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Financial Inequality in Finland

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Abstract

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Income inequality is a substantial aspect of economics. Poverty and wealth inequality are related topics. These aspects of economics and societies are relevant and have raised discussions for centuries. The research focuses on investigating income inequality, wealth inequality, and poverty globally as well as how these factors are seen and discussed in Finland. This paper aims to analyse if these inequalities can be detected in Finland, and what are their causes, as well as to inspect elements of the welfare state which aim to reduce inequality.

Keywords: Income, inequality, poverty, Gini-index, Finland

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Glossary

ARA	In Finnish: Asumisen rahoittamis- ja kehittämiskeskus, translation to English: The Housing Finance and Development Centre of Finland
GDP	Gross domestic product
Kela	In Finnish: Kansaneläkelaitos, translation to English: The Social Insurance Institution.
OECD	Organisation for Economic Co-operation and Development.
Yle	In Finnish: Yleisradio, translation to English: Finnish Broadcasting Company

1 Introduction

Income and wealth inequality are growing phenomena around the globe. The discussion regarding the subject has always been relevant and a significant topic in media and politics. It is valuable to understand these topics, and how they affect societies and economies. The aim of this thesis is to see how income and wealth inequality have developed in Finland, and how they have affected the economy, society, and the role of government.

In researching economic inequality, it is essential to inspect wealth inequality, income inequality, poverty, and other related factors. To understand the effects of inequality it is vital to first review income inequality in general and aspects of the chosen geographical area, as well as the country's, in this case Finland's, history and development into a welfare state. Economic inequalities can be measured by multiple different indexes and various data sets.

After the Second World War Finland experienced economic growth which is often acclaimed as the result of directing resources towards education, infrastructure, and public investments. (Tuomala 2019: 52). However, the negative effects of increasing income differences have been researched for decades and are a significant part of modern economic and political discussion. (Saikkonen, Hannikainen, Kauppinen, Rasinkangas, and Vaalavuo, 2018: 43-44). In comparison to other Nordic countries, in Finland considerable changes such as industrial take-off and development into a welfare state has happened later. (Kettunen, 2001: 225).

To understand Finland's development into a welfare state it is important to investigate its history and policies, as well as societal changes and measures on inequalities. The research question of this paper is to examine Finland's past and current situation and major changes which have affected the state.

2 Literature review

To examine the effects of income inequality, a thorough literary research has been conducted. The aim of the research is to identify different measures of income, division of wealth, the existence and effect of the welfare system and its relation to income and wealth inequality. This paper focuses on the theoretical side of the effects of income inequality.

Most literature regarding income inequality focuses on a global aspect. Nevertheless, Finland specific research regarding income inequality is plentiful and includes a variety of statistical data. Historical data of taxation exists and from the past thirty years there is a substantial number of statistics and data on different income indicators. This thesis inspects multiple sources discussing taxation, poverty, and income inequality in Finland. Most of the literary sources conclude with equivalent results, observing growth in inequality. In particular, most research concludes that the effects of the recession during the 1990s and the financial crisis in the 2000s had a major impact on the Finnish economy. The research indicates that wealth inequality is increasingly more of a concern than income inequality.

Globally Finland ranks sufficiently in measure of income inequality, for example when measure by the Gini index. (Statista Research Department, 2022) The Gini index is a coefficient that calculates deviation from perfect equitability, where zero represents the perfect division of measured subject between those who can obtain it, and one is equal to only one entity obtaining all of the measured subject. (Farris, 2010: 852) Some limitations of the Gini index are that it is prone to data errors, and there are differences between economies when comparing different countries with each other, making comparability problematic (Gini coefficient, 2021).

The Great Recession and other financial crises have increased inequality. Inequality is affected by policies, laws, and regulations created by governments. (Stiglitz, 2015: 246-247). The Organisation for Economic Co-operation and

Development reports that the gap between the rich and the poor has increasingly grown (OECD, 2015).

3 Scope of Research

The scope of this research includes statistical data, literature, publications, relevant news articles as well as online books and journals. The most significant statistical data for this research was from Statistics Finland. This includes statistical data of multiple governmental, economical, and societal functions. Data regarding poverty, income inequality and indicators such as the Gini-index provided valuable data for this research. The World Bank's Data Bank also includes suitable data for inspecting poverty in Finland.

Statistics Finland is the main source of data for this paper because of the reliability of the sources and the extensive amount of data available. To narrow down the data that will be inspected in this paper, the focus is to examine events from the past thirty years. However, in the case of wealth inequality the scope is wider as the wealth data is not collected annually, and a longer period is vital to have substantial historic perspective.

The research question is of particular interest more widely and various publications and texts were already available. A major issue with this research was to limit sources to a relevant amount. Not only is the existing literature sizeable, however there are also multiple indicators that measure financial inequality. News outlets such as Yle and Helsingin Sanomat include cases and examples of inequality. Relevant journals and reports found online provided more specific information regarding financial inequality in Finland. *Markkinat, valtio & eriarvoisuus*, (Tuomala, 2019) *Pääoma 2000-luvulla* (Piketty, 2013) and *Huono-osaiset* (Saari, 2015) are books that provided invaluable contents into theory, examples, and analysis of income inequality and its causes in Finland.

Tuomala (2019) compares different markets and economies in his book *Markkinat, valtio & eriarvoisuus* (Markets, the State, and Inequality). He examines how inequality has developed in various economies over the past decades, and how similar events have taken place in Finland. A deep analysis of how income differences have developed in Finland, acknowledging the

history of the country, is a vital basis for this research. The book addresses different measures of income and wealth and explores various aspects in using these measures and addressing their results. Piketty (2013) discusses the division of capital assets and the factors that control the division in his book; *Pääoma 2000-luvulla* (Capital in The Twenty-First Century). The book compares the society of the 19th century to that of today and explores how wealth is divided unequally and how income differences are increasing. Saari (2015) examines the subject on societal effect of inequality in his book, *Huonooosaiset* (The disadvantaged), and focuses on those who are disadvantaged in Finnish society and how they survive in a reformed welfare state. The book investigates this topic from a societal viewpoint and provides insight into the issues of inequality in Finland.

4 Methodology

The literature review and research of this paper displays the existence of income inequality globally, and it is a much discussed and researched topic. Further investigation concludes examining poverty and income inequality in Finland, to define the research and inspect the research question within an economy that has systems to reduce inequality. The aim of the research is to examine the coexistence of a welfare state with economic inequality and poverty. The initial task of the research is to examine relevant literature and theory.

To define the research literature and data it is necessary to define measures that are applied to analysing the sources. To measure income inequality the Gini coefficient was chosen as the primary indicator. The Gini coefficient is often applied when examining income inequality and it is used as the primary indicator in this research. The Gini coefficient is an accessible measure of income inequality. There are multiple valid sources that provide data of the indicator, and case specific measures. However, it should be noted that the coefficient is not always the most specific measure. The Gini coefficient tends to obscure extreme ends of inequality and this flaw should be acknowledged (Alvaredo, F., 2011).

