

## The Economic Stabilization Programmes and their Political Consequences in Finland, 1967-1970

### 1. Stabilization Agreement

The basis for the stabilization to be discussed in this article was a devaluation carried out in October 1967. Prior to that, inflation had been rampant in Finland. With the inflation the employers had aimed at hindering the lowering of the relatively high rate of capital income at the expense of wage income. Even though the capacity of the wood processing industry had been considerably expanded in the early 1960's the increase in exports was not sufficient to cover the growth of imports by the middle of the decade. The rate of economic growth as a whole had been rather low, reflecting the stagnation in the Western industrialized countries. The balance of payments had deteriorated to the extent that it could no longer be covered by foreign loans. In the years preceding the devaluation the government had attempted to control this situation by the application of strict fiscal and monetary measures. This resulted in a very weak improvement in the balance of payments. Simultaneously the investment sector slowed down and the growth of unemployment was threatening. The applied measures had proved insufficient.

The devaluation of the Finnish mark was carried out on October 11, 1967, with the approval of the International Monetary Fund. In terms of the Finnish currency the rate of exchange of foreign currencies was increased by 31.25 per cent. The purpose of this high percentage of devaluation was to anticipate the devaluation of the British pound, which then took place on November 18, 1967, the rate of devaluation being 14 per cent. The devaluation of the pound triggered a whole series of devaluations of other currencies.

The devaluation resulted, in effect, in a transfer of income from wage earners to owners of export industries. To serve as an instrument of an expansive economic policy the devaluation must increase the profits and the formation of industrial capital to incite the entrepreneurs to new investments and other expansion of production. The prerequisite for this again is that they are able to control the domestic cost development.

A system of limited price controls was introduced as an immediate post-devaluation protection. In order to avoid the transformation of the increased export income in terms of marks into higher domestic costs and inflation an export levy of 14 per cent was instituted. The funds thus collected were deposited in a special account at the Bank of Finland to be used subsequently for the implementation of the projects of the so called 'growth package' within the annual budget.

To safeguard the results of the devaluation the government on November 6, 1967, appointed Mr. Keijo Liinamaa to coordinate the collective bargaining.<sup>1</sup> At their beginning the negotiations were conducted bilaterally and on the highest level, i.e., between the chairmen of the bargaining partners' organizations, and only towards their end multilaterally. The government actively participated in the negotiations, represented by Mr. Mauno Koivisto, first in his capacity of Minister of Finance, and later as Prime Minister. Mr. Liinamaa was primarily concerned with sustaining the negotiation contacts between the partners. According to Liinamaa the government aimed at an agreement which it would be hard for any one of the partners to rescind. After long drawn-out negotiations the first stabilization agreement was signed on March 27, 1968. This agreement is known as the 'Liinamaa I.' It was signed by all the most significant interest organizations, with the exception of the SAJ (Finnish Trade Union Organization), which subsequently acceded to it.

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January 1, 1969, and the raising of the guaranteed minimum prices for agricultural products by 2 per cent on June 1, 1968, and by another 2 per cent on January 1, 1969. At the same time it was agreed to create a system of collective bargaining for the civil servants beginning January 1, 1970. At the beginning especially the Central Organization of Functionaries and Civil Servants (the TVK) was opposed to the system of wage increases by fixed increments, the so-called 'penny policy', proposed by the Central Organization of Trade Unions (the SAK), but later it went along. For the Finnish Employers' Federation (the STK) it was most important that the wage increases would stay within the growth of productivity, as was agreed. Furthermore, as a part of the stabilization arrangements the SAK and the STK agreed upon a 'package' of social measures, which was opposed by the Central Organization of Farmers (the MTK). The most significant fact, however, was that an agreement was reached on the Bill on Stabilization Measures. According to this bill, the government would be authorized to control the prices, rents, wages, and various charges as well as to abolish the index-tied systems. It was also agreed that the government would appoint a Council on Prices and Wages to supervise the system of controls. Different interest groups would be appropriately represented in the council through their organizations.

