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Incomes Policy in Finland: Economic and Social Effects in a Comparative Perspective

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This paper examines the performance of the Finnish economy during the so-called incomes policy period, 1969-80. For this purpose Finland is compared with the other OECD countries both before and during the incomes policy period. The results suggest that in terms of economic growth, inflation and unemployment, Finnish economy has improved its performance, particularly before the economic recession of the mid-seventies. Cross-national comparisons point out that the recession has been met in various ways: some countries have restrained inflation, some unemployment. Secondly, the paper examines the effects of incomes policy agreements on the growth of social expenditure, the result being that incomes policy cannot be regarded as responsible for the growth of social expenditure in Finland. Thirdly, effects on income distribution are analyzed. Here incomes policy has played a role: income inequalities diminished during the first five years of incomes policy. Since then, they have not changed. The paper ends by discussing the impact and nature of incomes policy.

Introduction

Immediately after World War II incomes policies were introduced in a number of European countries in order to control inflation, excess demand for goods and widespread unemployment (OECD 1980, 34). This was the case in Finland, too. In the first decade after the war the cabinet had large powers to control prices and wages. This incomes policy contained an element of compulsion. Gradually, price and wage controls were loosened, and in 1955 wage control was abolished.

From the standpoint of economic policy the years 1956-1968 formed a new period. Market forces expanded. The trade union movement broke apart. Wage agreements were sometimes made at the level of central organizations, sometimes at the level of unions. It is obvious that individual pay increases were the dominant form of wage policy for large numbers of wage earners (Knoellinger 1960).

In the late sixties important changes took place in Finland. In 1966 socialist parties won the majority of the seats in the parliament. Social democrats, communists and the center party formed the cabinet, and have assumed govern-

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Introduction

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In the late sixties important changes took place in Finland. In 1966 socialist parties won the majority of the seats in the parliament. Social democrats, communists and the center party formed the cabinet, and have assumed governmental power since then — sometimes in coalition with the liberal parties of the political centre, sometimes without communists.

After a decade of dissolution, the Central Organization of Finnish Trade Unions as well as the Social Democratic Party were reunited. Many observers have regarded these changes as necessary political prerequisites for incomes policy. In this political setting, and in a difficult economic situation — after the devaluation of the Finnish mark in 1967 and during increasing inflation and unemployment — the first incomes policy agreement was signed in March 1968 for the year 1969. This marked the beginning of what is frequently called the incomes policy period in Finland, which still continues.

Talk about the period of incomes policy presumes that it differs from previous years in a significant way. Sociological and politological research in Finland has actually devoted considerable attention to the characteristics of the incomes policy period. According to this research, it has been characterized:

(1) by the increased power of labour market organizations, and the diminished power of the parliament, i.e. by the growth of corporatist features in decision-making;
(2) by the increased bureaucracy and formal rationality of the public sector, including rapid development of economic and social planning and manning;
(3) by the increased mutual consensus about the basic direction of policies between the major political parties — the Centre Party, the Social Democratic Party, the majority of the Finnish People's Democratic League, and the major opposition party, the National Coalition — central labour market organizations, and higher civil servants (Urmas 1975; Hagfors 1976; Gronow et al. 1977; Heiskanen 1977; Helander 1979; Jokinen 1979; Myllymäki 1979).

Compared with these institutional and political characteristics of the incomes policy period, the policy outcomes, i.e. its economic and social consequences, have received much less attention in research. This paper focuses on these consequences. Of course, no final answers about the causal impacts of incomes policy are possible. They would require comparisons of two Finlands, one with an incomes policy, and the other without it. The task must be formulated in a less ambitious way. A more realistic goal is to describe the economic and social developments during the incomes policy period and present some well-informed arguments about the impacts of incomes policy for these developments. Several procedures are helpful in this task. First, we can compare the incomes policy period with earlier periods, and examine whether they differ in ways consistent with the goals of incomes policy. Secondly, we introduce, whenever possible, international comparisons, which help to assess the particular features of the Finnish case. Thirdly, we look at the contents of incomes policy agreements. These three procedures provide some basis for a fact-founded assessment about the effects of incomes policy.

Incomes Policy in Finland

The goals of incomes policies have varied from country to country, depending on perceived economic problems and on the interests of the party putting forward the goals. In general, incomes policy has been seen as an integral part of general economic policy, its specific task being to coordinate the competing incomes claims so that (1) economic growth is sustained; (2) inflation is restrained; and (3) unemployment is restrained.

In Finland, trade unions have emphasized the importance of (4) including not only wages but other forms of incomes — profits, entrepreneurial income — into income policy agreements as well; (5) equalizing the distribution of income by adapting solidary wage policy.

These five goals can be understood as the "official" goals of the Finnish incomes policy.

In Finland, incomes policy agreements are typically made by three parties: employers' central organizations, employees' respective organizations, and the state. These agreements typically include three elements: agreements about pay increases, agreements about prices and taxes, and agreements about the development of social policy, so called "social packages". The agreement concerning the development of agricultural incomes is substantially a part of incomes policy, too, although it is not formally connected with the incomes policy negotiations between the three parties. Since 1968, ten incomes policy agreements have been undersigned. In 1973 and 1980 agreements were made at the level of unions, and the state did not participate into them (see, for example, Addison 1982).

The peculiarity of the Finnish incomes policy is the inclusion of "social packages", which put the state under an obligation to legislate laws. Table 1 describes those policy areas in which legislation has been prescribed by the incomes policy agreements (Väänänen-Tomppo 1981, 88-147).

Economic policy legislation has formed a part of every incomes policy agreement. This depends on the Finnish constitution which makes it difficult to pass such legislation for longer periods. In the first agreement, a comprehensive system of indexing was dissolved, and the cabinet was given exceptional powers to control prices and wages. Compared with the first agreements, those made in the early 1970s implied less rigid control of prices, while in the agreements after the oil crisis price control was tightened again.

Legislation concerning taxes has concerned personal taxation only, with the exception of cyclical taxes implied by the third incomes policy agreement. In the latter part of the incomes policy period, i.e. since 1974, the central concern

Table 1. Legislation implied by incomes policy agreements, 1969-1980.

Legislation	Incomes policy agreements[1] 1.1.69-31.12.69	1.1.70-31.12.70	1.1.71-31.3.72	1.4.72-31.3.73	1.4.74-31.1.76	1.4.75-31.1.76	12.2.76-31.1.77	1.3.77-28.2.79	9.1.79-28.2.80
Social security[2]									
Pensions	x		x	x	x				
Unemployment	x	x	x	x			x		x
Family policy					x	x			x
Housing		x	x		x	x			x
Terms of employment		x	x	x				x	x
Other social legislation	x		x	x	x		x		
Economic policy legislation									
Control of prices and wages	x	x	x	x	x	x	x	x	x
Taxes	x		x		x	x	x	x	x
Employers' payments	x	x	x	x	x	x		x	x
Other	x	x	x						

1 In 1973 and 1980 there were no incomes policy agreements. The present two year agreement is not included.
2 X denotes that incomes policy agreements has implied legislation in the policy area.
Source: Väänänen-Tomppo 1981, 88.

of labour market organizations has been the mitigation of taxation according to the pace of inflation.

The regulations governing employers' payments to the funds of various social security schemes, which finance child allowances, sickness insurance, national pensions, employment pensions and unemployment pensions, have been changed in several incomes policy agreements. In the first six agreements these changes induced increases in the payments, while in the two latest agreements they have induced decreases.

