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# Tripartite political exchange and the Finnish social model

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## INTRODUCTION

The Finnish model of labour market bargaining has been characterised by centralised and comprehensive incomes policy agreements starting from the late 1960s. This era of centralised incomes policy was believed to come to an end in 2006 when the Confederation of Finnish Industries (*Elinkeinoelämän keskusliitto, EK*) announced that it would no longer negotiate over comprehensive incomes policy agreements. Yet the institution demonstrated its elasticity again in October 2011, as the labour market parties declared that they have settled for a new comprehensive agreement. Incomes policy has been a central part of the Finnish models of social risk-sharing and of governance of social risk management most importantly because the tripartite policy-makers have not only agreed on wages and tripartite exchange also influenced much more general level economic and social policies. Incomes policy agreements have typically combined wage bargaining and collective wage agreements with changes in taxation, education policy, earnings-based unemployment insurance and pensions, unemployment benefits, work protection or even housing conditions.

The idea of incomes policy agreements was adapted to the Finnish debate from Western European countries over the 1960s. Incomes policy was especially presented as a tool for macroeconomic stabilisation. The economic context of the first incomes policy agreement (*Liinamaa I* in 1969) was the significant devaluation (31 per cent) of the Finnish currency *markka* in 1967. The aim of the incomes policy was to guarantee competitiveness of the export sector, to curb inflation and to stabilise the economic development and wage share. Jäntti et al. (2006) refer here to Finnish “devaluation cycles”, which occurred in 10-year intervals (1949, 1957, 1967 and 1977–1980). From 1967 onwards, the decisions to devalue were combined with incomes policy agreements which moderated the wage growth for two or three years.<sup>10</sup> Pohjola (1995) sees that the incomes policy structures were designed to support the Finnish growth model. The post-war growth model in Finland was based on a high investment rate in key manufacturing sectors, high savings rate and credit rationing.

Although the economic policy rationale for incomes policy agreements was based on macroeconomic foundations, it is not the topic of this chapter. In contrast, this chapter emphasises the idea that the institution of Finnish incomes policy agreements created leverage for political exchange, which thus have had a profound impact on the balance of power and structures of the Finnish social model. The importance of this dynamic institution has indeed been extremely high in terms of both policies and politics. For example of the former, Kiander et al. (2009) have portrayed the Finnish incomes policy as institutionalised tripartite co-operation between the labour market organisations (or labour market parties) and the government, which has, among other things, fostered social capital formation in Finland. For example of the latter, the significance of centralised bargaining is well demonstrated by the fact that during the period from 1969 to 2007, the number of wage settlements made (in contrast to central agreements) at the sector level was only seven – all of them signed for one year only (Asplund, 2007).

One of the key ideas of the model was that the compromise in the tripartite negotiations would represent the “general interest” over “special interests”. The

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<sup>10</sup> A wage-norm was widely adopted, which outlined that nominal wage growth should match the rise of labour productivity. As Sauramo (2004) has emphasised, the real labour market development did not always follow the theoretical wage norms.

incomes policy has indeed been interpreted to represent the idea of parity in the Finnish society, the symmetry of power between capital and labour (Kettunen, 2009). Although the role of the state in incomes policy has historically been stronger in Finland than in case of Sweden for example, as Sauramo (2004) argues, the tripartite agreements were of highest political importance *for* the state. In the 1970s for example, the prime minister or even the president could take a direct active role in the negotiations.

The purpose of this chapter is to demonstrate the importance of the tripartite political exchange and incomes policy agreements for the Finnish social risk-sharing model, social capital formation and the mobilisation of power resources. To an older generation of labour market economists and welfare state researchers, this kind of starting point is hardly anything new. The Finnish economic and social history literature has already much dealt with the relation between labour market bargaining and social policy reforms. The history of the Finnish social security has been even read as an “extension of social wage” because so many reforms on social security were agreed in incomes policy negotiations (see Kiander et al., 2009). Regarding the current Finnish political debate on the welfare state, however, the historical institutional structures, confrontations and political contingencies are widely undermined. To a younger generation of Finns, the welfare state institutions and mechanisms just “are”. There is too little awareness of the processes that initially led to collective risk-sharing institutions that are considered to be part of the “praised Finnish model” of risk-sharing today.<sup>11</sup>