There are in fact multiple different coefficients and indexes to measure income inequality. The Atkinson index was developed by Anthony Barnes Atkinson, a British economist. It measures the distribution of income inequality by appointing a coefficient that weighs the incomes. The index is more sensitive towards changes at the lower end of income distribution as it approaches one. The United States Census Bureau explains: "The index can be turned into a normative measure by imposing a coefficient to weight incomes. Greater weight can be placed on changes in a given portion of the income distribution by choosing the level of "inequality aversion" appropriately." (Bureau, U.S.C., 2021)

The Hoover index presents the capacity of all income which would have to be redistributed to achieve perfect equality. In the index higher values indicate higher inequality (Afonso et al., 2015). The Theil Index was developed by Dutch econometrician Henri Theil. The index measures the weight of an individual in the population and compares it to the difference of the weight of their income in the total income of the selected economy. In the Theil index zero equals absolute equality (Mançon, 2021).

Other measures of income inequality were not applied to this research in order to define the research purpose and limit the research material more clearly. Previously mentioned indexes and other measures of inequality provide different views and approaches to inspect income inequality. Despite its limits the Gini coefficient was chosen for this research as it is applicable to the main sources of data. Its usability and prevalence are ideal for a research project of this proportion. Focusing on the inequality in Finland, choosing the Gini index instead of the Atkinson or Theil indices was decided to contain the research area to fit a study of this proportion, as well as to include most updated data and information available. As the Gini Index is widely utilized relevant sources focusing on the chosen geographical area were more available and inclusive. However, acknowledgment of the alternative indices is essential to demonstrate the amount of existing research as well as the different ways of inspecting the issue. Using the Gini Index as the primary measurement is ideal for research of this scope as it is generally applied by most research regarding inequality in Finland.

5 Inequality

Inequality can be inspected and defined through various aspects, as different authors, and organizations focus on various elements of the subject. The widely used Gini coefficient compares the distribution of income of households within an economy by using a scale of zero to one hundred (Tradingeconomics.com, 2022). Other indices exist and explore inequality through different variants. The Atkinson index measures the distribution of income inequality by appointing a coefficient that weighs different incomes (Bureau, U.S.C., 2021), The Hoover index focuses on the capacity of all income which would have to be redistributed to achieve perfect equality (Afonso et al., 2015), and the Theil Index compares individual income with the population and analyses the weight of the income in the total income of the selected economy (Mançon, 2021).

To be able to measure income inequality is important to define income. Numerous factors, such as including tax, and capital gains will affect the calculated results. Additionally, it is important to consider the recipient of the income, is it a single individual or a household. (Griffiths & Wall 2012: 255). Ravallion (2014) writes about the relationship of income inequality and economic discussion. The concern of the topic has been discussed for decades and has been viewed as an inevitable part of economic growth. The mainstream focus has previously been largely on the rising inequality within poor countries. (Ravallion, 2014: 851–853)

Comparing Finland's inequality ranking to other European countries illustrates that when measured using the Gini index Finland places on the lower end of the spectrum, indicating less inequality (Statista Research Department, 2022). Defining income inequality can be conducted through multiple indicators. Income can be defined as an aggregation of individuals or households' earnings, and how much of it is disposable (Oecd-ilibrary.org, 2022).

5.1 The Gini Index

The Gini index is a coefficient that calculates deviation from perfect (Farris, 2010: 852), for example it can be used to compare the distribution of income of households within an economy with perfect equality (Tradingeconomics.com, 2022). The Gini index ranges between zero and one, zero being perfect equitability where everyone has the same share of the good, and one, where one person has everything. (Farris, 2010: 852) The Gini coefficient is demonstrated by a Lorenz curve, which plots the total income that individuals have received in contrast to the total number of individuals (Tradingeconomics.com, 2022). The Gini index is a volume calculated from a particular Lorenz curve. (Farris, 2010: 852)

Measuring income differences is often conducted by applying proportional income differences, which leads to the results and the index can be considered somewhat ambiguous. The Gini coefficient is applied to measure absolute income differences. The difference between absolute and proportional income differences influences how the income differences are inspected. If all incomes are doubled, the proportional measure of income differences would not detect any change, whereas the absolute measure would demonstrate that the income differences have also doubled (Tuomala 2019: 100-102).

The Gini index has been criticized as a measure of inequality. In the book *Markkinat, valtio & eriarvoisuus* Tuomala mentions that the index is more sensitive to changes occurring in the centre of the scale than to changes occurring at the ends near zero and one hundred. Tuomala suggests that the larger the incomes get, the less influence they have on the index (Tuomala 2019: 254). Some limitations of the Gini index are that it is prone to data errors, and there are differences between economies when comparing different countries with each other, making comparability problematic (Gini coefficient, 2021).

The Finnish Gini index was 27,9 in 2019, and it has been between 26 to 30 per cent during the last decade. The Gini Index has not indicated that income differences would have drastically increased in Finland during recent years, and they appear to have been quite stable (Tilastokeskus.fi, 2019). The Gini index in Finland is the second highest of the Nordic countries; however, they are all under 30,0 (Oecd-ilibrary.org, 2021). Currently the most recent Gini index value is 27,7 according to the World Data Bank (Worldbank.org, 2022).

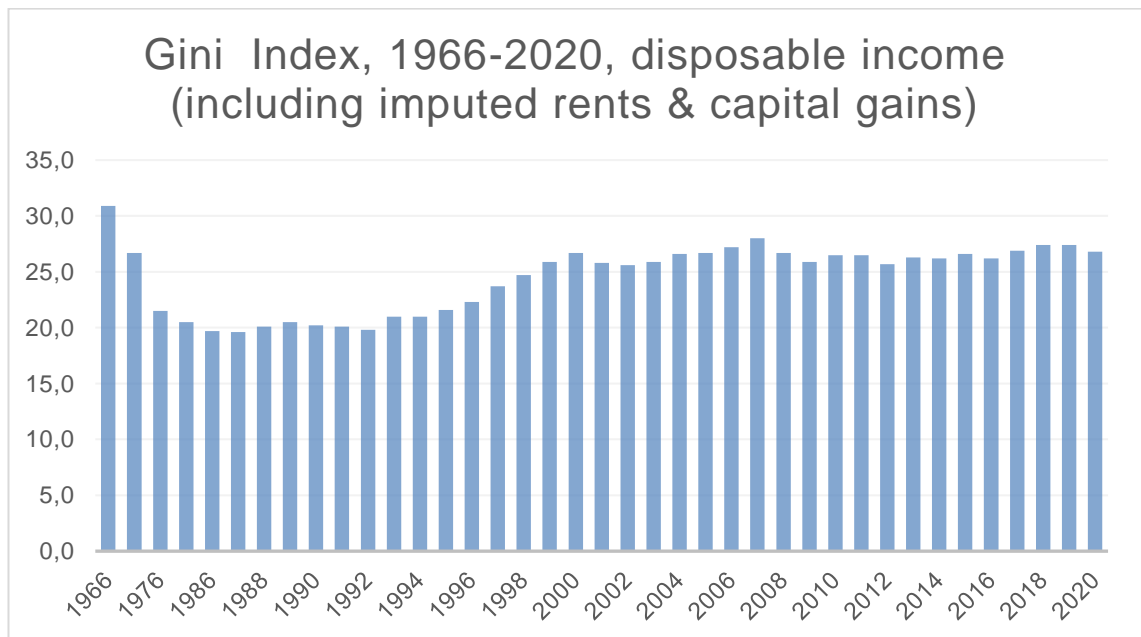


Figure 1, the Gini Index of Finland

(https://pxweb2.stat.fi/PxWeb/pxweb/en/StatFin/StatFin__tjt/statfin_tjt_pxt_11x3.px/chart/chartViewColumn/)