Also the legislation in the area of social policy prescribed by the incomes policy agreements has been quite extensive. Legislation concerning pensions was enacted during the first incomes policy agreements. This legislation has partly corrected the shortcomings of the employment pension schemes created in the 1960s, and partly made gradual improvements to the level of benefits and eased qualifying conditions for the provision of benefits. The most important single act was prescribed in connection with the fifth agreement, when the full employment pension was increased to 60 per cent of earnings.

Legislation concerning unemployment entered into force in the context of the first incomes policy agreements, and again with the latest agreement.

Unemployment insurance schemes were improved, and some measures like the promotion of housing production and the improvement of reschooling for the unemployed were taken in order to fight unemployment.

Family policy legislation has been enforced by those incomes policy agreements which have been made during economic stagnation. In order to guarantee the realization of the income policy agreement in 1974, the cabinet proposed increases in child allowances, which were improved again in the next agreement. Maternity grants and allowances have also been improved because of the incomes policy agreements.

Housing policy measures have been implemented in five incomes policy agreements. They have concerned tenants' rights, housing costs and housing allowances.

Terms of employment have naturally received a great deal of attention in the incomes policy agreements. These include, for example, laws on the terms of employment of public sector employees, inprovements in vacations, occupational safety measures, and inprovements in the employees' security against notice.

In conclusion, the incomes policy agreements have implied legislation in many areas of economic and social policy. This has given strength to the argument that labour market organizations have acquired powers which previously were in the hands of the parliament. However, this argument should not be exaggerated. First, even through social packages of the incomes policy agreements have touched upon many areas of public policy, they have not included any major innovations, but have modified and corrected the most obvious shortcomings of these policies. Second, labour market organizations have influenced policies even before the period of incomes policy, as is exemplified by their activities to bring about the occupational pension schemes for the private sector employees in the early 1960s, a policy innovation of much larger importance than those prescribed by incomes policy agreements. Third, the legislation implemented by the incomes policy agreements has been, for the most part, fairly close to the traditional interests of labour market organizations. This is true of prices and taxes, of terms of employment and of measures to fight unemployment. Family policy legislation is perhaps farthest from the interests of the labour market organization, but it has been initiated by the cabinet.

Economic Performance during the Incomes Policy Period

In order to evaluate the performance of the Finnish economy during the incomes policy period we compare Finland with the other OECD countries both before and during this period in terms of economic growth, inflation and unemployment. Because economic recession hit all the OECD countries in the mid-seventies, the incomes policy period is divided into the years 1969-73 and 1974-80.

Table 2 is consistent with the view that incomes policy has with some success sustained economic growth in Finland, at least in comparison with the average of the OECD countries. Before the incomes policy period economic growth was among the slowest. Only Luxembourg, New Zealand and the United Kingdom lagged behind Finland. In contrast, during the incomes policy period the Finnish economy has grown faster than that of the average of the OECD countries. This is particularly true before economic stagnation, i.e. during 1969-73, when economic growth was faster only in Greece, Iceland, Japan, Portugal and Spain. In 1974-80 the performance of the Finnish economy has been on the average OECD level, but weaker than before the incomes policy period.

Table 2. Average annual growth of real GDP at market prices in Finland and in all OECD countries, 1961-1980.

Period	Finland %	OECD %	Rank among 24 OECD countries
1961-1968	3.9	5.2	21st
1969-1973	6.7	4.9	6th
1974-1980	2.8	2.5	9th
1961-1980	4.2	4.2	12th

Source: OECD 1981,132.

In comparative terms, the fight against inflation has also met some success during the incomes policy period.

Table 3 shows that both before and during this period consumer prices have advanced faster in Finland than in the OECD countries in general, but this difference has considerably diminished. Before the incomes policy period, only Spain and Iceland had a higher inflation rate than Finland, while during the incomes policy period inflation has been faster in more than ten OECD countries.

Table 3. Average annual percentage rise of consumer prices in Finland and in all OECD countries, 1964-1980.

Period	Finland %	OECD %	Rank among 24 OECD countries
1964-1968	6.7	3.2	3rd
1969-1973	5.9	5.6	14th
1974-1980	12.6	10.4	10th
1964-1980	8.9	6.9	9th

Source: OECD 1981, 140.

Therefore we might give some credit to economic policy in restraining inflation, at least in relation to the other OECD countries. Some further support is provided by an econometric study, which estimated that the first incomes policy agreement reduced inflation by 2.5 per cent units in 1968-69 (Molander et al. 1970). However, the international oil crisis and concomitant changes in international economy brought about such inflationary pressures that the pre-incomes policy inflation level was almost doubled.

Valid comparisons on unemployment between countries are largely lacking. The procedures of registering and measuring unemployment differ, and unemployment rate is affected by demographic developments, changes in labour force participation and in international migration. Scharpf (1982, 7) has argued in consequence that international comparisons should focus on employment rather than on unemployment. There is some validity in this argument, but it overlooks the fact that the reduction of unemployment is one goal of economic policy, not the growth of employment. Here we use OECD figures for unemployment. OECD makes efforts to standardize the unemployment statistics of the member countries, but still it is wise not to rely too much on the differences in the levels of unemployment between the countries. Comparisons of the changes in the unemployment rates are probably more valid.

Table 4. Average annual standardized unemployment as a percentage of total labor force in Finland and in 15 OECD countries, 1965-1980.

Period	Finland %	OECD %	Rank among 15 OECD countries
1965-1968	2.4	2.7	6th
1969-1973	2.3	3.2	8th
1974-1980	4.6	5.0	9th
1965-1980	3.3	3.9	8th

Source: OECD 1981, 142.

Table 4 shows that during the incomes policy period Finland has improved its profile in relation to the average for the OECD countries. It is questionable, however, whether this development is due to incomes policy. An alternative, or perhaps better, a supplementary explanation is emigration to Sweden, which reached a peak in 1969-70, when altogether 77 thousand Finns emigrated to Sweden, and the population of Finland actually decreased (Wiman 1975; Valkonen 1980, 27-28). This must have eased the employment situation. It is also true that economic recession brought about so high unemployment rates that the pre-incomes policy levels appear very satisfactory.

Our conclusion is that during the incomes policy period Finland has improved its position among the OECD countries. This is true in the case of all three indicators of economic performance used here. It is particularly true for the first five years of the incomes policy period, but applies also to the years of recession, although not as clearly.

To what extent is the moderate success of Finland due to incomes policy? It should be noted that also many other OECD countries have applied some forms of incomes policies as well. Therefore, the comparisons made above concern more the relative merits of one kind of incomes policy over the other. But it is true that the Finnish case is consistent with the institutionalist explanations of economic performance. These explanations emphasize the importance of cultural and legal norms, organizational structure, and interests and strategies beyond bare economic factors. In particular, studies focusing on institutional factors have concluded that countries having a more centralized and concentrated industrial relations system and a more corporatist decision-making system including the government and the major organized interests, have been significantly more successful in their economic performance than countries having a more decentralized industrial relations system and a more pluralistic form of decision making (Scharpf 1982, 2-6). In these terms, Finland has experienced an extensive change from the latter type to the former, and simultaneously its economic performance has improved.