The Stabilization Bill was passed by parliament and it entered into force on April 10, 1968. Thereby the government had taken over certain functions which earlier had belonged to the sphere of competence of various interest groups. The Council on Prices and Wages commenced its activities on May 20, 1968.<sup>2</sup>

When estimating the course the economic development would take after 1969 the different interest groups took the view that the stabilization would have to be continued. The actual negotiations on the continued stabilization commenced in early May, 1969. Mr. Liinamaa was concerned that the parliamentary elections of 1970 would complicate the negotiations and would have preferred to have them concluded before the summer holiday season. A solution was not, however, reached until the autumn, owing to the rather complicated question of the prices of farm produce and also, because the 'old' SAK wanted to have the final decision made by the 'new' SAK (that is, the trade unions of the SAJ and some special trade unions made a new central organization with the old SAK). As a matter of fact, Mr. Liinamaa considered that the unification of the trade unions movement on June 17, 1969, was a prerequisite for reaching an agreement. This unification in turn was made possible by the working together in the government by the socialist parties.

On September 11, 1969, a new agreement was signed extending the stabilization measures until the end of 1970. It provided, among other things, for fixed wage increases (18 pennies per hour) with 1 per cent margin according to trade, thus keeping in line with the original stabilization agreement. It also pushed the approval of the new legislation on the collective bargaining for civil servants as well as the Bill extending the government's powers for the safeguarding of economic development. This time the signatories of the agreement included also the SAJ (still formally existing as an organization until the end of 1972 without any trade unions) and the communal central organizations. The Metal Workers' Union, a member of the SAK, divorced itself from the agreement.

The new law was passed by the parliament on December 9, 1969, and the Council on Prices and Wages continued its work. The extension of the stabilization agreement for 1971 proved a great deal more difficult. After negotiations had already broken down, the President of the Republic managed by his personal authority to bring about the so-called UKK agreement. It ran until the end of March, 1972, and its provisions included the continuation of the law on stabilization, an increase of the hourly wage by a total of 42 pennies in the course of 1971 (with 2 per cent margin according to trade), a minimum wage of 3 marks per hour for workers of 18 years or older, annual leave of 4 weeks from 1973 on, a retroactive export levy of 2.5 per cent on the products of the

woodworking industry as well as an increase of the prices of farm produce by 3.5 per cent on January 1, 1971, and by 1.75 per cent on September 1, 1971.<sup>3</sup> The reaching of this agreement was a condition for the extension of the law on the safeguarding of economic development. Nine member unions of the SAK dissociated themselves from the agreement, among them the two biggest unions of the SAK.

## 2. General Economic Development during the Period of Stabilization

The economic development is based on the international boom of the Western industrialized countries, which started around the middle of 1967. The crest of the boom was passed in 1969, even though the rate of growth in Western Europe still in 1970 maintained the average level of the 1960's. But the year 1971 already was one of decline with concomitant currency crises.

The aims of the devaluation and stabilization in Finland were to solve the problems of a strongly negative balance of payments, the slow rate of growth of the national product, and of increasing unemployment. Immediately after the devaluation the earnings of the exporters, in terms of marks, increased for the same quantity of goods. The position of the domestic industries improved vis-a-vis their foreign competitors, owing to the fact that the prices of imported goods rose considerably. As a consequence of the higher prices, the net real earnings of wage earners sank.

The effect of the devaluation rapidly made itself felt in terms of trade. Whereas the deficit of current external transactions had been 629.7 million marks in 1966 and 489.0 million marks in 1967, current external transactions showed a surplus of 269.5 million marks in 1968. In 1969 the surplus had shrunk to 5.5 million marks. In 1970 there was again a big deficit, 1102.8 million marks. This big deficit of current external transactions was primarily due to an increase in the import of investment goods. The same trend continued in 1971 and according to preliminary data the deficit for 1971 will be approximately of the same magnitude, in spite of the fact that in May, 1971 the parliament approved the so called 'current external transactions package' of measures designed to limit the consumer demand. This package still allowed for heavy import of investment goods.

In spite of the devaluation, investment activity decreased in both 1967 and 1968; in spite of the big growth of capital income<sup>4</sup> investments declined. Nor was there any growth of the real national product in the beginning. The index for the real national product (1964 = 100) was 107 in 1966 and 110 in 1967, and in 1968 only 113. Thereafter, however, started a period of growth; the index for 1969 was 123 and for 1970 it was 130. The rate of growth in 1971 is again anticipated to remain very insignificant.

Also as regards unemployment there were at the beginning signs of increasing unemployment as a consequence of the decreasing investment activity. Whereas in 1966 1.6 per cent of the labour force were unemployed, the figure for 1967 was 2.9 per cent, and for 1968 4.0 per cent. With the increasing activity, however, the unemployment situation started to improve rapidly: the rate dropped to 2.8 per cent unemployment in 1969 and in December 1970 to 1.8 per cent. These percentages indicate an improvement in the situation even though unemployment persisted. In 1971 again there were signs of increasing unemployment. The average figure for the year is estimated at 2.3 per cent and during the last quarter almost 3 per cent. The unemployment situation was also greatly alleviated by the considerable emigration during the boom years. The net emigration was 36,500 in 1969 and 42,000 persons in 1970. The total population of the country decreased as the result of the emigration.