It is, of course, out the scope for any single article to provide any in-depth and detailed social history of the era of central incomes policy. Rather, the aim here is only to underline the importance of the incomes policy agreements for the historical development of the Finnish social model. The reason for this is that the history of this institution is often undermined in interna-

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<sup>11</sup> For example, the Research Institute of the Finnish Economy (ETLA) published in 2007 an influential study on the Nordic Model (Andersen et al., 2007). Its basic premise and definition of the Nordic model is that the collective risk-sharing institutions provided by the welfare state enhance globalisation and adjustment to structural change. This definition is widely shared in the current Finnish debates, and the line of argumentation starting from this point is commonly used to legitimate the welfare state.

tional debates. According to Bergholm (2009), the comparative international debates still portray the Finnish social risk-sharing and collective bargaining arrangements as one of a “junior” Nordic country. Following the Swedish historical experience, many analyses refer to a Nordic model that has been build around the strong parliamentary position of the Social Democratic Party. The Finnish model, however, has been typically more shaped by the tripartite corporate political exchange than other “Nordic models” because of the weaker position of social democracy in the parliament. The incomes policy institutions have been central in strengthening the structural position of the labour movement in the Finnish society.

In the following section of this chapter, it is described how the general incomes policy agreements structurally shaped the Finnish model in the era of welfare state expansion from the late 1960s until the late 1980s. In the 1970s and 1980s labour unions were able to promote welfare reforms as a part of the incomes policy deals. “Social wage” was exchanged for modest pay increases. Significant work-life legislation was introduced and work-time was also shortened during this period. Overall, Finland experienced the era of welfare state expansion. The content of the incomes policy changed in the 1990s as the new economic and growth paradigm emerged. This is the topic of the third section of this chapter. The paradigm shift in economic and social policy was driven by European integration, neoliberal ideological change, and the deep depression in the early 1990s. The era of incomes policy started in 1968 and seemingly came to an end in 2007 at latest. The last section of the chapter provides an overview on how the long-lived institutional continuity produced new forms and different outcomes in the changing economic and political contexts.

## **THE EMERGENCE OF SOCIAL CORPORATISM**

As emphasised by Jäntti et al. (2006), the post-war economic policy in Finland was strongly influenced by President Urho Kekkonen`s (1952) pamphlet *Has our country the patience to prosper? (Onko maallamme malttia vaurastua?)*. Kekkonen proposed that Finland should adopt a state-led investment program in productive means. A high investment rate in key manufacturing sec-

tors, high savings rate and credit rationing were indeed typical characteristics of the Finnish growth model in the post-war decades. State-interventionist industrial policy was of course typical to all of the Nordic countries but the Finnish policies were even more interventionist than in the Swedish or Danish models. The Finnish growth model of the 1940s and 1950s was based on “pragmatic interventionism and co-operation between the state and the private actors” and the growth model acquired a “conservative character” (Jäntti et al., 2006). According to Pohjola (1995), the Finnish corporatist model was based on the policy coordination between the state and the businesses while the trade unions were weak and divided.

Several studies have emphasised that the nature of the post-war class compromise in Finland has been weaker in Finland than in other Nordic countries. In the 1940s and 1950s governments often reacted to economic fluctuations with pro-cyclical fiscal policy and the whole welfare state development progressed later than in other Nordic countries (Mjøset, 1987). The civil war of 1918 was certainly a major cause for the late development of the welfare state and tripartite corporatism, as the employer-side refused to acknowledge the bargaining rights of the trade unions during the inter-war era. A new era of more collaborative industrial relations emerged in 1940, as the labour market organizations acknowledged each other as bargaining parties (Ministry of Labour, 2011). Still, the labour movement was internally divided and employers still conceived the wage bargaining process as a zero sum game in the 1940s and 1950s (Bergholm, 2009). The agrarian interests were also powerful in shaping the Finnish policies, because of late industrialisation and the strong parliamentary position of the Centre party (Andersson et al, 1993)

New systems for wage-bargaining developed already in the 1940s and 1950s. Bergholm (2009) has traced the birth of a new kind of political exchange and understanding between the labour market parties to the late 1950s and early 1960s, especially underlining the importance of the earnings-related pension scheme of 1961<sup>12</sup>, which “completed the process of class compromise” that had already taken steps forward in the late 1950s. Employer and employee organisations, as well as the Social Democratic party and the bourgeois par-

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<sup>12</sup> *The national basic pension scheme had been established in 1956, which gave labour market parties an incentive to start working for a new earnings-related pension scheme.*

ties, cooperated closely during the pension reform process. Employers and employees had already been able to find a compromise concerning the unemployment insurance reform in 1959–1960, but this was only after the general unemployment reform had failed earlier in the parliament. The reform processes of the late 1950s and early 1960s established Gent-style unemployment insurance funds and decentralised private pension insurance companies with paritarian control.