Figure 1 illustrates the Gini index of Finland from 1966 to 2020. Globally Finland's Gini score is considered low, as it has been mostly under 30 per cent. However, the differences in income between the highest earning and the lowest earning in Finland have grown during the last thirty years. Figure 1 shows that according to the Gini index inequality had significantly decreased between 1966 and 1990, as the percentage dropped approximately 10 per cent. From the 1990s onward, it can be noted that the percentage has increased, and this is most likely influenced by many economic shocks, such as the collapse of the Soviet Union (Finland's largest trading partner) in 1991 and the banking crisis

leading to the 1990s recession, the burst of the IT bubble, and the 1990s tax reforms.

5.2 Causes of Inequality

There is no single reason for income and wealth inequality. Income inequality is a product of many factors such as government policies and laws, society's values, unequal opportunities, and other influences. Arguments over whether the impact of income inequality is positive or negative exist for both views.

In recent times, income inequality has been constantly increasing within and between many countries, and it affects a wide range of issues in economy, society, and local communities. As inequality increases, often the systems that enable this furthermore create factors that uphold it in a cumulative process, such as different opportunities for education, work, inheritance, and other factors relating to economic and social stratification. The effects can impact economic growth. The less money the lower economic groups have to spend, the less money is moving within an economy, as higher income groups often spend a lower fraction of their income (Dabla-Norris et al., 2015).

It can be argued that a certain amount of inequality is not necessarily a negative matter. Some degree of inequality may even in some cases be an incentive. It might encourage people to aspire to excel, compete, save, and invest to obtain a higher quality of life. This type of incentive could be seen, for example, in higher education. The belief that being more educated and having a degree will increase one's chances to earn better pay is certainly a factor that affects the decision to study (Dabla-Norris et al., 2015: 7, 8). This can be referred to as the incentive hypothesis and it suggests that the gap between income classes will motivate households to take risks by making investments as well as working and studying more to increase the household's income. However, often the opportunities for investments, education and higher earnings are not equal (OECD, 2015: 26).

Inequality is affected by policies, laws, and regulations created by governments. The Great Recession and other financial crises have increased inequality. The United States of America is an example of this, as politics have heavily affected the economy and distribution of income. Such political decision as the tax cuts implemented in the early 2000's under George W. Bush's presidency aided the richer individuals of the population and did not decrease the gap of financial inequality (Stiglitz, 2015: 246-247).

According to OECD, the gap between the rich and the poor has increasingly grown, and in many countries, it is at its highest for decades. The OECD report states that the rise of income inequality is harmful to long-term economic growth. (OECD, 2015) This suggestion is supported by many economists, such as Oded Galor and Joseph Zeira, who in their paper "Income Distribution and Macroeconomics" conclude that the distribution of wealth has a major effect on the accumulation of economic activity (Galor and Zeira, 1993: 40, 50-51).

It is equally important to observe the lack of economic growth of low-income households, as it is to observe the increase of economic growth of the richest households. During the past thirty years, in many countries the economic benefits for the lowest 40 per cent of the population have been limited or non-existent. Income inequality has increased during good and bad economic times. (OECD, 2015: 21)

Incomes have been affected by the globalisation of labour markets, regulatory reforms and the change created by rapidly evolving technology. As the income differences have increased between the rich and the poor, changes between employees in certain field have also grown. For example, people who are working in a field that is high in demand such as tech or finance would earn higher wages and bonuses, in contrast to those in manufacturing and service jobs where the threat of offshoring or outsourcing keeps wages low. Major economic events have also affected increased income differences such as the financial crisis of 2008. The crisis also increased poverty in many OECD countries, as a result (OECD, 2015: 23-25).

5.3 How Income Differences Have Changed During the Past Thirty Years in Finland

Figure 2 below shows the differences in equivalent income from 1990s until 2020. Each line represents a group's earned household income and the amount that the group has earned against the average sum of euros per person. The lowest earning group has steadily kept earning around 10 000 € per year, whereas the highest earning group has increased earning by over 35 000 € during the time period (Stat.fi, 2021). The figure below demonstrates that income growth has been slower in general for all the lower ranking groups.

