Can family policy save the welfare state? Some consequences of the steep decline in fertility in Finland

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Finland's population is ageing faster than that of many other EU countries. Furthermore, Finland's fertility rate, which used to be among the highest in the industrialised world, has dropped dramatically in the 2010s. This combination of an ageing population and a low fertility rate endangers the sustainability of the welfare state in general, and the pension system in particular.

Description

Like many other countries, Finland has been experiencing a slow downward trend in fertility. But in the 2010s the decline has been much steeper. In 2010, the fertility rate was as high as 1.87, whereas it is estimated to be only between 1.32 and 1.35 in 2019 (Statistics Finland 2019a and 2019b). In a way, Finland offers an interesting test case of what could happen when a highly developed and expensive welfare state faces such a population challenge.

Finland has generally had a strong family policy and good support for families. However, many family benefits have been cut: e.g. the real value of the universal child allowance, payable to every child younger than 17, has declined considerably over the last two decades (from €272.15 per month for two children in 1998 down to €199.15 in 2018) (Kela 1999 and 2019). Moreover, the previous government (Sipilä centre-right government: May 2015–March 2019) limited the universal right to child care which meant that municipalities had to guarantee a day care place to every child under 3 years of age. Since August 2016, children of unemployed parents have access only to half-day care. In addition, the number of children per day care group, as well as the day care fees, were increased. These measures, combined with other cuts in social transfers and services, send their own implicit message to would-be parents and create insecurity among them.

Increased educational level may have a negative effect on the fertility rate. Indeed, as shown by Jalovaara (2019), the higher a person's educational attainment, the longer they are likely to postpone having children. And the longer the postponement, the fewer babies they are likely to have.

Childlessness is also increasing in Finland. In 2007, childlessness was more common among women with tertiary education than among those with basic education (24% versus 22%); it is now the opposite (25% versus 29%) (Jalovaara 2019).

The low fertility rates are a consequence of many interwoven factors. Young families are worried about their employment and income security in the future. There are also complaints about the difficulty of reconciling family and working life and about day care services not being sufficiently flexible to meet the needs emerging from new employment patterns (Rotkirch et al 2017).

Outlook and commentary

The diminishing fertility rates are problematic for the sustainability of the Finnish welfare state in general, and of the pension system in particular. Since about 70% of all pension contributions are administered on a pay-as-you-go basis, the pension system is vulnerable to changes in the relative sizes of the successive population cohorts. The average contribution rate for employment-related pensions is 24.4%

of the payroll. Estimates by the ETK [the Finnish Centre for Pensions] (2019) predict that to maintain the sustainability of the system, pension contributions would have to be raised to 30% of the payroll by the 2050s. However, the sudden fall in the fertility rate (not taken into account in the ETK calculations) makes this situation even worse.

There are different opinions on how to adapt to the situation. Whereas some representatives of the pension system recommend increases in pension contributions, the employers' federation declares that saving the pension system by increasing contributions would erode the international competitiveness of Finnish industries and the financial basis of the other welfare sectors, including family policy transfers and services (HS 2019). As a result, such cuts would probably have a negative impact on fertility, which, in turn, could further undermine the sustainability of the welfare state. An alternative option would be to increase the standard pensionable age and reduce the number of disability pensions paid out. Perhaps a new pension reform is needed.

Low fertility does not only affect pensions. In 15 years, mortality will exceed births in most of Finland's municipalities. Needless to say, this phenomenon will make it very difficult to finance and organise those welfare services – mostly health and long-term care – that fall within the responsibilities of the municipalities.

An ageing population needs more long-term care services and employees. For instance, the government's plan to improve the client-nurse ratio in long-term care alone would require 4,500 to 5,000 more nurses. There is already a lack of personnel in social services, including hospitals, child welfare, mental health, healthcare and long-term care. In order to overcome these problems, labour force participation needs to be increased. This increase needs to be combined with much stronger labour immigration, to guarantee the levels of social and other services.

The constant cuts in family policy signal a lack of political commitment to pro-family policies. This situation calls for a number of reforms. Whereas some of them depend on political decision-making, others have to address the prevailing (negative) public discourse on family policy. Political decisions would have to come in the form of improvements to family benefits and measures to facilitate the reconciliation of family and working life, which in turn would require more flexible day care services and more flexible working life arrangements. The latter would follow from these changes.

A higher fertility rate would help, but only in two to three decades time. And this alone cannot save the Finnish welfare state.

Further reading

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