Earnings-based pension and unemployment insurance institutions have shaped the Finnish model for more than 50 years now. The reforms also paved way for further tripartite political exchange and social corporatism. The Finnish employers were not always that eager about centralised wage negotiations, but as the power of the left in the Finnish society increased, the employer-side became more willing to accept collective bargaining (Kettunen, 2009a). The election victory of the Social Democratic Party in 1966 and the radicalised young generation further shifted balance towards the left. The power of the left forced the employers to seek cooperation and common standpoints. However, for many in the far left, the general incomes policy represented a rather negative “class compromise”. Other critics pointed out that the tripartite cooperation might undermine the parliament in decision-making processes.

Kettunen (2011) has argued that the ideas of parity and virtuous circle of economic and social development were important guidelines for the Nordic development in general in the post-war era. The influential *Vordenker* of the Finnish welfare state, Pekka Kuusi, believed that economic and social development were to be closely interlinked. This idea was dominant in Kuusi’s classic book *The social policy of the 60s (60-luvun sosiaalipolitiikka)*. The economic, social and human sphere would accumulate to wider progress. Kuusi’s thinking was influenced by Gunnar Myrdal’s notion of ‘circular and cumulative causation’. Unlike in Sweden, where policy makers were conceptually referring to the Swedish Third Way between communism and capitalism, the Finnish welfare state thinking was inclined to depoliticise social policy (Kettunen, 2001). The Cold War confrontation was perhaps important but this was not emphasised too much in the public debates. Instead, authors like Kuusi portrayed social policies in terms of pragmatic adjustment, modernisation

and national unification. The idea of parity in the labour market was part of this wider process.

The transition to comprehensive incomes policy agreements in the late 1960s strengthened the Nordic tradition and social capital formation in the Finnish society. Finnish incomes policy structures can be perceived to be, following Bo Rothstein's concept, "organised social capital".<sup>13</sup> The political shift to incomes policy agreements can be interpreted, as Kiander et al. (2009) have done, to have brought the Finnish economy and society closer to the "Nordic standard of development". As Kettunen (2009) has further pointed out, Sweden was portrayed to represent the "future of the Finnish society" already in the 1930s. Though Finland's road to *Norden* and to becoming a "Nordic democracy" turned out to be a long one. The example of the Western countries and particularly the Nordic neighbours paved the way for general incomes policy in Finland and the politics of Nordic comparison has indeed played a central role.

The emergence of the era of incomes policy agreements can be portrayed as a part of a more wide-ranging transition to *konsensusyhteiskunta*, a culture of consensus typical to Finland. According to Saari (2006, 112–113), in addition to incomes policy, the transition to the culture of consensual politics was also fostered by the stabilisation of the political system. Prime Minister Kalevi Sorsa initiated the famous Korpilampi conference, where different interest groups and actors across the political spectrum sought for common understanding in 1977. After 1983, Finnish governments have typically served a full term. In the mainstream debate the consensual cultures of politics and policy making are still typically seen as a source of national competitive strength. The tripartite political exchange is legitimated through the benefits of consensus. Pekkarinen (1990) has emphasised incomes policy as a political tool that can potentially prevent negative externalities because it enables the trade unions to put general interest over special interests.

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13 Organised social capital basically refers to the trust between organisations.

## Interplay between wage-work, social citizenship and universalism

The new structure of Finnish industrial relations, social corporatism and incomes policy agreements reflected a new kind of power balance in the Finnish society. The new kind of understanding between the labour market parties in the early 1960s and the historical shift to the era of incomes policy agreements in 1968 had indeed strengthened the position of the weaker side in the labour market, the employees.<sup>14</sup> The political exchange of the labour market parties became politically essential for the Finnish institutions of social risk-sharing during the classic incomes policy era and welfare state expansion from the late 1960s to the late 1980s. The focus of the analysis here is on the structural development of earnings-related social security and interplay between wage-work, social rights and universalism in the process.