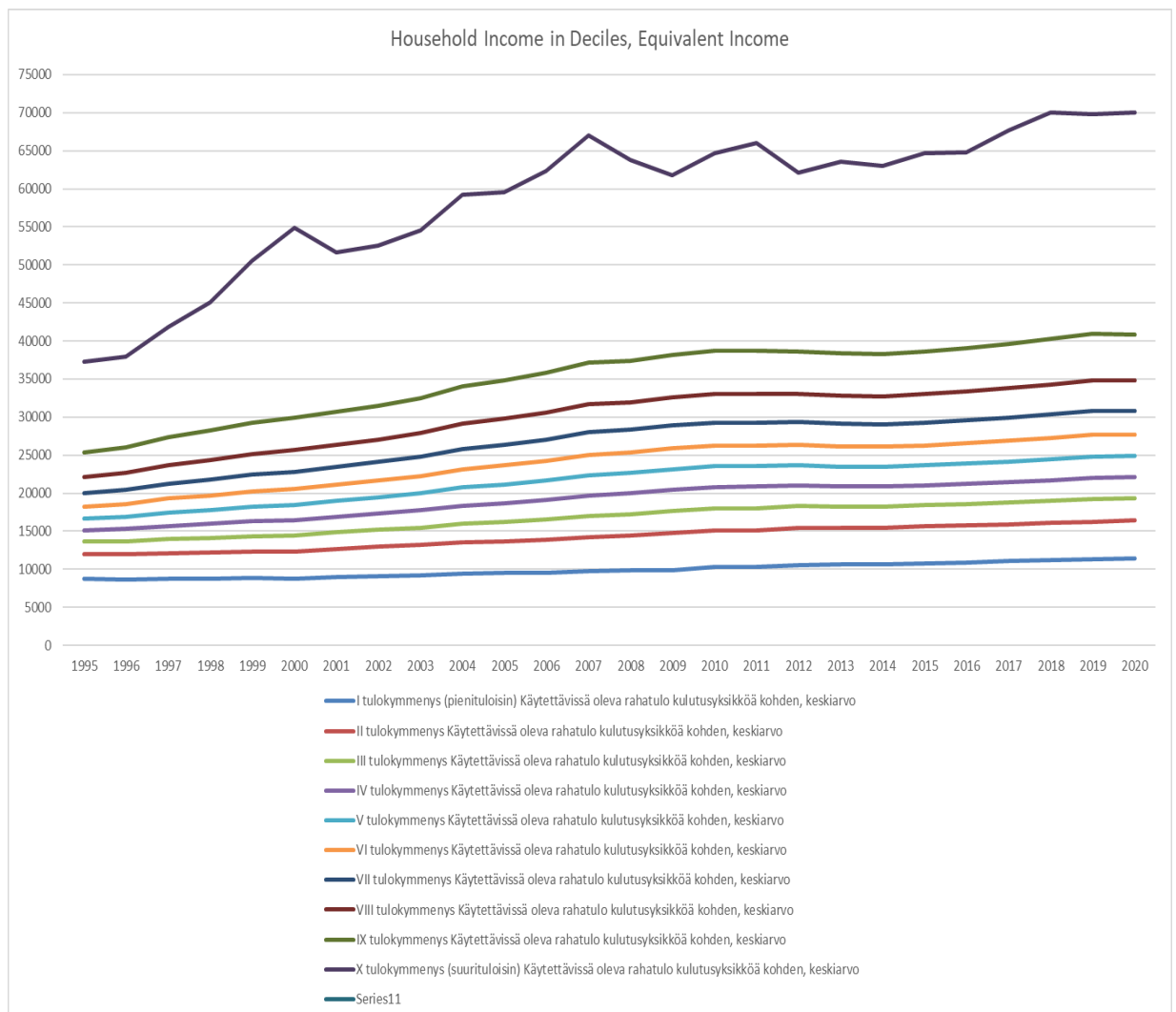


Figure 2: Income by Income Percentile 1995-2020 (<https://stat.fi/tilasto/tjt>)

Between 1995 and 2020 the least earning decile's average earnings have increased by 31 per cent where the highest earning decile's earnings have grown by 88 per cent. The highest earning group's expendable income in a year was 45 500 € in 2020, where the lowest earning group had an expendable income of 14 900 €. In a single person household, the largest group's annual expendable income equalled to be 37910 € monthly, and the lowest 1240 € (Stat.fi, 2021).

Income inequality has major consequences on several aspects of society and economy. When inspecting Finland specifically it can be seen in Figure 2 that differences in income have increased between income groups from 1995 until 2020. Between decile groups I and IX household incomes have developed in similar measure during the selected period, as the decile groups follow a comparable pattern. The figure indicates most growth in the highest household income groups. Nevertheless, increasing income inequality is a worldwide phenomenon.

5.4 Wealth Inequality

Wealth inequality is increasing more rapidly than income inequality in many countries. Equity ownership has rapidly increased during the past hundred years, which has affected societies, politics, and even laws (Piketty 2013: 49). Income differences consist of capital and labour income. Capital income is generated by owning assets, for example, rent income, dividends, interest rates, royalties, and sales profits. Labour income is generated by labour as the name suggests, income earned in exchange for one's time and skills. Capital income is divided more unevenly than labour income. In comparison, generally the top ten per cent of labour income earners earn 25 to 30 per cent of all income that is generated by labour. By contrast, the top ten per cent of capital income earners receive over 50 per cent of all wealth. Half of the lowest labour income earning group receives around ten per cent of total generated income (Piketty 2013: 223-225).

5.5 The Increasing Wealth Inequality

In his book *Capital in the 21st Century*, Thomas Piketty describes the history of income differences and how income and wealth have been divided within different countries during different periods of time. Piketty suggests that income and wealth differences vary due to education and technological development. However, he mentions that this does not completely explain why income and wealth are divided unevenly. For example, the increasing development of pay for executives and other managers in the United States, after the 1970s. The theory is based on two identifiable hypotheses: firstly, an employee's salary corresponds with their contribution to a company's output; secondly, productivity is linked with an employee's skills and the need for that specific skill set within society. Increasing demand for a certain profession would lead to an increase in pay for those professionals (Piketty 2013: 275-276).

In actuality salaries are not always proportional to the demand of that field. Education systems have an effect on which degrees are available, who and how many are accepted to study these, and what the students have to pay for the education. Education and technology are often linked as many institutes encourage and strive for entrepreneurship and technological development. Society determines how rapidly new technology can develop, through innovation. However, the growth of educational level in society does not indicate that income differences decrease (Piketty 2013: 276-278).

Statistics Finland reports that in 2020 around 1.7 million persons owned mutual funds or shares listed in Finland. The increase of share owners grew by 107,600 between 2019 and 2020. Interest in investing has increased during the past 10 years (Official Statistics of Finland (OSF) 2022).

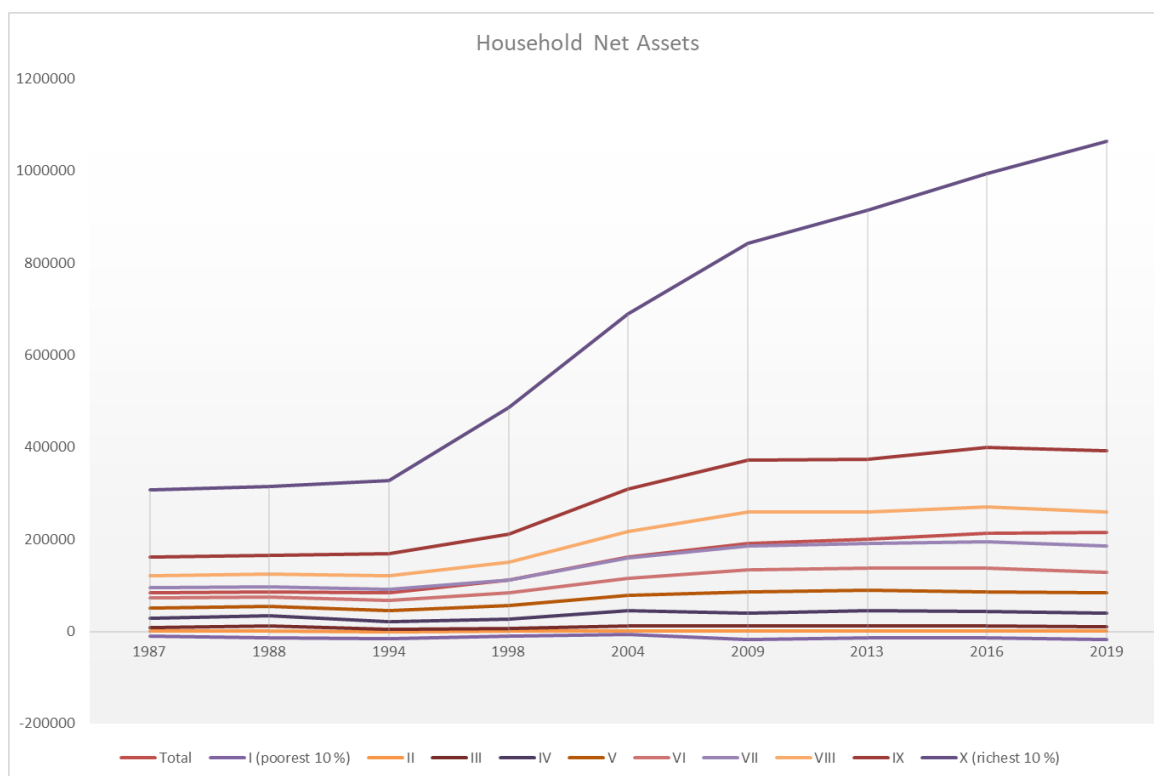


Figure 3; Household net assets in Finland (<https://stat.fi/tilasto/dokumentaatio/vtutk>)

