

3. Coping with the crisis in Finland: Challenging times for social dialogue

ESA JOKINEN

1. Introduction

The market system in Finland has traditionally been based on social dialogue, with a relatively high level of social public spending, and of centralized bargaining (BCG and CIETT, 2012). The basic elements in the system are stable and embedded in the structure of society and power relations at multiple levels. In Finnish tripartism, which is based on a social corporatist model, the key actors are: the Government, three central trade union confederations, one central private employers' organization, two public employers' organizations and the Church.¹⁹

There is a relatively high trade union density (65 per cent) and employers' organization density (71 per cent); collective bargaining coverage is also high at 85–90 per cent. National agreements therefore tend to be very effective, but their negotiation may be very time-consuming and demanding. This is one of the reasons why the Confederation of Finnish Industries (EK) now favours bargaining at the sectoral and local levels – another being that the centralized agreements are generally insensitive to sectoral – and company-level needs. There is a continuous central-level negotiation system in place, in which the social partners take the lead. Once the national agreement has been adopted, the sectoral level then negotiates the details and it is implemented at the enterprise level. Workplace implementation takes place in collaboration with workplace representatives, mainly trade union members (shop stewards); work councils as such do not exist in Finland. Traditionally, Finnish industrial relations have been smooth and consensus-based, and centralized labour market settlements have been important.

The economic crisis hit Finland hard in 2008–09 in terms of its GDP, but the country quickly recovered. However, a more persistent period of economic downturn set in 2011, which is still continuing into 2016. No “post-crisis” period has yet been reached and the prospects for overall recovery remain uncertain.

¹⁹ The three main trade union confederations are: the Central Organization of Finnish Trade Unions (Suomen Ammattiliittojen Keskusjärjestö, SAK); the Finnish Confederation of Salaried Employees (Toimihenkilökeskusjärjestö, STTK); and the Confederation of Unions for Academic Professionals in Finland (Akateemisten Toimihenkilöiden Keskusjärjestö, AKAVA). The Confederation of Finnish Industries (Elinkeinoelämän keskusliitto, EK) represents the employers; it was created in 2005 after a merger of the Confederation of Finnish Industry and Employers (Teollisuuden ja Työnantajain Keskusliitto, TT) and the Employers' Federation of Service Industries in Finland (Palvelutyönantajat, PT).

It is very difficult to make a clear assessment of the changes in tripartite relations and social dialogue during the present economic crisis, and it is too early to draw any firm conclusions. The perceptions of different stakeholders differ widely concerning the status and benefits of social dialogue during the 2008-15 period. The positions taken by the social partners and the Government sometimes seem to be contradictory, and the present study reflects this essential feature of social dialogue.

This study set out to give a broad view of “innovative practice”, taking into consideration both the interaction between different actors and their learning aspect. The idea of the EU “open coordination” approach is that, by identifying good practices – whether in national policies, reforms or, for example, the implementation of European Structural and Investment Funds (ESIF) – companies, organizations, management and government would be in a position to make more informed decisions. This reflects at least in some respects the ideal of evidence-based development of policies and practices (Arnkil, 2008).

The desk research covered a wide range of news articles; government documents; available analyses on Finnish industrial relations and collective bargaining; descriptions of the system in both domestic and European Union (EU) – level databases; statistical information on the economy and employment; as well as information on the various reforms, evaluations and econometric studies. The websites of labour organizations and different national agencies were of help in charting the recent trends, debates and reforms.

The list of key informants interviewed is presented in the appendix.

Only the key reforms and legislative changes are addressed in this chapter. It goes without saying that a great deal more is going on, within parliamentary processes and working committees, that impacts on industrial relations.

2. The macroeconomic and political context

2.1 The 1990s recession

Finland has faced repeated economic shocks since the early 1990s, with recovery periods in between. The country suffered not only from cyclical downturns but also from severe structural problems in terms of the sustainability of the welfare state. Tripartite national social dialogue has been a key element in surviving these crises, and many reforms have taken place.

However, since the late 1990s, the role of the social partners seems to have been gradually eroded, and there have been frequent deviations from tripartism. The welfare state suffered hard blows during the 1990s – and again in the 2010s; and there was a growing trend, during the 2000s, to question the power and role of labour organizations. During the most recent crisis (since 2008), less attention has been paid to the qualitative and developmental aspects of working life and the labour market, and many efforts to address these challenges have been overshadowed by large-scale structural reforms in local government, the Public Employment Service (PES), and the pension system.

Major changes (cuts) in the social security system already took place in the 1990s, when unemployment increased to 18 per cent due to the collapse of the Soviet Union and the related problems in exports and the banking sector. Structural unemployment has remained high ever since.

No other country in the EU or the Organisation for Economic Co-operation and Development (OECD) faced such a decline in GDP and increase in unemployment as did Finland between 1991 and 1994. Real GDP declined by 13 per cent between 1990 and 1993; and unemployment increased from 3.1 per cent in 1990 to 16.7 per cent in 1994. In many regions, unemployment exceeded 25 per cent. Just as exceptional, though, was Finland's recovery during the years from 1994 to 2000, when annual GDP growth averaged 4.5 per cent, far exceeding the EU average.