According to Rahkola (2010), centralised wage setting and earnings-related social insurance are the core competencies of traditional Finnish tripartite political exchange structures and they also significantly affect the working life legislation.<sup>15</sup> Especially the earnings-related pensions, unemployment insurance<sup>16</sup>, work-injury insurance, sickness insurance<sup>17</sup> and family ben-

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14 *The “weakness” of employees derives from the fact that at the work-floor level, it is the employer side that organises the work and always has the first-place right to interpretation in cases of conflicts of interest.*

15 *Many of the rights of workers have been firstly negotiated on the co-ordinated incomes policy tables or even sectoral union tables but have later become parts of legislation. It is hence well founded proposition to state that the Finnish income policy model has been a crucial tool in making Finnish working market better functioning and more equal, step by step.*

16 *Basic schemes, such as basic unemployment allowance, guarantee minimum income, whereas the earnings-based unemployment allowance is based on insurance-principle. The precondition to receive earning-based unemployment allowance has considered to be a union membership (membership contributions which are tax deductible) and changing “employment condition”. Strictly speaking, it is always (by law) possible to join only the unemployment fund and only pay for the fund fees. The amount of earnings-related pension depended, until recently, on final salary. Various reforms were advanced in the 1980s, which stabilized the roles of the national and earnings-related pension schemes basic unemployment allowance and earnings-based unemployment allowance.*

17 *In 1981, the labour market parties agreed on sickness allowance and accident and motor insurance as part of the comprehensive incomes policy deal. The level of compensation was improved and the sickness allowance became taxable. (Niemelä & Salminen, 2006)*

efits have been generated in the tripartite negotiations. The reinforced role of the labour market parties in the 1960s and the rise of the Social Democrats to a stronger parliamentary position created preconditions for an era of labour market-driven social policy. The establishment of earnings-related pension scheme and unemployment funds administered by the trade unions laid the foundations for the “Finnish class compromise”. These reforms, in addition to sickness insurance, meant no less than the emergence of modern social insurance in Finland. The development of earnings-related social security was given a priority. (Niemelä & Salminen, 2006.)

The structural tension between “insiders and outsiders” deriving from the establishment of decentralised earnings-related insurance schemes and universalistic welfare schemes has characterised the Finnish social model since the beginning of tripartite political exchange. The Social Democratic Party and the Centre Party were the central party political forces in the building process of the welfare state. Social Democratic Party has historically prioritised comprehensive but not catch-all social insurance and welfare services supporting wage labour, whereas the Centre Party has prioritised universalistic schemes (Haataja et al., 2010). In the recent Nordic history of social policy, there are indeed two parallel reinforcing and mutually relating principles at work: the idea of universalist social rights based on citizenship, the idea of workfare, or the normalcy of wage-labour. The Finnish understanding of work and social rights cannot be thus reduced to polarity between commodification and decommodification. (Kananen, 2011.)

The principles of workfare and social citizenship can be best seen in play in the earnings-related pension scheme and unemployment insurance. Earnings-related systems have developed social rights around the institutions of – preferably full-time and continuous – wage-labour and the insurance principle. However, the principles have been combined elsewhere in legislation as well. The labour market parties reached an understanding on the rather all-encompassing Occupational Safety and Health Act in the tripartite negotiations of 1970.<sup>18</sup> The original purpose of this legislation was to protect workers from work-related accidents and diseases (Leppo, 2010). Even the development of universalistic social and health services run by local authorities have

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<sup>18</sup> *The act came into force in 1978.*

not thus only served the principle of universalism but also the normalisation of wage-labour. The Act on Children's Day Care, in which quite similar combination of the two principles can be found, was passed in the parliament a bit later in 1973.