Figure 3 demonstrates the division of net assets between household deciles. Each point presents the average household assets of each decile. The statistics are based on a wealth survey conducted by Statistics Finland in 1987, 1988, 1994, 1998, 2004, 2013, 2016 and 2019. It should be noted that the wealth data of the 1980s and 1990s may differ from the data of the 2000s, as the earlier data has been collected from registers or estimates. There are differences between which assets were counted in different years, and thus the chart is not unconditionally accurate. The amounts are in euros. The data excludes those without permanent address, institutional population, those residing permanently abroad, and also those temporarily residing abroad for more than a year if their household in Finland considers the person not being part of the household during the reference year and asylum seekers as well as those temporarily resident in Finland (Official Statistics of Finland (OSF) 2022).

Ignoring the possible outliers of the chart, Figure 3 illustrates unequal distribution. When examining the assets of the lowest five deciles, change in

average assets is minimal. The tenth decile is by far larger than the other deciles. Comparing the annual results of each decile, the major difference between the tenth decile and others is significant. The graph displays a stark increase in assets; however previously mentioned differences in collected data should be taken into consideration. Nevertheless, in annual comparison increasing wealth inequality is apparent, and increasingly so for the uppermost deciles. The ninth decile group, being the second wealthiest, is much closer to the tenth decile, the richest group.

6 Poverty

6.1 The National Poverty Line

The World Bank Group defines the natural poverty line as a country specific measure of consistent poverty within that specific country's economy. The national poverty line is one way to measure poverty, which focuses on the monetary threshold which is the minimum for a person's basic needs to be met (Poverty and inequality, 2022).

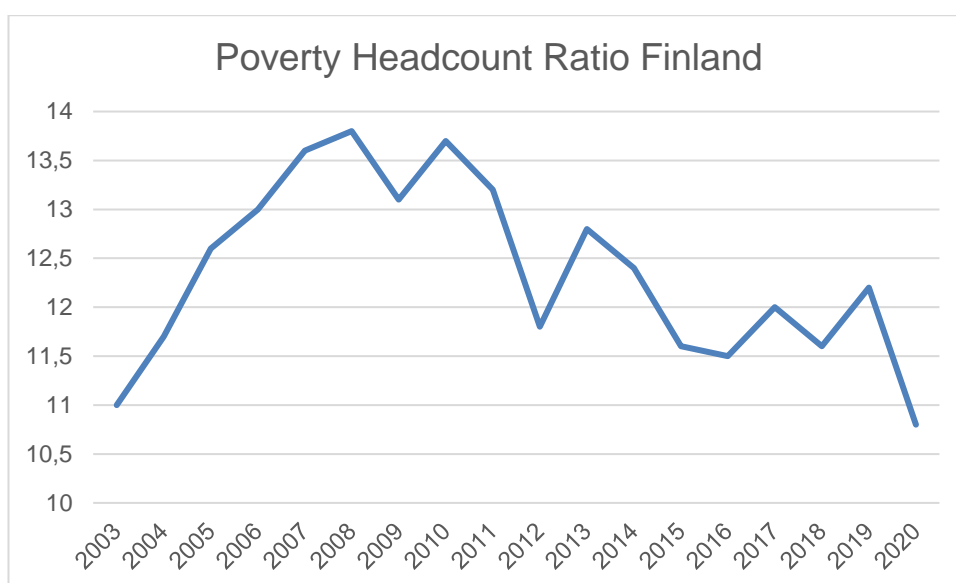


Figure 4: Poverty Headcount Ratio in Finland
(<https://data.worldbank.org/indicator/SI.POV.NAHC?locations=FI>)

Figure 4 illustrates the number of individuals in Finland considered below the line between 2003 and 2020. The graph displays steep changes between the decades; however, major economic and financial elements have affected certain periods, such as the global financial crisis. This figure does not show the effects of the COVID-19 pandemic, and the amount of Finnish people living below the poverty line will most likely increase during 2022 and forward, as food prices increase, the energy crisis escalates and the war in Ukraine continues.

6.2 Poverty and Low Income in Finland

The at-risk-of-poverty rate is an indicator established by Eurostat to measure low income in comparison to the standard of living. The at-risk-of-poverty rate defines households whose disposable income is below 60 per cent of the national median to be at risk of poverty. The at-risk-poverty rate demonstrates the number of individuals who are living below the poverty risk threshold. (Eurostat, 2021)

According to Statistics Finland, 16.0 per cent (873,000 Finns) of the entire household population were at risk of poverty or social exclusion in 2019. Households' difficulties in making ends meet became slightly more general in 2020 (Stat.fi, 2020). This can be expected since the COVID-19 pandemic started in 2020.

The number of Finns living in poverty has increased by around 62 000 households, as a result of the increasing food and energy prices. As reported by Yle, researchers estimate that Finland's poverty rate has risen by a total of 2,5 percentage points. This is a direct outcome of the war in Ukraine and the associated energy crisis. These results will have a major impact on households with children and those with already low incomes, as it is more difficult for these to decrease consumption (Yle, 2022).

Finland's Social Insurance Institution Kela has presented changes to benefits in future years. According to Kela the changes will affect unemployment benefits, student benefits, student loans, and child benefits (Valtioneuvoston julkisen talouden suunnitelmasta vuosille 2023–2026 (VNS 2/2022 vp), 2022). Due to the energy crisis Kela has proposed to increase child benefits to combat the increasing costs. According to Yle, there would be a 10 per cent increase in child allowance; however, it would only reduce the child poverty rate by one half of a percentage point. The increase would not have a significant effect on the purchasing power of low-income families with children (Yle, 2022).

6.3 Standard of Living

In Finland most if not all of the population uses public services. These services include education, health care, unemployment, and other social services. Many individuals are given monetary social benefits such as student, housing, unemployment, and supplementary benefits. Because of these services and benefits it is difficult to apply certain theories regarding poverty and inequality as these factors often decrease or erase poverty and inequality. According to the European Social Survey, Finns feel that the Finnish society is more unequal than those in other Nordic countries. The increasing inequality has been noticed in Finland and surveys suggest that the population perceives the society to be increasingly less equal. (Saari, 2015: 90-91).

Reasons beyond individuals' control can create or maintain poverty. For example, structural factors such as unequal opportunities for employment, education, health care and other social aspects maintain and increase poverty (Saari, 2015: 101).

Factors that cause inequality and can put an individual in a less advantageous socioeconomic position can arise from a multitude of individual and societal circumstances. Individual factors such as substance abuse issues, being taken into custody, unemployment, dropping out of school, and illnesses can place an individual in an environment where opportunities for success are more limited. As the lack of education, financial struggles and mental health issues increase, generational poverty is a vast societal issue that can be seen in modern Finnish society (Saari, 2015: 104-105).

