch up. By the end of the century, Finland was on part with the other Nordic countries. In general, improvements in social well-being have come from many sources in the last 100 years among the leading Western economies, but one of the most important aspects has been the growth in human capital. Regardless, Finland was far behind until the 1960s and the comprehensive school reform, which put Finland eventually on par with the others, and even ahead in terms of achievements (PISA tests) in the 21st century.

In general, in most European countries education inequality decreased until the 1960s, and even beyond in some cases. However, in Finland the largest drops came before the new education laws in the 1960s, and the level of inequality even increased initially. In most countries this measure of inequality has decreased in the recent decades.[61] The Nordic countries were no exceptions to this general pattern. Another measure of human capital, numeracy, gives us a longer-term view of these trends in the Nordic countries. Norway caught up last among this group to the rest, but overall all these countries had high levels of numeracy by the early 20th century and that did not change by the later policies. The educational policies and expansion of the latter part of the 20th century simply reinforced the strength of the Nordic societies as highly educated polities,[62] which could be seen especially in Finland's superb performance in the PISA tests in the early 2000s.[63]

Finally, one important measure of societal inequality pertains to gender discrimination and status. It is much harder to obtain long-run data on such indicators. One way to look at this is through the representation of women in the Nordic parliaments (Figure 4.8). The most robust growth occurred from

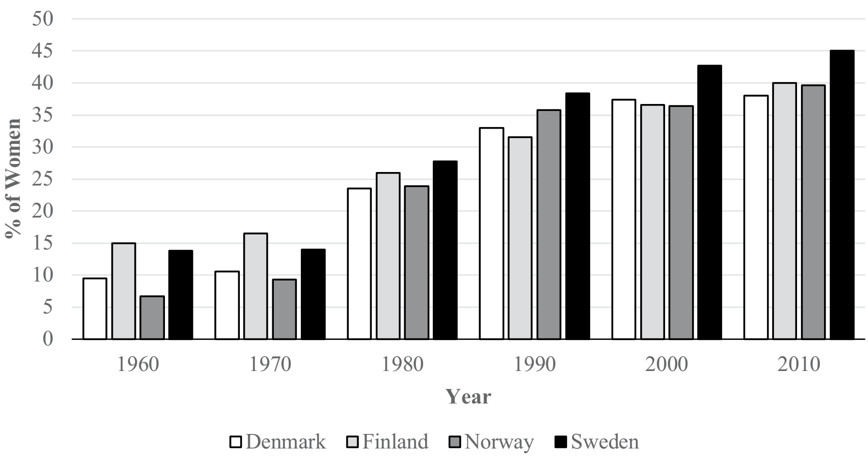

Figure 4.8 Number of female members in the parliament.

Source: Clioinfra database. Available from: https://clio-infra.eu/. (Cited 1 March 2019).

the 1970s onward. Overall, women MPs have quadrupled their share of parliamentary seats in the postwar era. As we noted earlier, gender imbalance on earnings became one of the focal points in the public discourse in the 1990s, and the voting patterns seem to be linked to this change as well. Overall, social, economic, and political mobility have become hallmarks of the Nordic societies, and the welfare and redistribution policies have certainly helped them along in this direction.

Discussion and conclusions

Inequality in its various forms has become a hot topic of broad societal discussion, in both the academic and policy circles, around the globe, most recently due to Thomas Piketty's work (e.g. 2001, 2014). However, we often perceive both public and policy discussions to be somewhat divorced from scholarly discourses, especially in determining what actual policy approaches would be desirable to achieve certain societal outcomes. Here we have displayed the broad trends in income inequality, and the Nordic countries are clearly still in the lower inequality group in the 21st century. Moreover, the Nordic trends have followed international patterns fairly well, namely high inequality in the late 19th century, lesser inequality after World War II, and rising trend since the late 1980s. Clearly the Nordic societies have converged over time economically, socially, politically, and culturally. We also discussed the redistribution and welfare state policies that have kept inequality lower in the Nordic societies, particularly in Finland and Sweden.