It must be noted that workfare should not be understood as a static principle here. For example, the goal of shortening working time was a significant part of tripartite strategies to improve the quality of working life during the period of welfare expansion. Labour market organisations agreed on the five day and 40 hour working week in the mid-1960s. The shortening of the working time was carried on in the golden era of incomes policy agreements in 1968–1988, when the working time was decreased primarily with holiday arrangements and with shortening the weekly working time. The so-called UKK agreement, initiated by President Kekkonen in 1971, guaranteed a 4-week annual holiday for wage earners. In 1979 it was agreed that the right to winter holiday should be broadened. Working time decreased steadily, as average annual hours per worker decreased by 10.2 per cent between 1970 and 1994. (Kiander, 1999; Kiander et al., 2009.)

### **INCOMES POLICY AND RE-NEGOTIATION OF THE POST-WAR SETTLEMENT IN THE 1990s**

Incomes policy agreements have provided institutional continuity and stability, which is often considered a most positive characteristic in the Finnish model. The analyses based on institutional continuity are with no doubt useful but sometimes these kinds of approaches tend to overemphasise the path-dependency of economic and social policies. In Finland, the comprehensive incomes policy institution has produced quite different policy outcomes in different historical periods and in different economic and social contexts. The great depression of the early 1990s was the worst in Finnish history since the 1930s and it generally signified a major turning point in the Finnish societal development. In the early 1990s, Finland, Sweden and Denmark all witnessed a renegotiation period of the post-war collectivist order (Kananen, 2011). The direction of Finnish economic and social policy changed drastically, as presented for example by Julkunen (2001).

The Finnish employer side reacted to the severe economic crisis with wide-ranging reform proposals. In the fall of 1992, the Finnish Employers' Confederation (*Suomen Työnantajain Keskusliitto*, STK) published a list of demands that aimed to reduce the labour costs radically, by 20 per cent. The trade unions quickly dubbed the demands as "The Satanic Verses" after Salman Rushdie's novel. (Vuoristo, 1998.) Esko Aho, the Prime Minister of the centre-right coalition government of 1991–1995, was promoting the view that in the future, the labour market organisations should only focus on wage policies and let the government and the central bank solely decide on all monetary and fiscal policy. Labour unions counteracted effectively and the plans to break the old corporatist model failed. (Kosonen, 1998.) The most radical reforms were not realised but some of the pension and unemployment funding was transferred to the wage earners and a wage freeze policy was adopted for two years. The employer side and the Centre Party did not succeed in breaking down neither the earnings-related social security with corporatist structures nor the corporatist model more generally.

The newly elected government led by the social democratic Prime Minister Paavo Lipponen initiated comprehensive incomes policy agreements for the years 1996–1997, 1998–1999, 2001–2002, 2002–2004, and 2005–2007. The Social Democratic Party and the Left Alliance were parts of the broad rainbow government coalition and they were motivated to further strengthen the tripartite structures (Kiander et al., 2009). The comprehensive incomes policy structures guaranteed that wage growth was to become slower than productivity growth, which contributed to the decline of the wage share in the functional income distribution. Combination of wage moderation, low interest rates and devaluation of the early 1990s was seen to contribute to growth. (Pehkonen, 2002.) At the same time, however, the internationalisation of the Finnish companies meant that labour movement was not able to combine working time reductions with wage moderation, which had been the case in the 1970s and 1980s. Finland experienced a period of strong export-led growth in the late 1990s, which was led by Nokia and the booming ICT sector.

In the late 1990s, the Finnish economy recovered with export-led growth but the wider social legacy of the Finnish policies of 1990s turned out to be more problematic. Julkunen (2001) has stressed that after the era of welfare

state expansion in the 1970s and 1980s Finland entered during the 1990s crisis an era of post-expansive welfare state development. Both the right-wing coalition (1991–1995) and the broad rainbow coalition (1995–1999) governments introduced policies which led to welfare state retrenchment. The rainbow government introduced tough budget consolidation policies in 1995 in order to meet the EMU criteria and to take new steps in Western integration. The state subsidies for the municipalities were cut.<sup>19</sup> The governments also introduced a bulk of cuts in the incomes transfer sphere.<sup>20</sup> (Kautto, 2000.) The cuts in the universalistic minimum benefits reflected a new supply-side orientation in the Finnish labour market policy (Kananen, 2011). The volume of the welfare sector cuts was most drastic in the earnings-related pensions system (see Kiander et al., 2009).