6.3.1 Homelessness in Finland

The Housing Finance and Development Centre of Finland (ARA) reports that in the end of 2021 there were 3,948 homeless people living alone in Finland. According to ARA the number of homeless people had decreased by 393 from 2020 to 2021. Most homeless people in Finland live in the Metropolitan area near Helsinki (Asumisen rahoitus- ja kehittämiskeskus, 2022: 3-4).

Homelessness can be categorised by different living circumstances. It includes people who live outside and stay in overnight shelters, people living in institutional units, people who stay with friends or relatives, or anyone else who does not have owned or rental housing (Y-Säätiö, 2022).

The “Asunnottomien yö” (The Night of the Homeless Citizens) is an organization which organizes an event with the same name during fall. The organization aims to increase awareness regarding homelessness in Finland, and to offer food to homeless people. (Asunnottomien yö, N.D.)

6.3.2 Food Aid

The increasing need for food aid is another sign of increasing inequality. During the COVID-19 pandemic the number of people in need of food aid increased. According to Yle, thousands of people became dependent on food aid, as a result of the pandemic. Distribution of food aid started as a temporary assistance during the 1990s. However, it is still relevant today as the need for the aid has remained and grown. It is provided by churches and other voluntary or non-profit organizations. Some companies are cooperating with food aid organizations by providing food that would otherwise go to waste. (Korpela, E., 2020) Hurstin apu -organization provides food aid in Finland, a notable event they organize is the “Vähävaraisten joulujuhla” a Christmas dinner which is served in Helsinki. (Yle, 2019)

7 The Welfare State

The economic growth of Finland after the Second World War is often acclaimed as the result of directing resources towards education, infrastructure, and public investments. Tuomala suggests that universities and research laboratories funded by taxes have developed many scientific and technological breakthroughs. The benefits of tax supported education have affected companies as well (Tuomala 2019: 52).

Tuomala examines the development of Finnish society through 1966 to 2015 and divides the time period into two eras: the establishment of the welfare state and the global competition state. The era of the establishment of the welfare state refers to the government implementing various reforms regarding education, social services, health care, financial markets, and taxation during 1966 -1990. Tuomala refers to the time period after 1990 until 2015 as the era of the global competition state, during which Finland joined the EU and transferred to use Euro as its currency, and the world experienced two major financial crises. (Tuomala 2019: 93-98) The era of the global competition state has been discussed and theorized by many as Philip G. Cerny who reviews the topic of global competition state as the future of the state in the Review of International Political Economy, Philip G. Cerny observes the changing role of the state and its relationship with globalization and capitalism. (Cerny, 2006: 681).

During the 1960s the income differences decreased due to taxation and the redistribution of income. In comparison, during the late 1990s and the 2000s the distribution of income was less even. The growth of income for the richest groups has increased during the past thirty years globally (Tuomala 2019: 93-98).

The research of income differences, poverty and wealth inequality often focuses on the statistics regarding the amount of wealth and individual or a household has. However, what happens when public services and goods are added into

the mix? How does education, healthcare, and other such services affect these inequalities and differences. This factor is significant when examining income inequality in Finland. Public services are used by everyone regardless of income or wealth. The existence of these services in a society decreases inequality. (Tuomala 2019: 101-102).

The Finnish education system offers free education to all of its citizens, from early childhood education until higher education, meaning there are no tuition fees (OKM - Opetus- ja kulttuuriministeriö, 2022). Universal healthcare includes the healthcare services which usually have a set cost, and most are completely free for people under eighteen years old. The costs may vary by municipality. (Sosiaali- ja terveystieteiden ministeriö, 2022).

Researchers have concluded that economic growth itself is not a sufficient indicator of societal wellbeing, and inequality affects it. The negative effects of increasing income differences have been researched for decades and are an existing part of modern economic and political discussion. However, even though inequality and welfare are linked factors in many regards, it is challenging to study their relationship. Factors that cause changes in income differences are connected with several aspects that affect society's wellbeing. Factors such as education, health care, unemployment, and technology effect income differences as well as well-being. The Gini index is a measure of income differences, and when inspecting Finland's Gini measurements, it can be concluded that rapid changes took place between 1990 and 2010. However, the values have decreased ever since. The Gini coefficient gives a general perception of income distribution; however, it is not easily affected by the changes of income distribution at either end of the spectrum. In Finland differences in wages are not the main reason for income inequality, unlike in other countries. Explanations for increasing income difference are created by investment income and the evolution of social security in comparison to wages. (Saikkonen, Hannikainen, Kauppinen, Rasinkangas, and Vaalavuo, 2018: 43-44).

Progressive taxation is a factor in decreasing income inequality. Progressive taxation adjusts the proportions of tax based on individuals' income (Gwartney and Stroup, 1980: 92). Politics have a significant factor in equality. For example, investments in education affect equal opportunities. Various industrial and regional policies affect income differences. Taxation and policies can affect those who move there, which can possibly increase income differences between citizens. If a city is appealing to wealthier individuals and households and this can affect housing prices (Saikkonen, Hannikainen, Kauppinen, Rasinkangas, and Vaalavuo, 2018: 45).

7.1 Globalization

In the Review of International Political Economy, Philip G. Cerny examines a prevailing theme of contemporary political economy, the future of the state. Cerny compares and explores Neil Brenner's and Bob Jessop's theories regarding the changing role of the state and its relationship with globalization and capitalism. Cerny defines the sources of structural and institutional change by defining three variables: the economic, socio-political, and the geographical, and their contribution to the changing contemporary state. (Cerny, 2006: 680) Cerny refers to Jessop's book, *The Future of the Capitalist State*, which discusses the theory of relative autonomy of the state. The theory has been a prominent topic in debates and writings alike, that in previous decades have construed the development and existence of the modern state, the industrial state, and the welfare state, as a necessary aspect of the development of capitalism.