However, we could apply more demanding standards of evaluation than the OECD average, and observe that no incomes policy has succeeded in overcoming economic recession: economic growth, inflation and unemployment have been worse than before the incomes policy period. Scharpf is right in arguing that institutional explanations must be supplemented by paying attention to the nature of economic problems and constraints facing various countries (Scharpf 1982, 6). Therefore, it is interesting to study the development of the seventies more closely in individual countries. To what extent have individual countries faced similar problems and to what extent have they reacted to these problems in a similar fashion? Or are there alternative policy mixes so that economic growth, inflation, and unemployment have been combined differently before and during the economic recession?

Economic Performance before and during Economic Recession in the OECD Countries

In his study about inflation and unemployment in eight OECD countries during the seventies, Scharpf suggested that economic growth, inflation and changes in employment vary almost independently of each other. For example, during the seventies Sweden had one of the slowest economic growths, but its record on employment was among the very best. Western Germany was able to restrain inflation better than the other countries included in Scharpf's comparison, while in terms of economic growth and employment its performance was much worse (Scharpf 1982, 6-9).

Table 5. Correlations between economic growth, inflation and unemployment in OECD countries in 1969-1973 and 1974-1980.

	Period			
	1969-1973		1974-1980	
Number of countries[1]	24	15	24	15
Correlation between				
GDP growth and rise of consumer prices	.26	.10	.48	-.22
GDP growth and unemployment rate	-	-.36	-	.-.42
Rise of consumer prices and unemployment	-	-.24	-	.44
Coefficient of variation				
GDP growth	.27	.28	.44	.33
Rise of consumer prices	.35	.16	.72	.36
Unemployment rate	-	.57	-	.44

1. 24 countries denotes total OECD. Following nine countries were excluded from smaller sample (15) because the OECD source does not report unemployment rates: Denmark, Greece, Iceland, Ireland, Luxembourg, New Zealand, Portugal, Switzerland and Turkey.

Source: OECD 1981, 132, 140, 142.

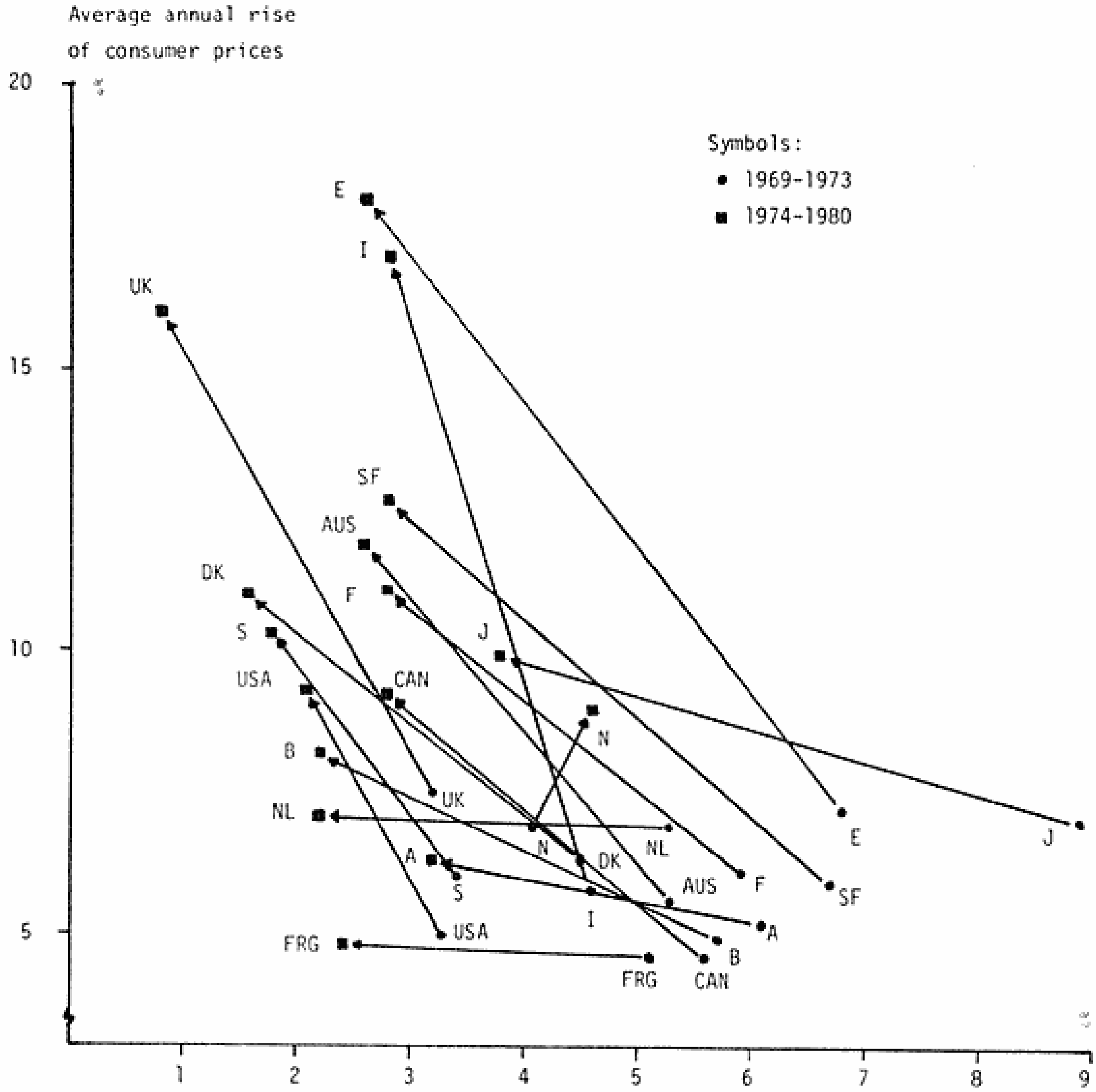
Table 5 shows the correlations (Pearson's r) of economic growth, inflation and unemployment rate for years 1969-73 and 1974-80. Although none of them is statistically signicifant because of the small number of countries, substantively some of them make sense. First, economic growth and unemployment rate correlate negatively, which is to be expected. The expansion of an economy creates more jobs, and more jobs imply a greater work volume and result in economic growth. Among 24 OECD countries economic growth and inflation are also positively correlated, but not among those 15 countries for which there are data for unemployment. The fairly high positive correlation for the years 1974-80 is due to such countries and Turkey, Iceland and Portugal, where inflation has been extremely high and also economic growth has exceeded the OECD average. No firm conclusions can be drawn from the relationship between economic growth and inflation.

The relationship between inflation and unemployment is different before economic recession and during it. In 1969-73 their correlation is negative, indicating a Phillips-curve type of trade-off between these variables. During the economic recession the correlation is positive and stronger. In those countries where inflation has been higher, also unemployment rates have grown faster.

Finally, it is interesting to observe that the variation in the performances of the OECD countries has increased during the incomes policy recession. Relative differences between the countries have increased. This means that some countries have succeeded in fighting recession in a more satisfactory way than some others. But the low correlations point out that the countries may have succeeded well in one respect but not in others. Therefore, it is interesting to study the profiles of individual countries, particularly that of Finland, in terms of economic growth, inflation and unemployment.

Figure 1 describes how 16 OECD countries have moved in a two-dimensional space of economic growth and inflation from 1969-73 to 1974-80. The effects of economic recession are clearly seen in the moves of all countries: economic growth has diminished and inflation has increased.