The rapid inflation immediately after the devaluation was curbed. There was some rise of prices, however. The cost of living index (1951 = 100) climbed from 197 in September, 1967 to 211 in April, 1968 and to 225 by the end of 1970. The corresponding

figures for the consumer price index (1967 = 100) are 101, 109, and 116 and for the cost of construction index 113.5, 124.9, and 139.3.

Finland managed to stabilize her price level vis-a-vis her most important trading partners and competitors, and, as a consequence, price increases in Finland were relatively smaller during the first two periods of stabilization. This in spite of the fact that in Finland the enterprise sector was granted price increases practically whenever it regarded it necessary and important, regardless of the price controls.<sup>5</sup> So, the cost of living index climbed from 225 in December, 1970 to 244 in November, 1971. An additional factor in this rapid increase was, however, the surtax of 15 per cent on consumer goods, introduced in May, 1971.

The relatively low price increases during the first two years of stabilization can be explained by the fact that even without any (more) price increases the capital income grew faster than the wage income. This trend of development is typical both for longer periods and in particular for the post-devaluation period. As we see in Table I, the productivity of labour increased from 1966 to 1970 much more than the real wages and salaries.<sup>6</sup> This is true in the closed sector, too; the price control concentrated very much on the commodities of the closed sector. Even though the wage earners started to benefit from the devaluation and stabilization, it appears that the capital sector reaped the biggest benefits.

*Table I. Increase of Productivity and Real Wages and Salaries, Percentages*

	1966/67	1967/68	1968/69	1969/70
Productivity of labour according to gross national product	4.40	3.50	6.06	5.23
Productivity in the open sector	5.03	5.42	8.67	5.84
Productivity in the closed sector	4.17	2.68	4.80	4.68
Real wages and salaries calculated from price index of gross national product	3.67	1.35	1.87	3.12
Real wages calculated from living index	3.07	2.40	5.03	5.18

With the stagnation having set in, however, real income will have grown faster in 1971 than productivity. Owing to the increased unemployment, however, the wage earners have no reason to rejoice. In the long run even this will not alter the trend that the wage earners, per person, will get a diminishing share of the total income.<sup>7</sup>

When examined from the standpoint of narrowing the differences of income, the stabilization appears to have resulted in narrowing the differences owing to the solidarity of the wage policy and the minimum wage clause of the UKK agreement. The increase of the labourers' real income has been higher than that of the functionaries. This does not, however, presage a diminishing of the total differences of income.

### 3. Strikes

The stabilization also proved advantageous to the employers by resulting in fewer strikes. When in 1967 a total of 320,000 working days were lost through strikes, the corresponding figures for the post-devaluation period are: 1968: 282,000, 1969: 161,000, and 1970: 148,000.

According to the President of the Republic, the considerable growth of the corporate earnings resulted, 'for reasons well understood', in restlessness among the wage earners; the wage increases stipulated in the second stabilization agreement were too low considering the upward trend of the economy. As a consequence, there was dissatisfaction in regard of the considerably higher wage increases of the UKK agreement, and 9 mem-

ber unions of the SAK dissociated themselves from it. Of them the Union of Metal Workers and the Union of Construction Workers resorted to strikes, thereby trying to achieve more favourable agreements.

The metal strike started on February 2, 1971 and some 70,000 workers took part in it. The strike lasted 35 working days and its cost to the Union of Metal Workers in terms of strike pay was 18 million marks, of which one half was paid by the Nordic Metal Workers' Unions. The construction workers started their strike on March 11, 1971 on selected construction sites; 80,000 workers took part in it. On March 16, 1971 the employers in turn imposed a closure which affected 11,000 workers. The strike lasted 17 working days. It resulted in new agreements for both the Metal Workers' Union and the Construction Workers' Union, which were more favourable than the UKK agreement. The unions, however, had to scale down their demands. The employers responded to the strikes by closing down production lines with relatively low capital income yield and by postponing investments, which in turn affected the economic growth and the employment situation.<sup>8</sup> It is estimated that about 3 million working days were lost through strikes in 1971.

