

## Chapter 4: The Middle Class in Finland

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At the time of writing this chapter, Finland is celebrating its 100<sup>th</sup> year of independence. On the journey of one hundred years, Finland has faced several structural changes—among them, changes in the status and well-being of the middle class, and perhaps even more importantly, changes in what is understood by the designation ‘middle class’. The country has developed from an agricultural-based economy to a modern service-based welfare society and technological forerunner.

A few major factors contributed to the development of the Finnish middle class. First, in the 1960s, Finland began to build a modern welfare state according to the examples of its Nordic neighbours. Although this development could only have taken place once the country had reached a sufficient level of affluence, the creation of the middle class was, more than anything, a political decision. By the 1960s it was widely accepted that overly large social inequalities would be detrimental for the society as a whole and that all citizens, urban and rural, should thus be provided with equal services and benefits. As in other Nordic countries, the expansion of the welfare state in Finland may be thought of as a middle-class project that emphasised universal public services and benefit schemes including both statutory earnings-related benefits and minimum flat-rate benefits (Kangas 1991; Kettunen 2001; Orjala & Eloranta 2006). All in all, the expansion of the welfare state was a major factor contributing to narrowing the economic and social inequalities between social classes.

Second, the rapid economic growth that took place after the Second World War accompanied a major change in the occupational structure (Alestalo 1986; 2007; Jäntti et al. 2006). The main economic activity shifted from agriculture to manufacturing and services. In Finland, the growth of the services sector has largely been a result of the growth of the public sector (i.e. schools, social and health services). To this day, the public sector is still large in Finland. In addition, in the context of this chapter, a major part of the middle class (especially women) works in the public sector.

Third, educational expansion has also offered a platform for the growth of the middle class. The literature suggests that social mobility in Finland has been relatively strong compared to other countries (Erola 2009, Jäntti et al.). It seems that the increasing educational level of the population, due first to the compulsory schooling renewal, and later to the increase of secondary education degrees, has contributed to this mobility (Pekkarinen, Uusitalo & Kerr 2006; Erola 2009).

These structural changes formed a foundation for the development of the Finnish middle class. Less is known, however, about the expansion of the middle class. Indeed, the term ‘middle class’ is hardly ever used in Finland to indicate anything other than a

cultural concept—with the term typically used to refer to a certain kind of lifestyle, attitudes and values, as well as consumption patterns, rather than to a group in the income distribution. ‘Middle class’ is more strongly associated with occupation-based social classes or even with education—although its use even in those contexts is relatively infrequent. The social classes in Finland are typically distinguished into groups that are, to some extent, similar to the Erikson-Goldthorpe-Portocarero (EGP) class classification (Mihalos 2014), including service class (upper or lower), working class (also including routine non-manual workers) and entrepreneurs. For instance, one could argue that skilled workers in Finland have become “middle-classed” in terms of these more cultural aspects of everyday life—and indeed this line of thought has even been used as a political argument. The concepts of upper and lower middle class are also sometimes used as synonyms of upper or lower service class.

## 1. The income perspective

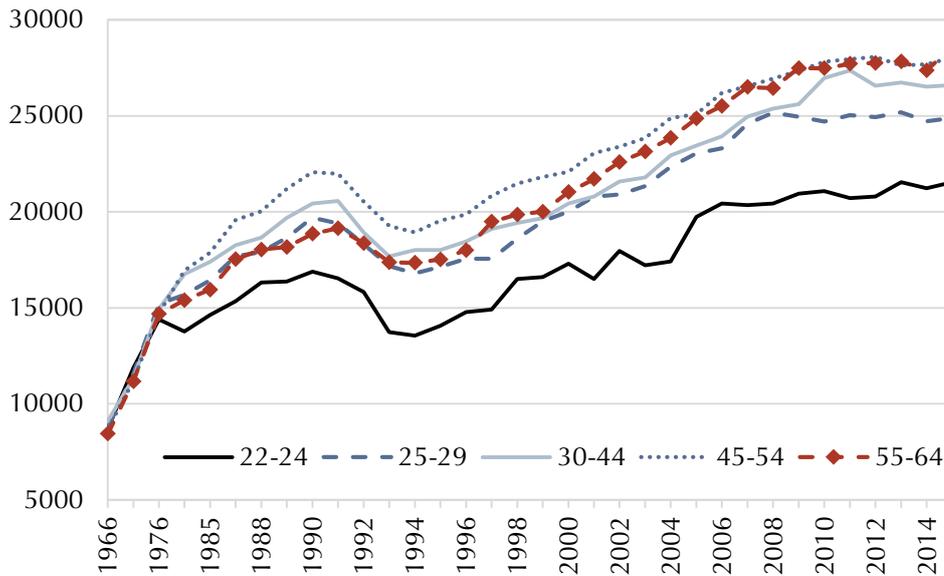
We define the middle class as individuals in households with a disposable income between 60% and 200% of the median disposable income. Those below 60% would belong to the lower income classes, while those above 200% of the national median income would be the upper income classes. In order to identify these classes, we adjusted household income for inflation, equivalising this with the OECD-modified scale (Foster 2013). Under our definition, the Finnish middle class in 2014 represents 78% of the population. This percentage is higher than reported in the statistical overview in Chapter 2, which puts the size at 68%<sup>1</sup>.