Figure 1. Relation between economic growth and inflation in 16 OECD countries in 1969-1973 and 1974-1980.[1]

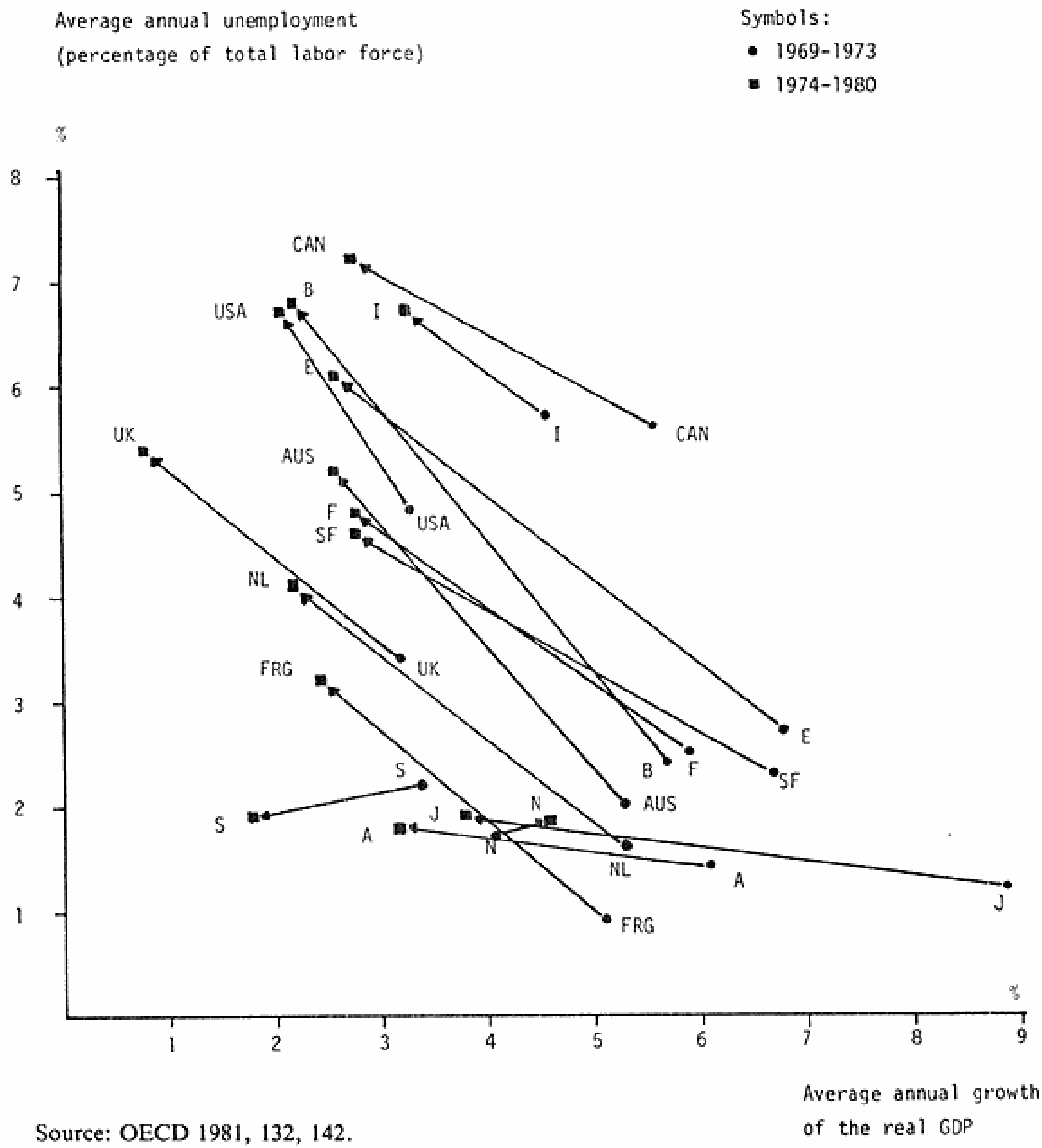


Source: OECD 1981, 132, 140.

1. Countries are abbreviated as follows: Australia (AUS), Austria (A), Belgium (B), Canada (CAN), Denmark (DK), Finland (SF), France (F), Germany (FRG), Italy (I), Japan (J), Netherlands (NL), Norway (N), Spain (E), Sweden (S), United Kingdom (UK) and United States (USA).

Some exceptions exist, however. Norway is the only OECD country whose economic growth has been faster in 1974-80 than in 1969-73. This is due to North Sea oil, which Norway started to utilize in the seventies. Another clear exception is Switzerland (not drawn in Figure 1) which is the only country whose inflation was slower during the recession than before it. But in terms of economic growth Switzerland has not succeeded as well: it did not have any

Figure 2. Relation between economic growth and unemployment in 15 OECD countries in 1969-1973 and 1974-1980.



Source: OECD 1981, 132, 142.

growth in 1974-80, and in this respect its performance was the worst among the OECD countries.

But the general pattern is less economic growth and more inflation. The strength of the relationships varies considerably however. In Western Germany, Netherlands, Austria and Japan inflation has not increased as much as in the other countries, although their economic growth has clearly declined.

In Italy, United Kingdom, United States, Sweden and Spain it is particularly inflation which has proceeded in a fast tempo. The rest of the countries, including Finland, are located between these groups.

Figure 2 shows the relationship of economic growth and unemployment before and during the recession in 15 OECD countries. Sweden, Japan and Austria have been able to keep unemployment at a low level despite the decrease in economic growth rate. Sweden has actually decreased the rate of unemployment although its economic growth rate has slowed down. In the other countries, the relationship of economic growth and unemployment is much stronger. For example, in Finland the reduction of economic growth from nearly 7 per cent to nearly 3 percent has increased unemployment from 2.3 to 4.6 per cent.