The unemployment rate had exploded to around 20 per cent in 1993 and the unemployment rate was persistently over 10 per cent throughout the latter part of the 1990s. High long-term unemployment became a permanent phenomenon in the Finnish labour market development. The economic policy of the 1990s has indeed been criticised for adjusting the economic imbalances (account deficit, the risk of inflation, labour costs) through unemployment. The policy of strong *markka* had opposed the floating the currency and devaluations until the fall of 1992. The adopted pro-cyclical monetary and fiscal policies not only increased unemployment but they also left the public debt problems unsolved. The political elites saw the balancing of the account deficit as a political priority over employment. As Kiander (2001) has underlined, raising the unemployment rate proved to be very easy but lowering the rate proved out to be much more difficult, as seen in the late 1990s.

In the 1970s and the 1980s the tripartite political exchange had often led to welfare state expansion. Employees received social rights in exchange for

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19 In the Finnish system the municipalities are legally responsible for providing the welfare services.

20 Kautto (2000, 44–45) emphasises that Sweden took a more balanced approach to budget consolidation, as the consolidation programme was based nearly half-on-half on tax increases and cuts in expenditures. The social policy cuts were absolutely and relatively higher in Finland. Both of the countries were successful in balancing their budgets, but overall the unemployment level was significantly lower in Sweden in the 1990s.

wage moderation. The economic and political context of the 1990s, on the other hand, was characterised by banking crisis, economic depression, capital market liberalisation and neoliberal ideological pressures towards the welfare state. True, the political left and the trade unions were able to counteract the neoliberal pressures to break the corporatist structures, but the economic context of the 1990s meant that the tripartite political exchange produced very different kind of policy outcomes than in the “classic” era of incomes policy. Wage moderation for example became linked with income tax reductions at all income levels, which previously could hardly have been the case in tripartite negotiations. Kosonen (1998) has gone as far as to argue that the institution of social corporatism and incomes policy acted as a guarantee for welfare sector cuts in the late 1990s. The political elite portrayed the cutbacks as necessary evil because the financial markets had almost lost confidence in Finland’s solvency in 1992. The high unemployment and welfare sector cutbacks reflected the new balance of power in the labour market bargaining: the labour side was forced to go on the defensive.

### **Incomes policy, competition state paradigm and the excluded**

In 2007, the new central employer organisation, the Confederation of Finnish Industries (*Elinkeinoelämän keskusliitto*, EK), published its labour market and wage policy guidelines, which outlined that there will be no continuation for comprehensive incomes policy agreements, which had been a well-recognised intention already since late 1960s. The employer side claimed that globalisation and the internationalisation of the Finnish businesses had made the centralised incomes policy agreements outdated. The employers saw no reason for compromise with the labour unions anymore. The economic policy interest of the employer side is now focused on keeping the price of labour as cheap as possible.<sup>21</sup> In social policy, the main aim has been to reduce employer

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<sup>21</sup> *In addition, for example Alho (2009) has argued that centralised incomes policy and solidaristic wage policies have led to a situation where high labour productivity is not recognised in salaries and especially low labour productivity is overvalued. In this line of reasoning, more flexibility is needed in order to safeguard national competitiveness and to guarantee growth in employment rates.*

contributions. The liberalisation of the capital markets and the globalisation of the production have been mobilised to argue for weakening the bargaining power of the trade unions and for strengthening the employer side.

Many initiatives have come since then from the employers. In the title of his study published by the Finnish Business and Policy Forum (*Elinkeinoelämän valtuuskunta*, EVA), the self-titled “policy and pro-market think tank” of the Finnish business community, Korkman (2007) asked: do incomes policies in Finland have a future? Korkman argued that the Finnish labour market model has worked fairly well due to the close cooperation between labour market organisations. On the other hand, Korkman also argued that the Finnish labour markets functioned poorly in relation to other Nordic countries. He sketches a shift towards more decentralised system of wage formation inspired by globalisation and greater correspondence between wages and productivity. Somewhat paradoxically, Korkman would prefer the labour market organisations to negotiate “industrial peace” at a centralised level yet negotiating wage levels on a sectoral or local level.