The variation in the size of the middle class over time is small—although one may observe an effect of the economic shock of the early 1990s. This appears as a slight rise of low-income classes and as a doubling of the proportion of the high-income earners by the end of the decade.

The severe economic recession during the early 1990s is an important focal point for the discussions below. Among the various reasons for the severe financial crisis of the 1990s, some of the crucial drivers include the rapid collapse of the export market of the Soviet Union and underdevelopment of the Finnish banking system. During the crisis, unemployment rose from 3% to over 16% in just three years. Effect of the recession is also evident from the income trajectories shown in Figure 1. The crisis was followed by very strong economic growth, linked with the ICT boom more generally. As a result, wages rose and public spending grew.

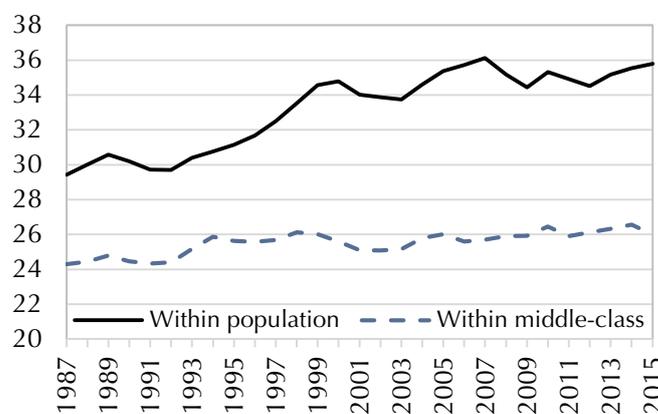
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<sup>1</sup> As reported by OECD (2016) for the year 2013; that study uses a 75%-200% definition, which obviously reduces the size



**Figure 1: Middle class net real equivalised household income by age group**

In Finland, the trend of income inequality since the 1960s can be divided into five periods (Blomgren et al., 2014). First, the era of welfare state expansion in the 1960s and 1970s decreased income inequality (regardless of the type of income differences considered). Second, from the mid-1970s to the economic recession of the early 1990s, market income inequality increased, but due to income transfers, gross and disposable income inequality remained constant. Third, the recession of the 1990s increased inequality in market income but not in gross and disposable income. Fourth, whereas since the mid-1990s, market income inequality has been constant, inequality in gross and disposable income increased towards the early 2000s. (Figure 2) From a comparative perspective, the increase in income inequality was exceptionally fast and steep in Finland during the period between 1995-2002 (OECD 2008; OECD 2011). Fifth, since the turn of the millennium, the development of income inequality has been rather stable.