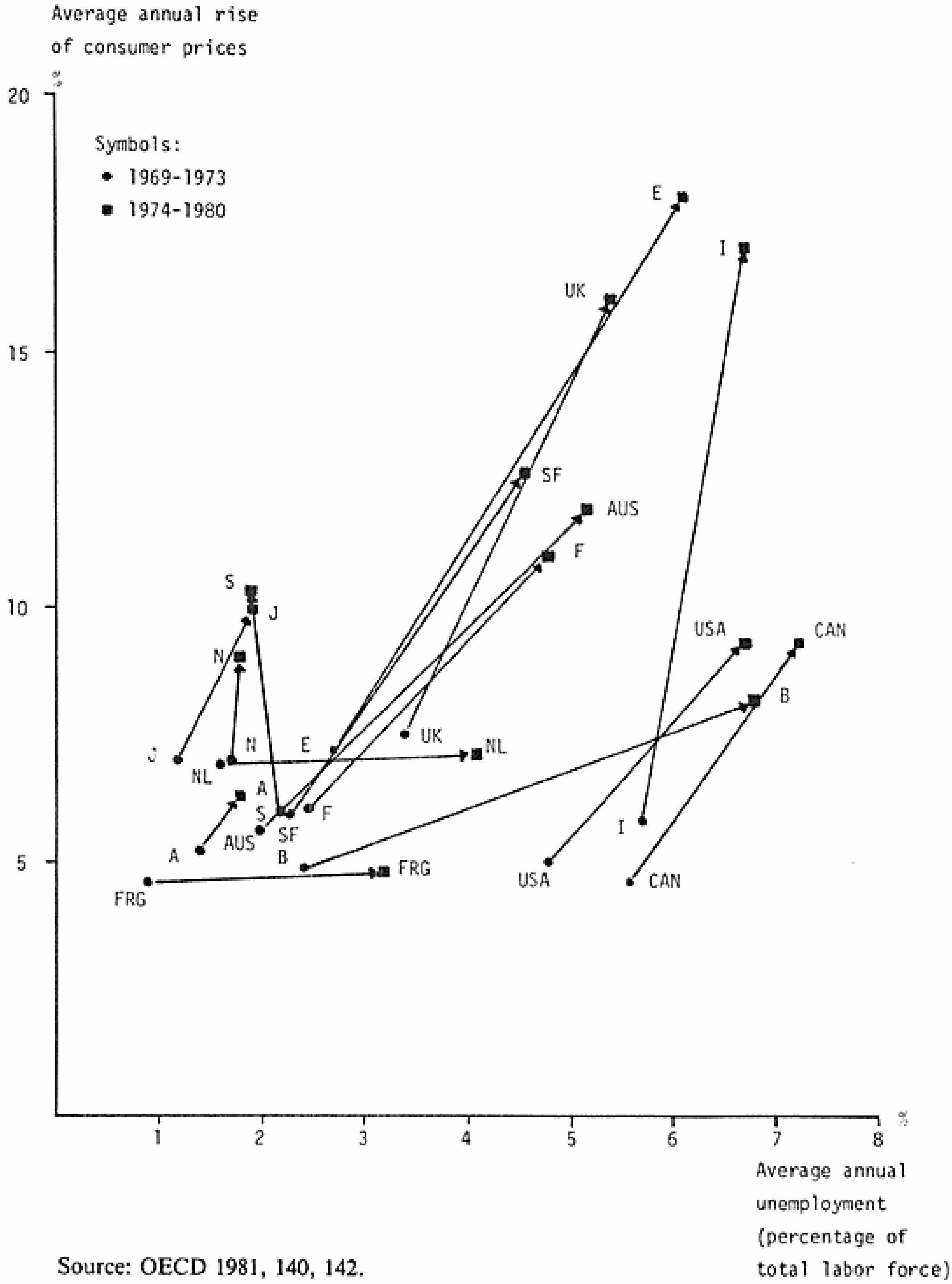
Finally, Figure 3 describes the trade-off between inflation and unemployment. As a response to economic recession some countries have preferred to restrain inflation and to let unemployment grow more. Western Germany, Netherlands and Belgium belong to this group. Some other countries, most notably Sweden, Norway and Japan have preferred to keep unemployment under control and to let inflation increase more rapidly. In the other countries both inflation and unemployment have increased in a more even manner. Finland belongs to this group, perhaps somewhat closer to the options of Sweden and Norway than to those of Western Germany and Netherlands.

In summarizing the most important results of the above analysis, two findings are worth emphasizing. First, economic recession has increased the variation of economic performance among the OECD countries. Secondly, there is variation in the way the challenge of economic recession has been met.

Norway, due to its oil, has perhaps suffered least from the recession. Economic growth rate increased, and only in Turkey was it higher in 1974-80. Unemployment increased but much less than in the other OECD countries except Sweden. Also inflation increased, but remained on a lower level than in general.

Norway's good record during the recession is partly due to its relatively poor performance before the recession. Here it may be contrasted with Japan, which has also performed quite well during the recession except that it has not been able to maintain its extraordinary economic growth before the recession. Its economic growth is still among the highest, and it has one of the best unemployment records.

Figure 3. Relation between unemployment and inflation in 15 OECD countries in 1969-1973 and 1974-1980.



Source: OECD 1981, 140, 142.

At the other end of the scale are countries like Greece, Iceland, Portugal and Spain, whose economic growth rate has declined and where inflation has been very rapid during the recession. Spain is the only one of these countries for which there are data about unemployment, and here recession has increased the rate of unemployment, too. But it should be observed that some of these countries still have quite a rapid economic growth. Huge inflation is perhaps the best characteristic of this group of countries.

The other countries locate between these poles. Sweden has a unique profile because it has been able to reduce unemployment, despite its weak economic growth. It may be contrasted with Western Germany and Netherlands, who have kept inflation at a fairly low level but let unemployment increase considerably. Also Switzerland has its own profile with no economic growth and a decrease in the pace of inflation.

Finland belongs to the middle-way countries in its response to economic recession. The closest comparison is with France, but a larger number of countries like Canada, Austria, Denmark, United Kingdom, have responded in a similar way to the economic problems of the mid-seventies.

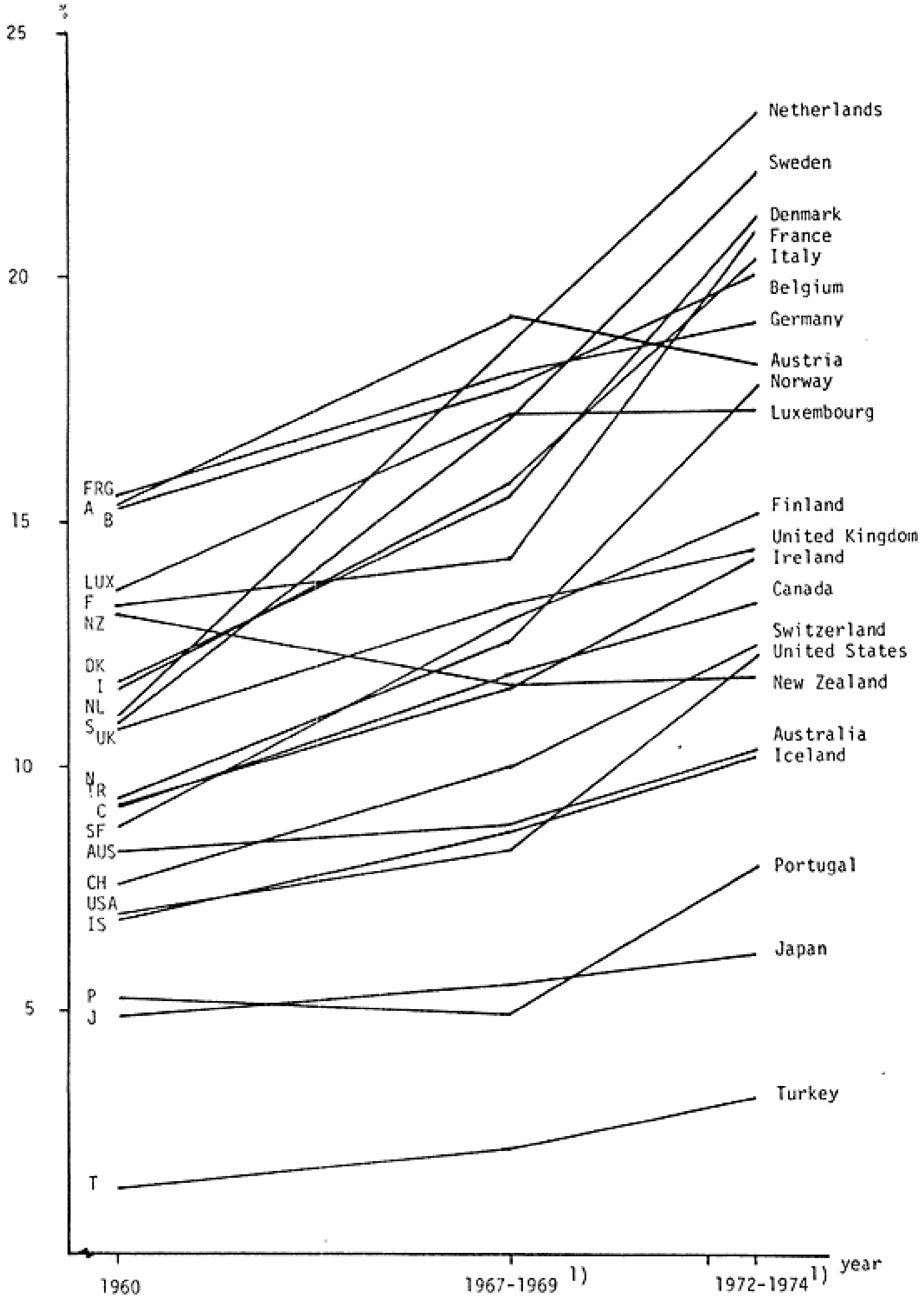
The explanation of these cross-national differences in the economic performance during the recession are beyond the scope of this study. It is likely that both institutional and economic factors must be considered. What is needed is a careful analysis of the changes these countries have met in the international market, as well as an analysis of their institutional features like the system of industrial relations and the political decision-making system.