Jessop's innovatory contribution to Marxist theorizing is to argue that the kind of 'extra-economic' institutional supports that the industrial welfare state provided during the Second Industrial Revolution of capitalist development are no longer sufficient to support capitalist accumulation in its globalizing, post-Fordist phase. Therefore, attempts to revive the modern national-territorial state, whether in the name of social justice or in order to prevent capitalism collapsing from the weight of its own internal contradictions, are doomed to fail. (Cerny 2006: 681)

Jessop's conclusions suggests that the essence of capital accumulation is that capitalism is differentiated from other forms of producing goods and services, by the generalization of the commodities to labour force. (Cerny, 2006: 681)

Without socio-political supports operations of markets in capitalistic system will not be able to operate in a competitive and efficient manner. Accumulation eventually leads to capital being only in the hands of the few, and ultimately will stop when a big enough of a crisis, systematic breakdown or revolution stops it. The surplus value produced by the labour of workers is extracted by the owners of the means of production and allows the owners to reinvest the surplus and gain more means of production which will lead to cartelization, oligopoly, and monopoly. As the competitive dynamism of capitalism drives to accumulating increasingly more of the market share and means of production, it causes

increased rent-seeking, overpricing, underconsumption, growing inefficiencies, unemployment, and the long-term tendency of the rate of profit to fall. Cerny recapitulates this as eventually, capitalism destroys all value and, in this process, destroys itself through a generic crisis of capitalism. To prevent excessive rent-seeking and market destabilization, regulating functions such as property rights, antitrust laws, transparency regulations, a legal system and protects those without market power to at least some extent, and a system of financial and commercial regulations are all required. Accumulation is the byproduct of the trial-and-error process to pursue economic growth. (Cerny, 2006: 684)

As capital accumulation shifts from an industrial production-based economy to a knowledge-based economy, it also determines the main direction of change in globalization. This shift can be analysed by the economic policy, social policy, and rescaling and re-temporalizing of market-state-society relations. Economic policy in this context refers to the changing forms of state intervention, social policy to the changing conditions of the social reproduction of capitalism, and rescaling of market-state-society relations to changing scalar organization and the shift of the primary mode of statehood from government to network based, self-organizing governance. (Cerny, 2006: 686) Cerny describes the core of Jessop's and Brenner's concepts to be based in the nature of capital accumulation, as the driving force of both national 'statehood' in earlier eras as well as the transformations involved with globalization in the present day. (Cerny, 2006: 688) Modern age urban policy focuses on exploiting differences for the maximization of competitive advantages globally. (Cerny, 2006: 689) This creates an environment of short-termism, which leads to decreasing competitive advantages as they are obtained by first movers. Uneven development can strengthen the strong but weaken the weak. (Cerny, 2006: 690)

Both Jessop and Brenner focus their empirical theories on developed industrial states, particularly Western Europe, however the situation is more disordered

and politically complex in the parts of the world where the nation-state's requirements of competitiveness are more demanding. (Cerny, 2006: 691)

The search for a new spatio-temporal fix for capitalism is a complex and politically driven process. In an age of globalization factors other than territory become significant. For example, marketization, financialization, and virtual economies become relevant influences. Cerny suggests that there is a new world order which will develop from competing institutions, overlapping jurisdictions, territorial fluctuation, and the reduced capacities of states to provide order and security. Cerny argues that the outcome will be the result of traditional, more politically fluid processes of conflict, building of affiliations and competition, which will be continued on by a range of relevant actors pursuing to obtain the benefits of globalization for some combination of self-interest and notions of the public good, through unevenly diversified political processes expanding on various global, international, and transnational scales. (Cerny, 2006: 693-694)

7.2 The History of Finnish Welfare State

Before the First World War, Finland was an autonomous part of the Russian Empire, gaining independence in 1917. After the Second World War Finland retained its independence, despite losing significant territory. The previously divided nation became more united through negotiations which took place after the war. Joint responsibility, fairness, became popular ideologies, and affected the creation of a social security system, not just in Finland, but in other Nordic countries as well, during this period of time. These events additionally influenced the creation of incomes policies in the late 1960s. Social security was viewed as a way to unite people and the nation after the war, and similar changes happened in other nearby countries as well such as Sweden, which had already begun the process of building a welfare state in the 1930s. Finland followed suit. (Sosiaaliturva ja elämänvaiheet : Suomen sosiaaliturvan kehityksen esimerkkien ja tilastojen valossa, 2012 : 9-11)

Immediately following the Second World War, the societal environment was not ideal in regard to creating new social policy, as Finland had to pay war reparations to the Soviet Union, economic growth was unstable, and shortages strained the nation. Fear of war created an unstable political environment. (Jaakkola, J., Pulma, P., Satka, M., Urponen, K., 1994: 228)

Industrialization had already increased rapidly in Finland during the 1920s. Agriculture was a major field in employment and industrialization. The Finnish economy grew in the mid-1920s after the First World War, as the need for commodities and machines increased. Foreign trade increased and brought in more money, particularly the wood processing industry and metal industry bloomed. Manufacturing brought in funds and helped the economy to grow. The industrial production in Finland grew by approximately eight per cent annually between 1920 and 1930, and the growth was even faster than in other European countries; however, it is worth noting that the starting point for Finland was rather low. In the 1920s new laws, policies, and agreements in regard to employment and social welfare were made. In 1922 the first labour contract law was established as well as the Law on the Care of the Poor (Jaakkola, J, 1994: 171-175).

Finland began exporting to more western countries after the First World War, as the market share of Russian Empire diminished. Finland's exports became mainly lumber products, and trading with the Soviet Union was a small percentage of exportation. Trading with the Soviet Union eventually grew as Finland's export industries expanded to metal and its mechanical industries grew. After the 1990s recession the electronics industry became the largest export industry and the amount export countries increased. In the 21st century some of the major export industries have been paper and IT services (Haaparanta, H., 2017: 8-11).

The Third Way is an ideology which has been described to be between or a mixture American capitalism and Soviet communism (Kettunen, 2001 : 229), or more accurately, traditional social democratic corporatism. The Third Way can be described as a compromise between left and right politics (Bobbio, 1996 : 8).

According to Kettunen, the Nordic policies of the welfare state have often been referred to as “a Middle way” between objectives of social equality, political democracy, and economic prosperity. In contrast to other Nordic countries, such as Sweden, the distinction in Finnish policies differs. For example, Sweden, Norway, and Denmark were at the top in the international statistics of unionization already in the 1930s. whereas until the Second World War, Finnish industries were able to adhere to the policy of refusing collective agreements with trade unions, (Kettunen, 2001 : 230), reflecting the outcome of Finland’s brief but bloody civil war in 1918.

Compared to the other Nordic countries, Finland developed into a welfare state later. Other major changes such as industrial take-off also happened later, as Finland had remained a predominantly agrarian and rural society longer than other Nordic countries. Further arguments present that in Finland politically the welfare state has been a weaker ideology than for example in comparison to Sweden (Kettunen, 2001: 225).

7.2.1 History of the Finnish Taxation system

The history of Finnish taxation can be based on relatively reliable data. Already in the nineteenth century taxation was public at the municipal level and are public data at a national level nowadays. The legislation has obligated institutions such as employers and banks to provide relevant data to the tax officials. The data on taxation is substantial, however. It is affected by issues identified at a country level as well, such as the changing notion of what is constituted as taxable income, the composition of the tax units and exceptions whose information on incomes is lacking. At the end of nineteenth century the concept of income and taxation changed when social transfers, such as pensions, were included, and persons could claim deductions for taxes. For example, having children would entitle taxpayers to claim deductions, which decreased income differences between lower income level families and higher income level families. Tax exemptions could also be claimed for capital income, which benefited the wealthiest. The widespread usage and complexity of

deductions, means that it is difficult to estimate how deductions affect the inequality metrics over an extended period of time. Compared to other countries Finland's economic development began later. This has affected income inequality and its evolution. Notably industrialisation and rising economic growth eventually resulted in a gradual increase of income inequalities (Roikonen, 2021: 1-8).