**Figure 2: Income inequality in Finland—Gini**

Measured in percentages. Source: Own calculations, OSF Income Distribution data

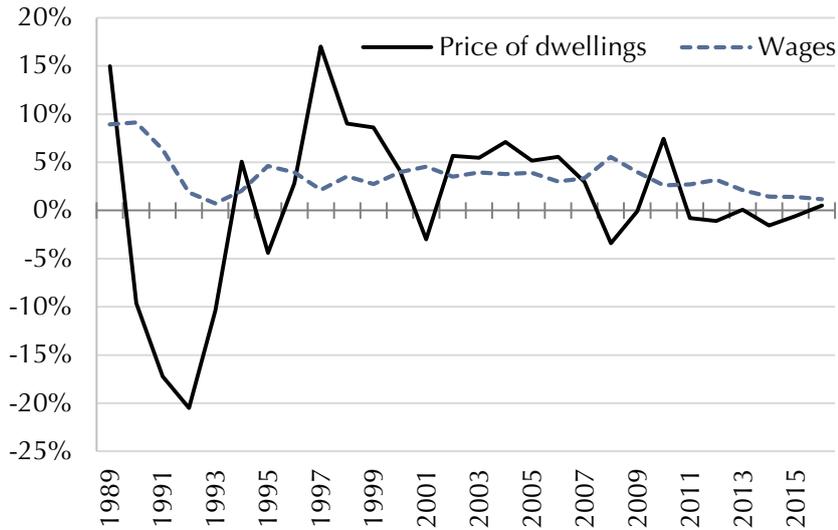
The increase in income inequality in the 1990s is largely due to capital income (see OECD 2008; 2011). Due to capital income, the income share of the highest income decile—and especially in the top 1%—increased drastically during the second half of the 1990s. A catalyst for this process was the tax reform of 1993, the opening of the financial markets in the early 1990s and the economic boom in the late 1990s. The tax reform eliminated progressive taxation on capital income but kept income tax progressive. This provided a clear incentive for wealthier households to rebalance their activities and focus attention to obtain income from capital. The tax reform made financial and fiscal planning by the top-income earners worthwhile, in order to shift their income more towards capital income.

## 2. Non-income-related perspectives

### **The affordability of housing**

The ability to acquire a house is one of the hallmarks of belonging to the middle class. This is directly connected to prices of dwellings and the ability to manage housing loans. In Finland, every third household has housing debt. About half of the owner-occupiers and those aged 25–54 have housing debt (Putkuri 2015). Thus, buying a house is usually the most important investment for the middle class, and the ability of individuals to afford different types of dwellings is connected to their economic situation at the time of purchase.

The housing market is connected to economic fluctuations, and is susceptible to debt-driven asset price bubbles during economic upturns. Figure 3 illustrates how the recession in the 1990s decreased the prices of dwellings. Similar (but milder) changes can be seen during the economically less severe IT sector crash in 2001 and the financial crisis of 2008. Thus, the relationship between wages and the prices of dwellings illustrates how acquiring a house is connected more to the timing of purchase than to income-related changes. Middle-class buying power in the housing market is important, obviously going hand-in-hand with housing market fluctuations.



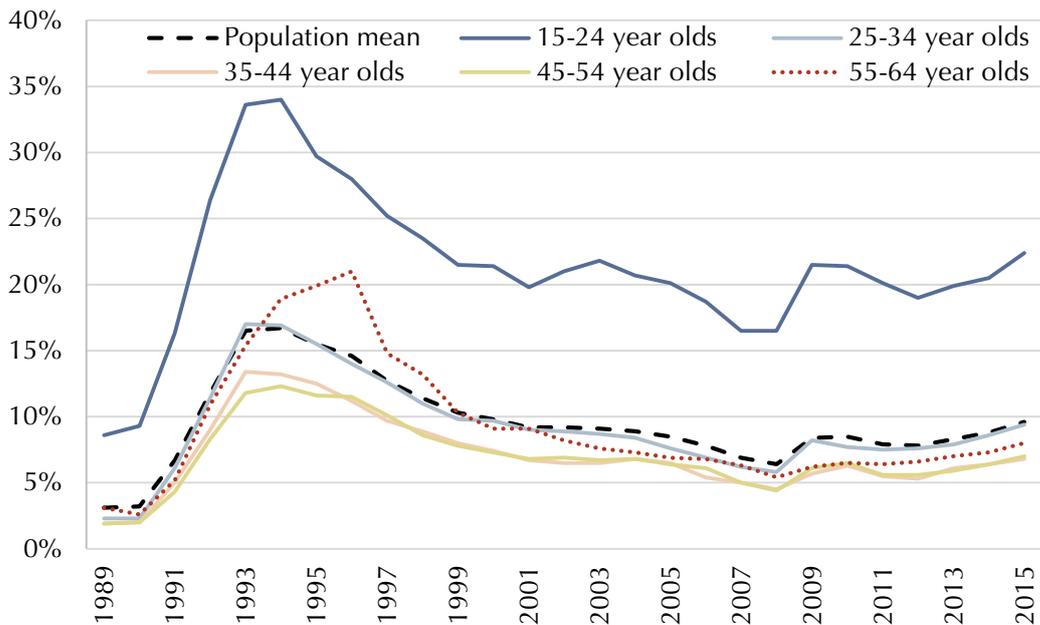
**Figure 3: Annual percentage changes in prices of dwellings and wages**  
 Source: Own calculations, OSF Income Distribution data