Incomes Policy and Social Policy

Since World War II, social expenditure has grown both in real terms and in relation to the GDP throughout Western Europe. However, there is no converging trend but their heterogeneity has increased. The post-war process of welfare state expansion cannot be adequately described as a catching-up process in which previous laggards have closed up on the pioneers. As Alber (1982) has demonstrated, it is rather a process of interchange, in which former laggards have changed into top social spenders (Sweden, Netherlands), while traditional leaders have fallen behind (Austria, Western Germany).

Finland is no exception to the general pattern of social expenditure growth. In 1950-80 the proportion of social security expenditure in the GDP increased three-fold, while its growth in real terms increased nearly ten-fold. The post-war growth has not been linear, but can be divided into four periods. After the war, during the years of reconstruction, social expenditure gew very rapidly from a very low pre-war level. The emphasis was on family and housing policies, and, of course, on the maintenance and rehabilitation of war disabled and their relatives. During the ten-year period from the early fifties onwards the growth of social expenditure, as well as economic growth, was unstable. The expansion phase of the Finnish welfare state started in the early sixties.

Figure 4. Social expenditure as a percentage of the GDP in 22 OECD countries, 1960, 1967-1969 and 1972-1974.



1. Three year average.

Source: ILO 1961-1963, 296-301, ILO 1964-1966, 324-330, ILO 1967-1971, 92-96, ILO 1972-1974, 56-71.

Sickness insurance and pension schemes were developed, and social expenditure-and its inevitable concomitant, taxes and social security contributions — grew more steadily and in an accelerating tempo. During economic recession, i.e. since 1974, the proportion of social expenditure in the GDP has grown even faster than before, but this is due to the slow or non-existent economic growth, not to an exceptionally rapid real growth of social expenditure.

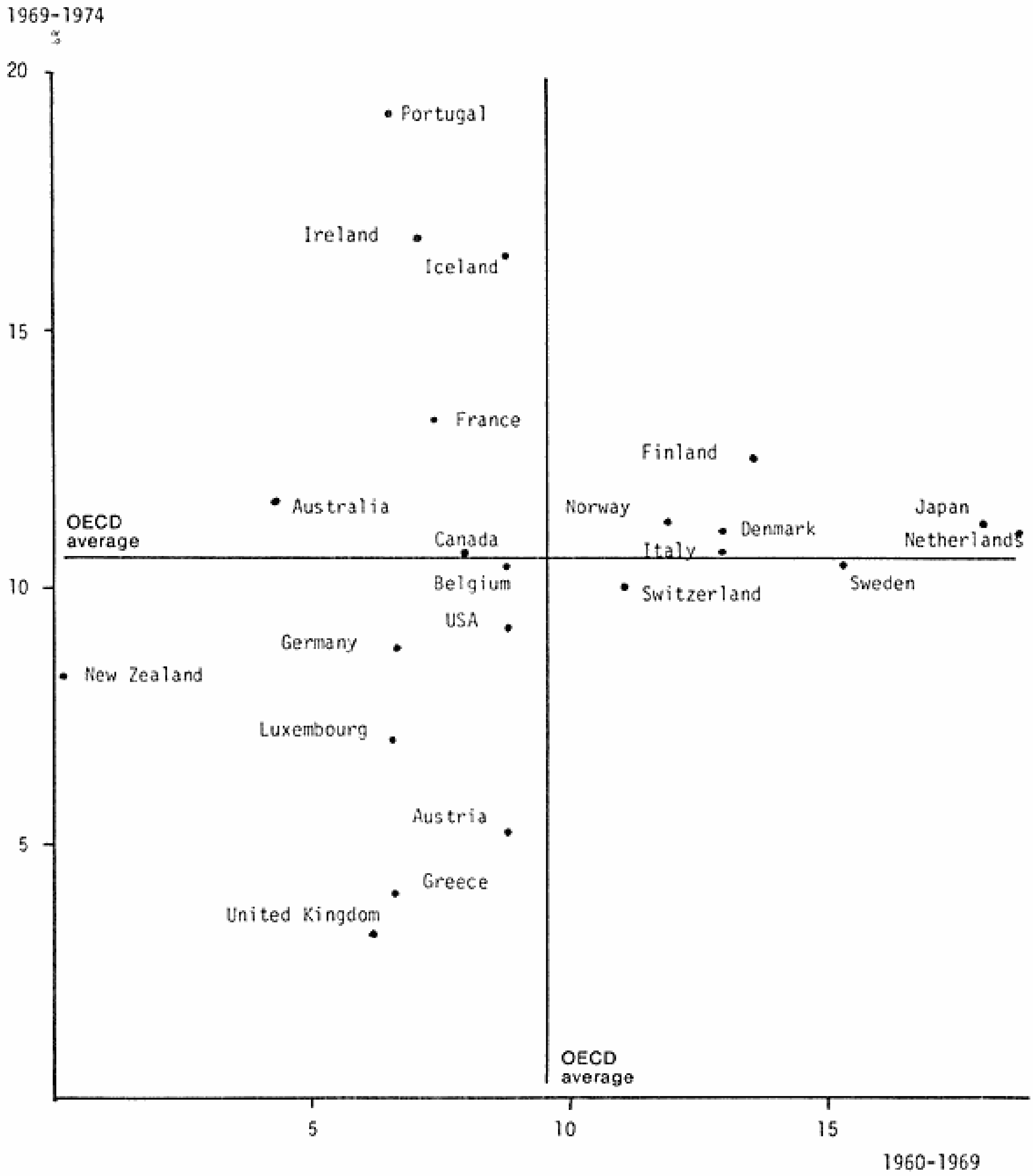
This brief description of the development of the Finnish welfare state during the post-war period, drawn from a detailed study by Alesalo & Uusitalo (1982), suggests that incomes policy, despite its social packages, cannot be blamed for being responsible for the growing trends of social expenditure and taxation. The rapid development of the welfare state started before the period of the incomes policy, by the early sixties, and it has just continued during the incomes policy.

International comparisons support the same conclusion. Figure 4 describes the proportion of social expenditure in the GDP of 23 OECD countries in 1960-74. In all countries the proportion has increased. Particularly in the 1960s social expenditure grew more rapidly in Finland than in the OECD countries in general. In 1960 Finland ranked 15th, in 1967-69 its rank was 11th. During the incomes policy period it has maintained that rank. During the whole period of observation Finland has passed the United Kingdom, Ireland, Canada and New Zealand.