The discussions on the global economic competition have strengthened the notion of “competitiveness” in the Finnish public debate. The concept of the competition state describes how “the states are transformed by national responses to globalisation” (Kettunen, 2011, 17). Albeit that the notion of competitiveness has always been a central characteristic of the Finnish economic and social model it has become essential after the mid-90s. The competition state discourse includes a nationalist flavour that defines the interests of the “economy” or the “general interest” as the interest of the employer side. Given this discourse, the trade unions have to be careful in their demands if they aim to “safeguard Finnish competitiveness and Finnish jobs”. The global competition state perspective emphasises the notion of “us” in the global competition and how we must reform “our system” in order to perform in the global markets. The social risk of losing national competitiveness has become a dominant social risk in the public debate: a risk that subsumes all other social risks. When the employer side is able to successfully represent its interest as a general interest – “our competitiveness in the global markets” – the political exchange between the labour market parties makes less sense.

In addition to the challenges posed by the globalised business and neo-liberals, the tripartite system has been challenged by the New Left and the Finnish Green movement. The claim is that the traditional labour movement has been unable to analyse and counteract the precarisation in the Finnish labour market. The analysis is often built around the notion that the incomes policy, the tripartite political exchange and the earnings-based schemes mostly represent the organised and well-established parts of wage earners. The structural exclusion of the unemployed and less organised interests in tripartite negotiations have led to a system in which the earnings-based social security is given a priority over universalistic schemes. Introduction of a Basic Income has been the most visible social policy demand of the new movement. The fact that Finland has become more unequal society since 1990s depression has further strengthened the thesis that the tripartite political exchange has not benefited everyone. A key aspect of the rise in income inequality since the mid-1990s has been the dramatic jump in incomes in the top one per cent of the population, albeit that the poverty rates also doubled from the mid-1990s to 2006 (Riihelä, 2009).

The approaches defending the tripartite structures and comprehensive settlements have stressed that the weakened tripartite cooperation might lead to a situation where only the employers would have the policy initiative and labour unions would assume a purely reactive role in the labour market system. In this scenario, the labour unions would only try to counteract the trends of welfare state retrenchment and the worsening of labour market conditions. The decentralised wage bargaining model also bears the risk that the new sectoral or local wage-bargaining model will overemphasise the role of nominal wage increases over stability, employment, “social wage” and the quality of working life. The question remains, for example, that if the labour movement is able to put enough pressure to promote working life improvements, will they be tied to the wage bargaining process or not. The question of the quality of working life is very important policy question for Finland for the coming years, as there is a wide-ranging political consensus to rise the real pension age in Finland in order to improve the state of the public finances. The labour movement has emphasised that raising the retirement age must be handled through improvements in the quality of the working life.

## **CONCLUSIONS: THE SURPRISING NON-DEATH OF FINNISH INCOMES POLICY TRADITION**

During 2007–2011 Finland was governed by a centre-right coalition government and the return to the era of comprehensive incomes policy agreements seemed quite unlikely. The employer side EK declared frequently that it would prefer wage bargaining at a sectoral or even at a local firm-by-firm level. This all changed when the new rainbow coalition government took office in June 2011. The government consisted of the National Coalition Party and the Social Democratic Party and four smaller parties across the political spectrum. The government and the newly elected social democratic Finance Minister Jutta Urpilainen spoke strongly for the policy of comprehensive incomes policy agreements, which could bring stability and predictability to the labour market development, and which would benefit the wage earners, business sector as well as the consumers. The government indicated that it would be ready to consider tax incentives in exchange for moderate wage settlement.

Eventually, the government initiative was able to bring EK and the labour union confederations back to the table to negotiate over comprehensive agreements in the autumn of 2011. On September 13<sup>th</sup>, it was announced that the three main labour confederations and EK have found an agreement on comprehensive incomes policy settlement. The framework settlement is being applied at a sectoral level in various industries by the time of writing this chapter. The wage increases will total 4.3 per cent over the agreement period of 25 months. It was announced that the comprehensive settlement would include, among other things, a review agency for work and temporary employment targets, a three day paid training leave annually, paternity leave extension by two weeks to a maximum of 54 days, changes in employer and employee social security contributions, and a minor cut in the corporate tax base.

The settlement proved that the incomes policy institution still has strong support in the Finnish society and within the political elite. The editorial of the influential daily newspaper *Helsingin Sanomat* stated that incomes policy was an important step for the Finnish economy and employment. The speaker of the Finnish parliament Eero Heinäluoma stated that the possible incomes

policy settlement would be “the most positive thing in Finland for years” (HS, 2011, my translation).

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