**Family stress**

See Section 3 on perceptions.

**The labour market**

Labour market uncertainties have been one of the central factors influencing inequality in Finland. Especially the economic shock of the early 1990s led to large changes in the labour market. Figure 4 shows the trends in unemployment rates for different age groups in Finland.

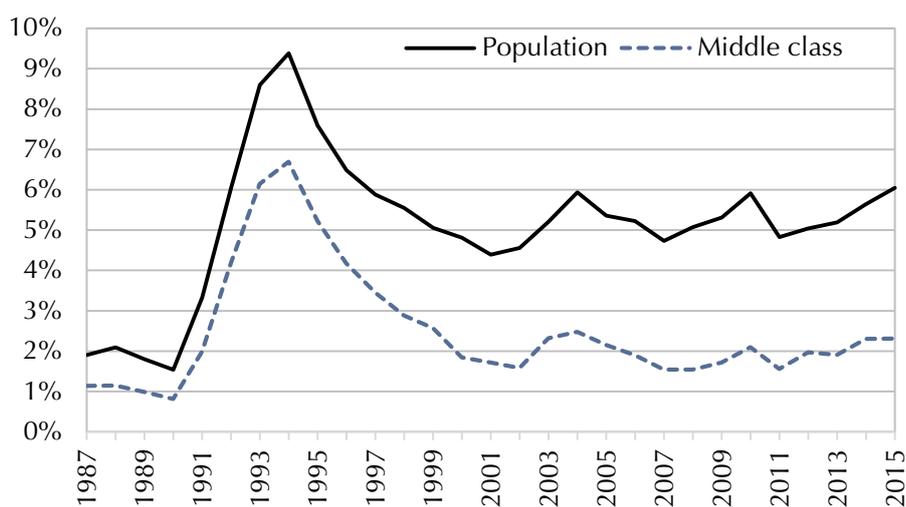


**Figure 4: Unemployment levels in Finland by age groups 1989-2015**  
 Source: Own calculations, OSF Income Distribution data

The recession of the early 1990s led to a rapid rise in unemployment, which declined slowly afterward. Youth unemployment is clearly the highest. The peak in 1996 among 55–64 year olds is the result of the “unemployment tunnel” (referring to the right to unemployment benefits until retirement after a specific age). Before 1997, this tunnel started at the age of 53; subsequent reforms have increased this age (see OECD 2013, p. 147).

Figure 5 shows unemployment among the middle class and the whole population. Although the trends in the unemployment rate are similar, middle-class unemployment is markedly lower.

Another structural change, which has affected labour market uncertainty, is connected to the growth in part-time work. The proportion of employees that had a part-time contract grew significantly between 1997 and 2015. The share of permanent and fixed-term contracts has been stable, as has been the share of public sector jobs.



**Figure 5: Unemployment rate for the population and the middle class**

Source: Own calculations, OSF Income Distribution data

### Social mobility

Finns enjoy a high and increasing probability of achieving tertiary education. The probability is 30 %-points higher for a son whose father had tertiary education than for a son whose father had only upper-secondary education. In addition, growing up in a well-educated family offers a great advantage in terms of achieving tertiary education; at the same time, there does not seem to be a related penalty attached to growing up in a less-advantaged family (see Causa & Johansson 2010).

Table 1 shows the results on absolute, vertical, upward and downward mobility in different cohorts (Erola 2009). Absolute mobility indicates the percentage of the cohort

in a class position different from that of their parents. Vertical mobility refers to mobility across three hierarchy planes of the EGP class classification.