It is also true that the rank-order of the OECD countries has experienced some interesting changes during the sixties and early seventies. As Alber pointed out, former leaders of the welfare state development, Western Germany, Austria and Belgium have lost their positions to such countries as Netherlands, Sweden, Denmark and France. Stability has been greater at the bottom of the rank order: Turkey, Japan, Portugal, Iceland and Australia are lagging behind in welfare state development both in 1960 and in 1972-74. But Figure 4 does not unanimously support Alber's conclusion that there is a diverging trend of welfare state development. It is true that the standard deviation of the proportion of social expenditure in the GDP has grown from 3.6 to 5.5, but the coefficient of variation has remained at the same level, being .36 for both years. Finally, one should not exaggerate the changes taking place in 1960-74, since there is also stability: social expenditure for 1960 explains about 63 percent of variance in 1972-74 among these 23 OECD countries.

Figure 5 describes the percentage growth of social benefit expenditure in real terms for 22 OECD countries. It points out that both before and during the incomes policy period, benefit expenditure has grown faster in Finland than among the OECD countries in general, but the difference is smaller in the incomes policy period. During the 1960s only the Netherlands, Japan and Sweden increased benefit expenditure more rapidly than Finland, while during the

Figure 5. Average annual growth of real social (benefit) expenditure p.c. in 1960-1969 and 1969-1974.



Source: ILO 1967-1971, 110-111, ILO 1972-1974, 68-69.

incomes policy period a different set of countries — Portugal, Ireland, Iceland and France — were ahead of Finland.

These international comparisons point out that both before and during the incomes policy period social expenditure has grown fast in Finland in comparison with the other OECD countries. This is hardly surprising since it is during this period that the welfare state has been built in Finland. Incomes policy cannot take the honour for this development, but it has not hindered it either.

This does not mean that the social packages of the incomes policy agreements have not been of any importance. Some of their contents, like agreements about the terms of employment, are of such a kind that they cannot be seen in the expenditure data. If we study those particular types of expenditure, which have been affected by incomes policy agreements, we can find clear imprints.

Table 6. The growth of social expenditure induced by incomes policy agreements. Percentage change from previous year (at fixed prices).

Incomes policy agreement	Pension expenditure per capita	Unemployment insurance per unemployed	Housing allowances	Maternity allowances and grants per child under 16 years	Child allowances per child under 16 years
1969	—1.4	34.0	—	—	—
1970	—	19.0	11.8	—	—
1971	9.6	—	—	—	—
1972	6.5	—	—	—	—
1974-1975	6.7	—	—1.4	71.4	19.8
	4.4			73.8	
1975	—	—	52.6	—	21.9
1976	—	—	—	—	—
1977-1978	—	—	—	—	—
1979	—	—1.0	—	1.5	4.7
Average growth 1) during years when induced by incomes policy	4.1	17.3	21.0	48.9	15.5
2) in period	6.0 (1950-1980)	17.3 (1961-1980)	25.4 (1956-1980)	19.9 (1971-1980)	3.0 (1950-1980)

Source: Kangas 1982.

Table 6 illustrates the point. It shows that in most cases a particular type of social expenditure has grown faster in the years when it has been improved by incomes policy agreements than in other years. In some cases, e.g. in the case of maternity and child allowances, the improvement of the benefit has been quite considerable. Therefore, it would be wrong to say that incomes policy has had no impact on social policy. It has, but it is also true that the overall pattern of the growth of social expenditure has not been primarily determined by incomes policy.

Incomes Policy and Income Distribution

The relationship between incomes policy and income distribution has been widely debated in Finland. Trade unions have emphasized incomes policy as a means to carry out solidary wage policies. Equalization of income distribution was accepted as a goal for incomes policy, at least at the beginning of the incomes policy period. Secondly, trade unions have emphasized the importance of including not only wages but also other forms of incomes, profits, entrepreneurial incomes and agricultural incomes, into incomes policy agreements. Critics have argued that incomes policy is a means to restrict pay increases and to increase profits, since there are no means to control the level of profits (Kekkonen & Paajanen 1970; Toiviainen 1973; Gronow et al. 1977, 421-428; Burdjalov 1978; Kosonen et al. 1979, 59-60, 177-189, 289-299).

The impact of incomes policy on income distribution has been examined in detail by Uusitalo (1982). Here only the major results of this study will be repeated.

Figure 6 describes the changes in the *functional income distribution* in 1948-77. It shows that no trend-like changes took place in 1950s, except for the decline in the proportion of agricultural income. Since the early 1960s changes are more obvious. Agricultural income continued to decline and also other entrepreneurial income and profits started to lose their proportion of the GDP. Contributions to social security schemes grew fairly rapidly, and also the proportion of wages and salaries reveal a growing trend. In brief, it seems that the distribution of income between labour and capital has somewhat changed in the favour of labour during the incomes policy period.

It is likely that the causes of this development are structural rather than due to incomes policy. The growing trend of wages and salaries in the GDP have been found in many other countries as well (Pen 1973, 159). As seen in Figure 6 this development started in Finland in the early sixties, before the incomes policy period. At the same time, the proportion of wage and salary earners has increased, and the proportion of farmers and other entrepreneurs has decreased (Alestalo 1980, 107). The conclusion is that in practice incomes policy has not restricted the growth of wages and salaries, but the earlier trends have continued during the incomes policy period.

Valid data on the trends of *personal income distribution* in Finland are available only since 1966, but the evidence suggests that since the mid-fifties until the beginning of the incomes policy period, income distribution by size might have changed towards greater inequality. So did the income differentials between manual and non-manual workers.

Income inequalities started to decrease at the beginning of the incomes policy period. This is seen in Table 7, which describes the trends of one of the most important income distributions, the distribution of disposable income between

Figure 6. Functional distribution of GDP in Finland, 1948-1977.

Source: Statistical Surveys Nr. 43

households, in 1966-79. In 1966, before the incomes policy period, inequality was larger than in 1971, and equalization has continued until 1976. After 1976 income distribution has hardly changed. The distribution of disposable income between socioeconomic groups, i.e., between farmers, other self-employed, managers and upper white collar employees, lower white collar employees, and manual workers, has changed in a similar fashion (Uusitalo 1982, 68-72).

Table 7. Distribution of households' disposable income. Quintiles ordered according to the size of households' disposable income, 1966-1979.

Quintile	1966	1971	1976	1977	1978	1979
Lowest Q_1	6.0	6.6	7.1	6.8	6.9	6.6
Q_2	11.7	12.3	13.0	12.8	12.8	12.7
Q_3	17.4	17.9	18.8	18.7	18.6	18.7
Q_4	24.0	24.2	24.8	24.9	25.0	25.0
Highest Q_5	40.9	39.1	36.4	36.8	36.7	37.0
	100.0	100.0	100.0	100.0	100.0	100.0

Source: Uusitalo 1982, 68, OSF XLI:3, 20.

International comparisons of the trends in income distribution are largely lacking. So far, the most reliable comparisons of income distribution in a larger number of countries have been presented by Malcolm Sawyer for the OECD. His data do not include Finland, and therefore it is interesting to locate Finnish income inequalities in a comparative perspective. This is done in Table 8.

Table 8. Size distribution of post-tax household income.