Our broad analysis of the topic of income inequality in the public sphere showed that the patterns were not entirely similar in Finland and Sweden, however. In Finland, it seems, certain academic debates also became public debates, and thus most likely had a greater impact on policy debates as well. In Sweden, in contrast, income inequality was discussed less until the recent years. Broader debates about welfare states and the role of the government in the aggregate economy were also parts of these discussions. In general, regardless of the occasional critiques of the welfare and redistribution policies, the broader Nordic societal agreement about the need for welfare state has been quite solid in poll after poll, even among the more conservative political parties. Our framework outlined a connection between research, policies, and discourses. We would argue here that in the last 50 years or so those connections have existed in Finland, although not always. In Sweden, the connections, at least in the context of income inequality, were less pronounced, perhaps also due to the earlier adoption of welfare and tax policies. Thus, the Nordic countries were not quite as homogenous as they sometimes appear.

Our goal here was to examine certain historical trends in income inequality and debates surrounding this topic, especially from the lens of redistribution and welfare state policies. It seems quite clear that politicians and the general public are aware of certain debates in for example in economics and economic history concerning income inequality; nonetheless, their understanding of the facts or data is often limited. Typically, many politicians would assume that income inequality is rising fast in countries like Finland, whereas it is actually remained relatively similar levels or only slightly increased in the 2000s after rapid increase in the 1990s.[64] Furthermore, Finland and other Nordic societies are much more equal when considering incomes, or other types of inequalities, than most places on this globe. The redistribution policies have been fairly effective in the post–World War II era, and the welfare state policies have created more equal opportunities for also minorities, yet the impact of those policies have waned somewhat in the 21st century.

Should scholars be more active in the public sphere, to provide deeper historical context for debates and point toward policy solutions? It is quite difficult to do that, especially in a way that various forms of media would find interesting enough. Moreover, it is also difficult in current climate of viral stories, fake news, and extensive social media networks. Regardless, while all those elements of modern media can distort "truths" and mislead debates, they can also amplify messages from scholars like Piketty, who can have a real impact on how societies evolve. And most universities and research centers today in fact value the idea of their employees having a public impact, even to the point of providing rewards for that, although they would equally be risk averse toward potentially negative publicity and embarrassment. This is the difficult balance that 21st-century scholars will face in their careers, and the topic of income inequality (or any other type of inequality) is a key topic of societal debate now and in the future.

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Notes

1 See e.g. Lindert & Williamson 2016, Milanovic 2016, Piketty 2015a, 2015b, Piketty, Saez & Zucman 2018.
2 Prados 2018.
3 For summaries of the top income literature, see Atkinson & Piketty (eds.) 2007, Atkinson & Piketty (eds.) 2010. And earlier studies by Lindert 2000, Morrison 2000.
4 Roine & Waldenström 2015.
5 Törmälehto 2019, Riihelä & Tuomala 2019.
6 See e.g. Burkhauser et al. 2012.
7 Leigh 2007, Alvaredo 2011, Burkhauser et al. 2012.
8 See the growth rates between deciles in e.g. Jäntti et al. 2010.
9 For example, Riihelä & Suoniemi 2017.
10 Nevertheless, some studies show that wealth inequality and capital income inequality have grown more rapidly in Finland, e.g. Riihelä, Sullström & Tuomala 2017.
11 Piketty, Saez & Zucman 2018, 553.
12 Kipping 1999.
13 E.g. Kotilainen 2018.
14 Mihailidis & Viotty 2017.
15 Especially the 2018 Intergovernmental Panel on Climate Change (IPCC) was widely discussed. Similarly, the population projection by Statics Finland in November 2018 raised concerns. See: www.stat.fi/til/vaenn/2018/vaenn_2018_2018-11-16_tie_001_en.html (cited 16 November 2018) and www.ipcc.ch/report/sr15/ (cited 16 November 2018).
16 Andersson 2012, Ihalainen & Kinnunen 2018.
17 Andersson 2006, Roslin 2010, Kotilainen 2018.
18 Roslin 2010.
19 This article is not intended to give a definitive literature review on the research dealing with income inequality in Finland or Sweden during the 1970s–1990s; rather, we will provide some examples of the key literature published especially in Finland. – See also Baten & van Zanden 2008.
20 Broadberry et al. 2015.
21 E.g. Kuznets 1959, 1963.
22 See especially Milanovic 2016, 5, 55.
23 E.g. Renvall 1900.