The results in Table 1 show that the level of absolute mobility for women is higher than for men, and upward mobility has been increasing. For men, there is a slight decrease in upward mobility.

**Table 1: Absolute and vertical mobility of 35–39 year-old Finns by birth cohort**

Source: Erola (2009), p. 313.

Men	1936–40	1941–45	1946–50	1951–55	1956–60	1961–65	Total
Absolute mobility	78	77	75	74	74	74	75
Vertical mobility	53	53	54	53	53	55	53
Upward vertical	36	34	35	32	30	30	32
Downward vertical	17	19	19	21	23	25	21

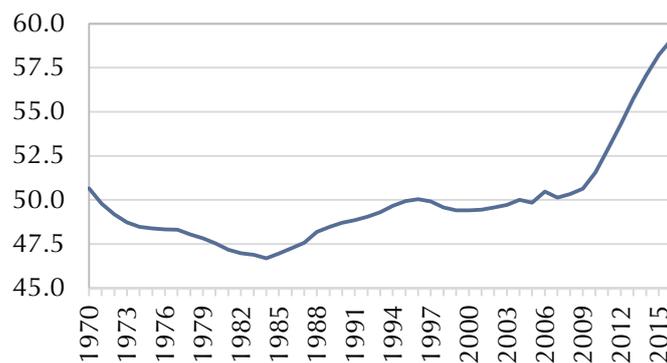
  

Women	1936–40	1941–45	1946–50	1951–55	1956–60	1961–65	Total
Absolute mobility	84	86	86	86	85	83	85
Vertical mobility	44	45	46	50	50	52	49
Upward vertical	22	23	25	27	28	29	26
Downward vertical	22	22	20	24	23	24	23

In Finland, students attending secondary education perform above the OECD average on PISA scores, while the influence of socio-economic background is below the OECD average. Likewise, the persistence in tertiary education over generations is relatively low, whereas attainment levels are fairly high. This reflects the importance of public policies that mitigate the effect of family background on educational outcomes.

### Generational issues

Figure 6 shows Finland's dependency ratio, which has been increasing rapidly since the 1980s. The number of pensioners rose from 610,000 in 1980 to over 1 million in 2010, while the dependency ratio rose by more than 10 %-points during the same period. This poses a challenge to the Finnish welfare system. The social benefits include both pensions and institutional care and home care services for the elderly, which constitutes over one-third of all social expenditures (and 10% of GDP).



**Figure 6: Dependency ratio in Finland in 1970–2016**

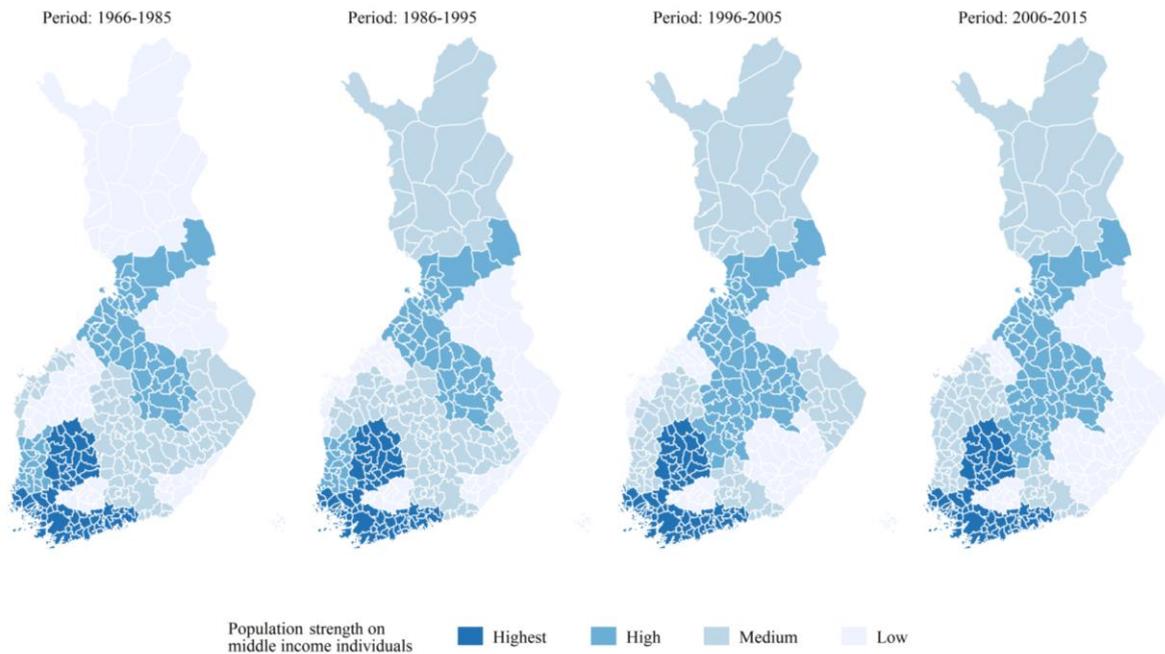
Source: OSF Population Structure. (Total)Dependency ratio =  $((N \text{ of people aged } 0-14 + N \text{ of aged } 65 \text{ and over})/N \text{ of people aged } 15-64)$