#### 4. Political Developments during the Period of Stabilization

After the great election victory of the Social Democrats in 1966, a so-called popular front government was formed under the premiership of Mr. Paasio, a Social Democrat. It comprised the leftist parties the SDP (Social Democratic Party of Finland), the TPSL (Workers' and Small Farmers' Social Democratic Union), the SKDL (Finnish People's Democratic League, the communists), and the bourgeois Centre Party. The SKDL had thus been admitted to government responsibility after a long period of isolation. The inclusion of the communists was exceptional in the so-called Western democracies.

As a rule the leftist governments, which are regarded as radical, come to power in advanced capitalist countries during periods of economic difficulties. That was the case also in Finland. The government endeavoured to control the inflation and the big deficit of the balance of payments by a restrictive fiscal and monetary policy. This, however, resulted in decreasing investment activity of the entrepreneurs and in a threatening increase of unemployment. In order to improve Finland's international competitiveness the Finnish mark was devalued considerably and this resulted in the transfer of earnings from wage earners primarily to the owners of export industries. The government considered this course the only means of accelerating economic growth.

It was easy for the opposition to exploit the weak economic situation. The dissatisfaction towards the popular front government was reflected in the presidential elections of January, 1968. In these elections the support of the popular front parties diminished, even though the candidate of the so-called 'great electoral union', Mr. Kekkonen, was elected by a clear majority. The low percentage of participation (69.9) was unfavourable to the leftist parties and increased the proportion of the votes cast for the National Coalition Party. Its candidate, Mr. Virkkunen, received 66 elector seats of the total of 300 and Mr. Vennamo, whose party, the SMP (Finnish Rural Party), had only one seat in the parliament, 33 seats. This was taken to reflect not so much the changes in party allegiance as the constellation of the pro- and anti-Kekkonen attitudes.

In the government formed after the presidential elections the earlier base was maintained with the addition of the RKP (Swedish People's Party) and with Mr. Mauno Koivisto as Prime Minister. The municipal elections in October indicated, however, that there had been changes in the support of the various parties. Also in these elections the SMP and the National Coalition Party came out as winners. The leftist parties suffered losses in the whole country.

The outcome of the elections reflected dissatisfaction with the government which had made a devaluation and stabilization. It was paradoxical that the government with a

leftist majority had endeavoured to create conditions favourable to the growth of the earnings of the entrepreneurs. And the earnings did grow, as a matter of fact. Already in 1968 there was considerable growth in the capital earnings, which is a reflection of the international upward trend. Nevertheless, the Finnish entrepreneurs cut down their investments. While the volume index of the domestic fixed gross capital formation was 114 in 1966 it was 110 in 1967 and 106 in 1968. Thus the percentage of relative unemployment reached 4.0 in 1968. It is quite obvious that the entrepreneurs could have had a possibility to expand their investment activity earlier than they did. This shows that the entrepreneur sector of the economy acts on its own terms, irrespective of the aims of the leftist government. The presence of the SKDL certainly did nothing to alleviate these terms.

The popular front government had suffered a permanent loss of face. The municipal elections anticipated this time, as before, the outcome of the parliamentary elections held in March, 1970. In spite of the economic boom the ruling leftist parties and the Centre Party suffered severe losses. The SKDL lost five seats, the TPSL all its previously held seven seats, and the Centre Party 14 seats. The major winners were the SMP, which had a particular appeal to the alienated elements of society with a gain of 17 seats and the National Coalition Party with a gain of 11 seats. There are a number of reasons for this kind of result. The popular front government had not come forward with any united and determined line of policy. The opposition parties skilfully exploited the advantages of their position; the National Coalition Party campaigned on the secure Finnish way of life and a more skilful government policy; the SMP promised its support to the alienated elements for structural changes in the society. A great number of the voters of the SMP had previously most likely given their votes to the SKDL or the Centre Party or simply had not cast their vote at all. The SKDL, moreover, was in the throes of an internal schism between the 'softer' majority group, willing for government cooperation, and the 'hardliners' as a minority. The TPSL was squeezed out between the bigger parties. In spite of the fact that it did not get a single seat, it still retained a considerable number of supporters. The party spectrum had changed; there was now only one big party, the SDP with 52 seats, and three medium-sized parties, the National Coalition (37), the Centre Party (36), and the SKDL (36). The SMP attained stature with its strategically important 18 seats. The other parties were less significant, including the newcomer, the Finnish Christian Union (SKL), with one seat.