24 Gini 1921, Ceriani & Verme 2012.
25 E.g. Bentzel 1952, Brummert 1963, 1965, Fougstedt 1948, Hagström 1944, Hemmilä 1960, Jylhä 1945, Wahlbeck 1955.
26 E.g. Bjerke 1957, Bentzel 1957, Aukrust 1957, 1970.
27 Kulutustutkimus (http://pxnet2.stat.fi/PXWeb/pxweb/fi/StatFin/StatFin__tul__tjt/statfin_tjt_pxt_015.px/?rxid=b5e03ef3-7a8c-440a-8eb5-ef756bd4cd76). See also see also Linnaila 1969, Hjerppe 1972, Janhunen 1969, Salavuo 1970.
28 E.g. Hjerppe & Lefgren 1974.
29 See also Suominen 1979.
30 See especially: www.lisdatacenter.org/data-access/.
31 E.g. Sawyer & Wasserman 1976.
32 Partanen 1970.
33 E.g. Dasgupta, Sen & Starret 1973.
34 Noponen 1973, Suominen 1974, 1979, Pöntinen & Uusitalo 1975.
35 See section 3 for further details about literature.
36 *HS* 7 July 1969.
37 E.g. *HS* 29 December 1971.
38 E.g. *HS* 5 January 1986.
39 E.g. Lahdenperä 1987.
40 Tolvanen 1985a, 1985b, Puurunen 1987, Leppänen & Tolvanen 1987, Ylisippola 1989, Ringen & Uusitalo 1990.
41 E.g. Wahlbeck 1955, Kiiskinen 1958, Somervuori 1972.
42 E.g. Sailas 1987, Uusitalo 1988, Takala et al. 1988, Paananen 1988.
43 E.g. Sullström 1987, Pekkarinen 1988.
44 Especially Nummela 1987, 1988a, 1988b.
45 Laukkanen 1989, Tossavainen 1991, Asplund 1992.
46 Hagfors & Vartia 1989.
47 Sukupolvityöryhmä 1994.
48 Acker 1990.
49 E.g. Isotalus et al. 1989, Brunila 1990, Asplund 1995a, 1995b.
50 See e.g. Roine & Waldenström 2010, Jäntti et al. 2010.
51 A source critical note: The digital collections of Helsingin Sanomat count the frequency of the keyword per page until the turn of the 1990s, and per article from thereafter. Thus, the figures are not entirely comparable. Moreover, the articles dealing with income inequality both in Finland and in Sweden did not solely discuss the topic as a domestic issue. Nevertheless, articles discussing inequality as an international challenge were, on the whole, a minority.
52 *HS* 5 March 1973.
53 *HS* 29 March 1979.
54 E.g. *HS* 15 February 1985.
55 See Östberg in this volume.
56 Lindert 2004. On different types of welfare states and especially the Scandinavian "model", see e.g. Esping-Andersen & Korpi 1984.
57 Eloranta & Kauppila 2006, Hannikainen & Eloranta 2019.
58 Tanzi & Schuknecht 2000, 15, 197. On recent trends, see esp. Greve 2018, Kangas & Kvist 2018.
59 Alestalo & Uusitalo 1986, Hjerppe 1989, 130–131.
60 Heikkinen 2019. On rise of right-wing populism and immigration policies, especially in Denmark, see Heinze 2018. See several other contributions in this volume for further discussion of these discourses.
61 Van Zanden et al. 2014.
62 See e.g. Modalsli 2017 for discussion of Norway in the long run.
63 Cf. Sahlberg 2016.
64 See also Gustafsson & Uusitalo 1990, Haavisto 2018.

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