### Regional differences

After the Second World War, Finland was still a typical agrarian society. In 1950, agriculture provided a livelihood for 46 percent of the economically active population, while one-third of the population lived in urban areas. Thereafter, the industrial structure changed rapidly. Approximately 1.3 million people moved from working in agriculture and forestry into the industry and service sectors. This was the catalyst of change in the labour market structure: one in every three workers had to change trade. Manufacturing, trade and diverse services generated new jobs. During the large-scale migration, the fertility rate began to decline, which partly contributed to the depopulation of the countryside. In response, the government carried out relief work in the east and north of Finland to prevent labour shortages and mitigate the strain on urban centres. For example, in Lapland, newly founded farms turned out to be far too small and unproductive to be self-sufficient; the farmers became dependent on extra income earned through the state's relief programme, which consisted of road building and other infrastructure-related projects (Kumpulainen 2001).

When the Baby Boomer generation entered the labour market in the 1960s and 1970s, it accelerated even further the migration towards population centres. The migration wave was at its peak at 1974, when approximately six percent of the population changed their municipality of residence. By the mid-1970s, more than half of the Finnish population lived in cities. (Statistics Finland 2007). Urbanization took place within just a few decades, which is exceptionally fast compared to other countries.

The historical context is illustrated in Figure 7, which shows the regional dispersion of middle-income households over the country by four distinct periods from 1966 to 2015. Every period locates the highest concentration of middle-class individuals at the growth centres around major cities. What varies is the distribution outside these areas. For example, a medium concentration of middle-income households shifted from the East to the West coast. This was caused by better employment opportunities in the West.



**Figure 7: Regional dispersion of middle-income households 1966 – 2015**

All data is presented on regional level (NUTS3). Middle class is defined as 60-200% of median disposable household income

### Household composition

Regarding the type of households that are middle class, the only notable difference is the share of single households (without children). They comprise 5%-points more of the middle class share than is the case in the average population.

### 3. Household perceptions

Table 2 presents an analysis of life satisfaction, trust in the government and job preferences of the middle class. The rightmost column of the table shows how middle-class perceptions deviate from the population mean. Although the differences are modest (around 1%), every difference is positive. Life satisfaction and trust in the national parliament show the highest difference. In absolute terms, there is an interesting disconnect between a high satisfaction with life and job security (8 out of 10), but a work-related stress experience of 2.8 out of 5, on average. This is representative of middle-class life observed in other countries as well; a high life satisfaction seems to go hand-in-hand with elevated stress levels.