The old government parties still retained a majority in the parliament, but their losses, particularly those of the Centre Party and the SKDL, resulted in a government crisis. In spite of negotiations it proved impossible to form a political government and on May 14, 1970 the President appointed a caretaker government under the leadership of Mr. Teuvo Aura. The government negotiations were being continued and after long drawn-out attempts a solution was found to the problem created by the outcome of the elections. On July 14, 1970 a popular front government was again appointed with Mr. Ahti Karjalainen as Prime Minister and complemented with the Liberal People's Party (LKP). In March, 1971, however, the representatives of the SKDL resigned from the government. The reason for their withdrawal was primarily the intra-party feud between soft- and hard-liners. The government of Mr. Karjalainen finally fell owing to its internal disagreements. On October 29, 1971 the President of the Republic dissolved parliament and decreed new parliamentary elections to be held at the beginning of January, 1972, in order to bring about a solution to the deadlock.

## 5. Conclusions

When the stabilization agreements were being negotiated and when the stabilization laws were being passed, the parliament was, as an institution, in a subjugated position. The decisions were being made elsewhere.

Through the stabilization agreements and laws the government acquired powers, which traditionally in the capitalistic market economy countries had belonged to the bargaining system between the various interest groups. The stabilization agreements created conditions for a planned economy. Since the capital earnings did not fall under the provisions of the stabilization and since the autonomous private enterprises still were the primary actors of the economic system, the planned economy could not be realized to the full. In spite of the transfer of power through the stabilization agreements and laws the entrepreneurs retained their position as the strongest pressure and interest group. The measures of the public authority concentrated very much on the improvement of the economic position of the enterprises and, through it, of the economic position of the entrepreneurs.

It was believed that these measures would also be reflected in the other sectors of the economy. The investments did not, however, increase in proportion to the facilities created during the period when the government with a leftist majority was in office. This was reflected in the high unemployment figures during the early period of stabilization. Even later, when the wage earners started to benefit from the stabilization, the employers benefited more. There are structural reasons which guarantee a benefit to the employers in the long range.

When examining the question of who gained and lost through the stabilization it may be stated that in the political sector the initiators of the stabilization have lost most by being defeated in the elections. In the economic sense, also the wage earners started to reap benefits from the stabilization, but relatively the entrepreneurs benefited more. The employers also benefited, because there were fewer strikes. The centralized agreements had, however, limited to such an extent the possibilities of the trade union movement to take care of the agreements on terms of work both on the federation and on the local level, that this resulted in extensive strikes within the membership of the SAK after the termination of the first two stabilization periods.

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#### NOTES

1. The first two stabilization agreements and their formations are well dealt with in Markku Massinen and Heikki Väänänen, *Suomen työmarkkinajärjestöjen ja valtiovallan väliset suhteet II maailmansodan jälkeisenä aikana vakauttamistoimenpiteiden valossa* (The Relations between Labour Market Organizations and Public Authority in Finland after Second World War in the Light of Stabilization Agreements). An unpublished *pro gradu* study in Social Politics at the University of Turku, Turku, Autumn 1970.
2. See Erkki Husu, *Painostusryhmien voima. Hinta ja palkkaneuvoston hintajaosto 30. 5. 1968 - 31.12.1970* (The Power of Pressure Groups: The Price Department of the Council on Prices and Wages 30.5.1968-31.12.1970). An unpublished *pro gradu* study in Political Science at the University of Helsinki, Helsinki, Nov. 10, 1971.
3. See e.g. Komitemietintö, 1971, B:102, *Tulopoliittisen informaatiokomitean UKK-sopimuskautta koskeva selvitys* (Report about UKK agreement Period Made by the Income Political Information Committee), Helsinki, 1971, Appendix.
4. See e.g. Ahti Molander, Heikki Aintila, and Jukka Salomaa, *Vakautuksen vaikutus hinta- ja palkkatasoon* (The Effects of the Stabilization on the Price and Wage Level), Suomen itsenäisyyden juhluvuoden rahaston tutkimuksia B 5, Helsinki, September 1970, pp. 90-92.
5. See Husu, *op.cit.*, p. 186.
6. Talousneuvoston tulopoliitiikan jaosto, *Tulopoliittista informaatiota 2* (Income Political Information 2), Helsinki, July 1971, Table 2.
7. As an example Molander, *et al.*, *op.cit.*, p. 13.
8. See Päiviö Hetemäki, 'Mitä metalliteollisuuden ja rakennusalan lakot maksoivat kansantaloudelle ja eri osapuolille' (What the Strikes in Metal Industry and Construction Paid to National Economy and to the Different Parts of the Strikes), *Kansallias-Osake-Pankin taloudellinen katsaus*, 2, 1971.