Country	Year(s)	1	2	3	4	5	6	7	8	9	10
Australia	1966-1967	2.1	4.5	6.2	7.3	8.3	9.5	10.9	12.5	15.1	23.7
Canada	1969	1.5	3.5	5.1	6.7	8.2	9.7	11.2	13.1	15.9	25.1
Finland	1971	2.5	4.1	5.5	6.8	8.2	9.7	11.2	13.0	15.6	23.5
France	1970	1.4	2.9	4.2	5.6	7.4	8.9	9.7	13.0	16.5	30.4
Germany	1973	2.8	3.7	4.6	5.7	6.8	8.2	9.8	12.1	15.8	30.3
Italy	1969	1.7	3.4	4.7	5.8	7.0	9.2	9.8	11.9	15.6	30.9
Japan	1969	3.0	4.9	6.1	7.0	7.9	8.9	9.9	11.3	13.8	27.2
Netherlands	1967	2.6	3.9	5.2	6.4	7.6	8.8	10.3	12.4	15.2	27.7
Norway	1970	2.3	4.0	5.6	7.3	8.6	10.2	11.7	13.0	15.1	22.2
Spain	1973-1974	2.1	3.9	5.3	6.5	7.8	9.1	10.6	12.5	15.6	26.7
Sweden	1972	2.2	4.4	5.9	7.2	8.5	10.0	11.5	13.3	15.7	21.3
United Kingdom	1973	2.5	3.8	5.5	7.1	8.5	9.9	11.1	12.8	15.2	23.5
United States	1972	1.5	3.0	4.5	6.2	7.8	9.5	11.3	13.4	16.3	26.6
Average (without Finland)		2.1	3.8	5.2	6.6	7.9	9.3	10.7	12.6	15.5	26.3

Source: Sawyer 1976, 14, Studies of Central Statistical Office Nr. 37 1976, 28 (Finnish version).

The results should be read cautiously, since comparability is not perfect. For example, income distribution seems to be slightly more unequal in Finland than in Sweden, but, if a small conceptual difference in the operational definition of disposable income is removed, the difference disappears (Nygård 1982). In any case Table 8 suggests that Finland belongs to countries where income distribution is comparatively equal. In this group of countries one could include Australia, Finland, Japan, Norway, Sweden and United Kingdom. Income inequalities are considerably larger in France, Western Germany, Italy, and United States. If we standardize the varying distribution of household size across countries, income inequalities are smallest in Netherlands, Sweden, Norway, Finland and United Kingdom, and largest in France, Spain, Western Germany and United States (Sawyer 1976, 19).

Sawyer's study also includes data on the trends of income distribution. It is interesting that changes have taken place in both directions. In 1960s and in the early seventies income distribution became more equal in France, Italy, Japan and Netherlands, while in the United States and in Canada the opposite trend was discovered. Even in the Nordic countries the trends have been somewhat different. In Norway, individual income distribution was slightly equalized in 1962-67, but there was no change in 1970-76. During the same years some equalization of individual income distribution took place in Denmark. In Sweden, individual income distribution as well as the disposable household income distribution have become more equal in the sixties and early seventies. In Finland, as we saw above, income distribution hardly changed before the incomes policy period, but during it some equalization has taken place (Sawyer 1976; Den svenska inkomstfördelningens utveckling 1920-1976; Udviklingen i den personlige indkomstfordeling for erhvervsaktive 1970-1976; Ringen 1980, 141-168).

A detailed study by Uusitalo suggests that three factors account for the equalization of income inequalities in Finland in 1968-1975. The first is the development of the welfare state, i.e., the increased role of taxation and income transfers in the income formation process of households. Progressive taxation equalizes income distribution, and so do public income transfers, the most important item of which being pensions. Secondly, some structural changes have worked for the equalization of income inequalities. The agricultural sector, and particularly the proportion of low-income farmers, has declined. Thirdly, the role of incomes policy is interesting. It seems that a part of the equalization of income distribution has taken place as a joint effect of solidary wage policy and unexpected inflation. The solidary wage policy was emphasized particularly in the first incomes policy agreements. However, because of unexpected inflation, wage drifts, the control of which has also been one of the targets of incomes policy, became considerable in industry and generally in manual occupations. In contrast, incomes policy agreements succeeded better in controlling the salary development of white collar workers, the more so the higher the income level (cf. Pond 1979, 54, Parkin 1979, 79-80, Blumberg 1980, 76-84, Kitchen and Curnow 1981, 80-103, Chater 1981, 104-127). This caused the decrease of the income differential between manual and non-manual workers, and consequently, an equalization in income distribution. Therefore, it is a success of incomes policy in the case of the salaries of non-manual workers and failure in the case of the wages of manual workers which jointly account for the changes of income distribution. The same factors account for the stability of income distribution since 1975. Inflation is no more a surprise to anybody, and in the incomes policy agreements all groups demand effective safeguards against inflation (Uusitalo 1982, 83-84).

Discussion

This paper asks the question whether incomes policy, as adapted in Finland, has influenced some economic and social developments in Finnish society. In particular, we have examined the economic performance of Finland during the incomes policy period in terms of economic growth, inflation and unemployment. In addition, we have studied the possible impacts of incomes policy on the development of social security expenditure and on the distribution of income. These particular economic and social developments have been selected because they are regarded either as goals of incomes policy or as its functions. There is, of course, a much wider range of economic and social phenomena which could have been studied. It is common knowledge that strike activity has considerably increased during the incomes policy period, although it is not easily documented because strike statistics were renewed in 1971. It is possible that incomes policy, with its highly centralized decision-making, is a cause of increased striking activity. Unionization has also dramatically increased during the incomes policy period, and incomes policy must have contributed to this development. These are examples of other possible consequences than those studied in this paper.

Some of the changes studied have moved in the direction of the goals of incomes policy. We cannot assess with certainty the influence of incomes policy on these developments, but it seems fair to say that it has had an impact. Among the OECD countries, Finland has improved its economic performance during the incomes policy period. The peculiarity of the Finnish incomes policy, the inclusion of so-called social packages into incomes policy agreements, have had some effects on social security, although the rapid development of the Finnish welfare state started before the incomes policy period. The equalization of income distribution is partly a result of incomes policy, although not in the way anticipated. Part of income equalization took place because incomes policy agreements held good in the upper brackets of income distribution, but failed in the lower brackets, where wage drifts improved the development of earnings. One could also argue that during the first five years of incomes policy its success was greater than later on. This is not alone due to the economic recession, which has hit the other OECD countries as well.

One should also observe that income policy has experienced some important changes. It seems that its egalitarian features have become less important. In the making of the first incomes policy agreements, "solidary wage policy" was an important slogan, which also affected the policy. Pay increases have gradually lost their solidary character, and price control has been loosened. In the aftermath of economic recession some unforeseen measures have been implemented by incomes policy agreements. In order to revitalize economic activity, the social insurance payments of employers have been decreased, and the level of taxation has been lowered. It is possible that these changes symptomize a change in economic policy towards a new reliance on the capacity of market forces to revive the Finnish economy (see Uusitalo, Paavo 1978, 4-10; Kosonen et al. 1979, 184).

In Sweden it has been argued that incomes policy has only a limited effect on macroeconomic development and on income distribution, and that it should be seen primarily as an institution to solve conflicts over scarce resources in a society where unionization is high and labour markets are occupied by strong organizations (see Tuominen 1980, 9). Expressed in another way, incomes policy is both a political and economic concept. As noted in the opening section of this study, its prerequisites are mostly political, i.e. they are related to the power structure of society (cf. Korpi 1978, 37-41). But this defines only the form of incomes policy. Its contents concern economic and social conditions in a society. It is true that the possibilities of incomes policy to affect these economic and social consequences are not omnipotent, but there is no reason to underestimate these possibilities. In fact, this study has put forward some evidence for the view that the contents of incomes policy do matter, and that they may undergo important changes.

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