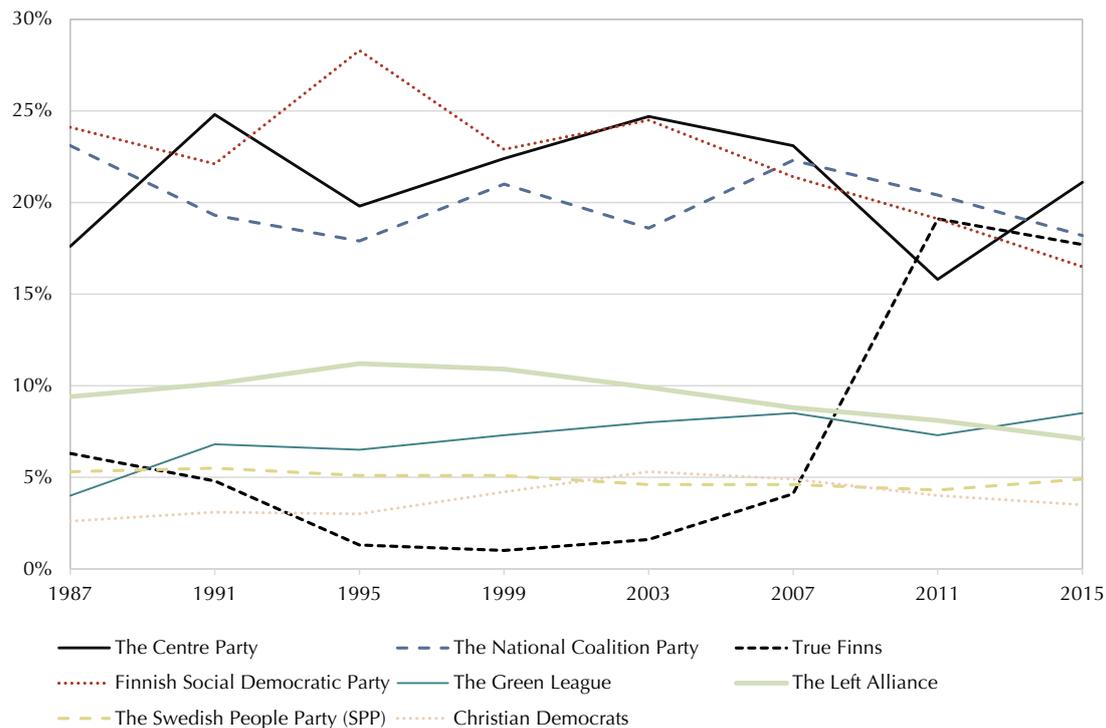
**Table 3: Middle-class self-assessment of perceived position**

Source: European Social Survey, Statistical year 2010.

	Mean	Min	Max	Variance Ratio	% difference from population mean
Trust in government					
Trust in country's parliament	5.4	0	10	0.83	1.5 %
Trust in the European Parliament	5.1	0	10	0.81	0.1 %
Life satisfaction & work					
How satisfied with life as a whole	7.9	0	10	0.64	1.5 %
How happy are you	8.0	0	10	0.64	1.6 %
Current job is secure	3.1	1	4	1	0.4 %
Stress: too tired after work to enjoy things	2.8	1	5	1	0.1 %
Important if choosing job:					
Secure job	4.3	1	5	0.45	0.3 %
High income	3.7	1	5	0.44	0.5 %
Job allowed you to combine work/family	3.8	1	5	0.42	1.1 %

### 4. Political representation

Until 2007, three political parties dominated the Finnish parliament (Figure 8): the Center Party, the National Coalition Party and the Finnish Social Democratic Party, with a combined share of 70% of the vote. However, in 2011 the True Finns won 19% of the vote, gaining 15%-points—raising it from the smallest parliamentary party to become the third-largest party (Statistics Finland 2011).



**Figure 8: Election outcomes 1987-2015**

Source: Statistics Finland

The success of the True Finns can be attributed to strong value-oriented thinking, which is the main factor contributing to the political affiliation choices of individuals in Nordic countries (Oddbjørn 2018). In addition, the sudden rise of True Finn voters can be connected to cleavage voting and preferences for “old politics” (see Lipset & Rokkan 1967).

The True Finns’ political narrative is constructed on the duality of the ‘good civil society’ against ‘bad politics’ (Schedler 1996, p. 297), and a fundamental divide between the elite and ordinary people. Research indicates that the attitude of distrust towards the incumbent office holders and their policies, as well as towards the political institutions, and dissatisfaction with democracy, are quite effectively channelled through the anti-political-establishment vote (Bäck & Kestilä-Kekkonen 2014). Note that in the Finnish context the anti-political-establishment vote does not necessarily oppose in any way the norms and principles of the democratic regime. Instead, those who turn to the Finns’ party seem to critically evaluate the government’s performance and policy outcomes as a whole, including its actors and institutions.