In the 1990s the recession caused an increase of unemployment which also affected factor income differences (Riihelä and Suoniemi, 2017: 194). Factor income can be defined as income that is derived from participation in the production activity and received by households as wages and salaries (labour), entrepreneurial income (capital) and property income (rent) (Official Statistics of Finland, 2022). Measuring income differences as gross income would suggest that income differences did not appear to increase during the recession. After the recession, as the economy began to recover rapidly, income differences began to increase. The renewal of the taxation system in 1993 modified the investment income taxation to become a flat tax. The change benefited the wealthiest the most and caused an increase in wealth differences. The new taxation system created an incentive for the wealthiest to exchange their earned income into investment income to benefit from the lower tax percentage of investment income. This affected the income distribution to become less equal. The recession had caused unemployment to increase, resulting in growing unemployment and an increase in those dependent on social security, to earn less in comparison. Strict budgeting changes made earnings-related unemployment benefit less available, which caused more unemployed persons to be dependent on supplementary income benefits. Despite this, after the recession differences in factor income displayed minor change. However, gross income and disposable income differences increased. The same phenomenon occurred in Finland as in many other developed countries, as the wealthiest began to increase their income faster than lower income groups (Riihelä and Suoniemi, 2017: 195-196).

7.3 The Effects of the COVID-19 pandemic

The COVID-19 pandemic has affected economies globally, businesses having to shut down, people losing jobs and entering job markets has become more difficult (Terveyden ja hyvinvoinnin laitos, 2020). An example of the effects of the COVID-19 pandemic in Finland in individuals of different socioeconomic classes was the shutdown of schools and students not having access to school lunches. There were differences between cities and municipalities and how school lunch was provided when schools were shut down. Some municipalities offered lunch replacement during shutdown, and some did not (Yle Uutiset, 2020). People in lower socioeconomic classes on average have more underlying illnesses, which increase the serious risks resulting from COVID-19 virus. The full effects of the pandemic cannot be seen yet, but it can be speculated that it will increase income differences (Terveyden ja hyvinvoinnin laitos, 2020).

Examining the effects of the COVID-19 crisis it is crucial to establish the factors which will affect the outcomes of the pandemic. The pandemic is a recent event, and it should be noted that the information available can include gaps and uncertainties. Epidemiological conclusions indicate that Finland has had a lower infection and mortality rate in comparison to other European countries. The virus will likely remain spreading. The COVID-19 crisis caused a strain on the economy which incurred debt, however the in 2022 the GDP had exceeded the level which it was at in 2019. Tourism and event industries were widely affected by the pandemic. Recovery of the industries is expected, however especially tourism faces uncertainties due to Finland's geopolitical situation. Backlogs in health care and social services will take years to dismantle. The COVID-19 crisis has aggravated inequalities in wellbeing, as those in a lower economic state have ended up in a worse situation. The Finnish economy has not been as severely impacted by COVID-19 as other European countries. (Varanka et al, 2022 : 5-15).

8 Results

Examining the data suggests that inequality within Finland has increased. Many factors alter the results of income differences. Inspecting Finns' disposable income, the Gini index including imputed rents and capital gains, the growth has been relatively slow between 2010 and 2020. As to when examining wealth inequality, the growth of inequality has increased more drastically than in comparison income inequality. Noting that the wealth inequality data excludes those without permanent address, institutional population, those residing permanently abroad, and also those temporarily residing abroad for more than a year, and asylum seekers as well as those temporarily resident in Finland.

Inequality can be assessed by a multitude of measures. Different indexes, such as the Atkinson index, the Gini coefficient, and the Hoover index, have been developed to measure wealth and income inequality. This research paper utilizes the Gini coefficient as it is a widely used index, and substantial data and research of the Gini coefficient exist in regard to Finland's economy and income differences. Focusing on the Gini coefficient when inspecting income inequality in Finland further defines the research area.

Finnish as well as foreign sources exist in regard to the topic and provide a variety of laws, regulations and societal phenomenon which have affected the change in income differences. In this research the Gini index for Finnish income is inspected between 1966 and 2020, including imputed rents and capital gains. The specific data set indicates that the percentage for disposable income has stayed relatively stable. Viewing the results of comparing household incomes in deciles, the chart illustrates unequal distribution. The tenth decile, which is the decile with households with the most assets, has the most drastic increase. In contrast, the lowest five deciles have minimal change in average assets. However, acknowledging that the change occurring over time is affected by the change in sources of data collection, as the earlier data has been collected from registers or estimates. The figure demonstrates that the difference between different deciles in assets has increased. The data used does not include

without permanent address, those residing permanently abroad, institutional population, or those temporarily residing abroad for more than a year if their household in Finland considers the person not being part of the household during the reference year and asylum seekers as well as those temporarily resident in Finland.

The growth of poverty can be seen through statistics as well as events within society such as increasing demand for food aids and the “Asunottomien yö” (The Night of the Homeless Citizens) event organized by an organization of the same name. The poverty headcount ratio in Finland depicts the number of individuals considered to be below the poverty line. Figure 4 demonstrates that by 2020 the number has decreased in Finland. According to Statistics Finland, 16.0 per cent of the entire Finnish household population were at risk of poverty or social exclusion in 2019. An indicator of increase in poverty, is the increasing demand for food aid. The COVID-19 pandemic increased the number of individuals relying on food aid.

Differences in measuring poverty, income inequality, and wealth inequality are caused by factor such as different data sets, and inclusion or exclusion of certain demographics. Inequality is increasing globally, between countries and inside them.

9 Conclusion

In conclusion, it can be seen that income inequality is a globally growing issue. The crash of the financial markets and other crisis have increased economic inequalities between and within nations. When comparing the annual data of the Gini coefficient there is no drastic change in income inequality. The development over the past decade (2010-2020) has been stable. Wealth inequality demonstrated by the household net assets has increased more drastically. Societal phenomenon such as food aid, and their increasing need depict the growing poverty within Finland. The standard of living reflects the inequalities within a society, and the possible barriers in reinforcing inequality, or the services and resources diminishing it.

Finland's development into a welfare country has frequently followed the other Nordic countries. The attributes of a welfare state, such as access to education, social security, and affordable health care diminish inequality. As globalization affects the accumulation of capital, production, and competition, the state of the welfare state will develop through political processes. Although the data which has been so far included, such as the Gini index, does not demonstrate drastic changes of income inequality, it will be intriguing to follow how the data will evolve in the upcoming years.

Further research regarding the topic could investigate the effect of the Covid-19 pandemic, and its aftermath, the increasing inflation in the 2020s, the policies made by the government, and its affect to the Finnish welfare system. The development of the welfare system is a research topic with sufficient material, and topical and expanding discussion. Historical research of the establishment of the current welfare state and its many changes includes abundant material for more profound examination.

Income inequality in Finland is a topic which expands to multiple aspects of history, economics, finance, and politics. A bachelor's thesis as a research cannot fully investigate all aspects in regard to the topic, as the material is

broad for further research. The scope of the existing material, as well as the multiple views and research questions which could be examined and analysed are limitations for a bachelor's thesis.

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