These factors are connected to two major incidents affecting the 2011 elections. First, there was a scandal of electoral funding after the 2007 parliamentary elections, where several candidates did not report their sources of funding in time, which is required by law. It turned out that several well-known politicians of government parties received funding from the interest group *Kehittyvien Maakuntien Suomi* (KMS), which is the lobbying organization of three highly influential businessmen. Three major parties were

especially negatively affected by the scandal: the Centre Party, the National Coalition Party and the Social Democratic Party. Secondly, the economic crisis in 2007-2009 ended a long period of steady economic growth, which also fuelled political distrust of some middle-class voters (Bäck & Kestilä-Kekkonen 2014.).

## 5. Globalisation, technology and migration

We discuss the challenges to the middle class stemming from technological change, migration and globalization. Automation and digitalization might result in a scenario where a substantial share of jobs is “computerized”. Although this shift can already be observed, some caution should be used in evaluating how the technology will affect the actual labour market. While many studies follow an occupation-based approach (see e.g. Frey and Osborne 2013), leading to predictions of entire occupations being at risk of automation, it is more reasonable to assume that single job-tasks are automated by technology. Thus, an easily automated task will be replaced by digitalized systems; referring to this as an “instant” occupational replacement is overstating the risk. In addition, many occupations contain tasks that are hard to automate, and automated systems themselves create new tasks for the labour market. Finland has a reputation as a technological frontrunner, acting as a catalyst for the risks of job automation.

There have been many ideas regarding social policies that would best respond to the challenges of modern labour market structures and the threat of automation. One of the proposed solutions involves issuing a basic income to all citizens, in order to combat the threat of increased automation in the workplace. Finland is one of the leading countries (in terms of using technological advancements and digitalization) giving serious thought to the introduction of a universal basic income. In 2016, the government started a pilot program of a universal basic income. Such a system could offer protection from the transition period of changes in the labour market.

A sudden migration flow could change the balance of supply and demand in the labour market. Such a flow could come from environmental migrants, “who are persons or groups of persons who, predominantly for reasons of sudden or progressive change in the environment that adversely affects their lives or living conditions, are obliged to leave their habitual homes, or choose to do so, either temporarily or permanently, and who move either within their country or abroad” (International Organization for Migration, 2011, p. 33). A sudden increase in workers could put downward pressure on wages, but only in unskilled labour (see e.g. Borjas 1999). One central challenge for Finland is related to the country’s co-operation with other EU-member countries. Finland has been strict on complying with quotas set on migration. The strain on the economic and social welfare system is also dependent on how well other EU members

conform to agreed quotas. This can become challenging when migration flows are unilaterally focused on specific countries.

Globalization poses a challenge for the middle class in the extent to which it leads to the offshoring of jobs. Tuhkuri (2016) suggests that a quarter of Finnish employment could be potentially moved abroad. Pajarinen and Rouvinen (2014) estimate that computerization threatens one-third of Finnish employment. While these problems are hardly unique to Finland, Finland has found a unique way to combat the negative effects of globalization: by implementing workflow re-education programs and upholding a practically free education system.

## 6. Conclusion

All in all, we may conclude the following about the position of the Finnish middle class. First, unemployment among the middle class is at a lower level than in the total population, but with similar trends over time.

Second, Finland has a good socio-economic mobility, higher for women than for men. Overall, the results show higher social inheritance for the youngest cohorts compared to the older cohorts before them. In achieving tertiary education, persistence over generations is relatively low, whereas attainment levels are fairly high.

Third, middle-income households reside around the growth centres. There has been a long-term shift from eastern to western Finland, caused by the availability of employment.

Fourth, the structure of middle-class households deviates from the population mean by having fewer single households. In addition, the share of childless couples is high, and their share has risen over the period studied. Meanwhile, the share of households with two parents and children has diminished over time.

Fifth, middle-class households put a high value on job security, while having worries about work-related stress.

Finally, voting patterns show that electoral preferences have been stable over time, but with a recent rise in right-wing parties. The persistence of these changes in political values remains to be seen.

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