The causes of Finland's problems were many and are still subject to debate; they included poor policy decisions relating to the currency, a very rapid deregulation of financial markets and the collapse of trade with the Soviet Union (Uusitalo, 1996). There was also major industrial restructuring – particularly in the paper industries, which had been a traditional backbone of the Finnish economy.

There is evidence that social dialogue during the 1990s was one of the main factors contributing to Finland's recovery from the recession. Achievements of social dialogue included social pacts and government cooperation with the social partners, which resulted in wage restraint and the settlement of various labour market issues in order to maintain competitiveness and stability (Uusitalo, 1996). The aim of these agreements was to promote job creation. Overall, the policy succeeded in keeping the average growth of real labour costs below that of labour productivity.

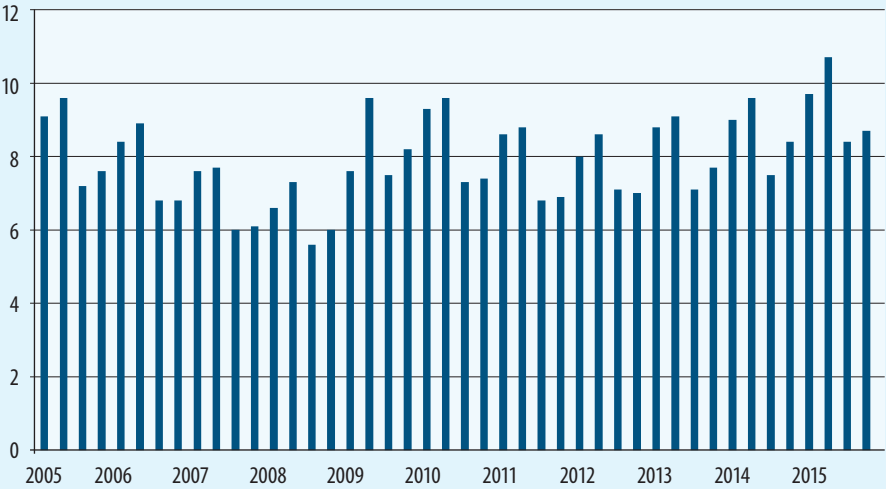
2.2 Ongoing crisis 2008–15

Economic decline was steep from 2008 to 2009, followed by a recovery period from 2010 to 2012 – but after that a more profound economic slowdown and increase in unemployment set in (figure 3.1).²⁰ At present, Finland is going through its most serious economic downturn since the 1990s. In the short term, the situation is worsened by the improving outlook elsewhere in Europe, meaning that Finns face the risk of rising interest rates in the Eurozone at the same time as low domestic demand, high unemployment and high household debt (Danske Bank, 2015).

The situation was compounded by the fall of Finland's industrial flagship company, Nokia, problems in the information and communications technology (ICT) sector as a whole, and accumulating problems in the European economic area (Ministry of Finance, 2015a). A number of other problems emerged as well, such as those relating to the paper and metal industries and overall exports to the Russian Federation and other countries, leading to major restructuring in many regions. In 2008, the Russian Federation was the most important export destination for Finland, accounting for 11.6 per cent of total exports; but in 2009 the share dropped to 8.9 per cent (see figure 3.3). The escalation of tensions between the Russian Federation and the EU in 2014 resulted in a tumbling of the rouble, which further decreased not only Finland's export business but also tourism from Russia.

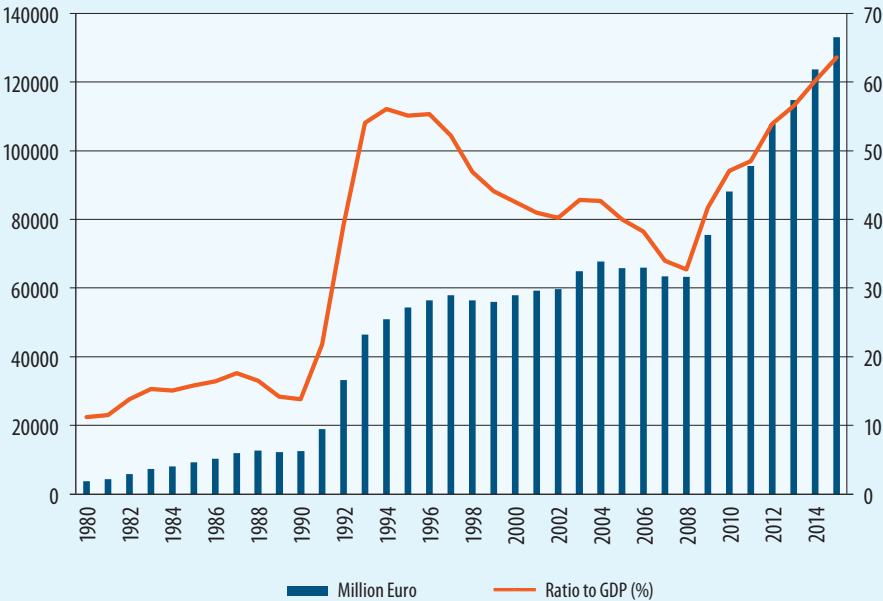
²⁰ Official statistics do not take into account hidden unemployment or those who are participating in active labour market policy (ALMP) measures.

Figure 3.1 Finland's unemployment rate (%) by quarter, 2005 – 15



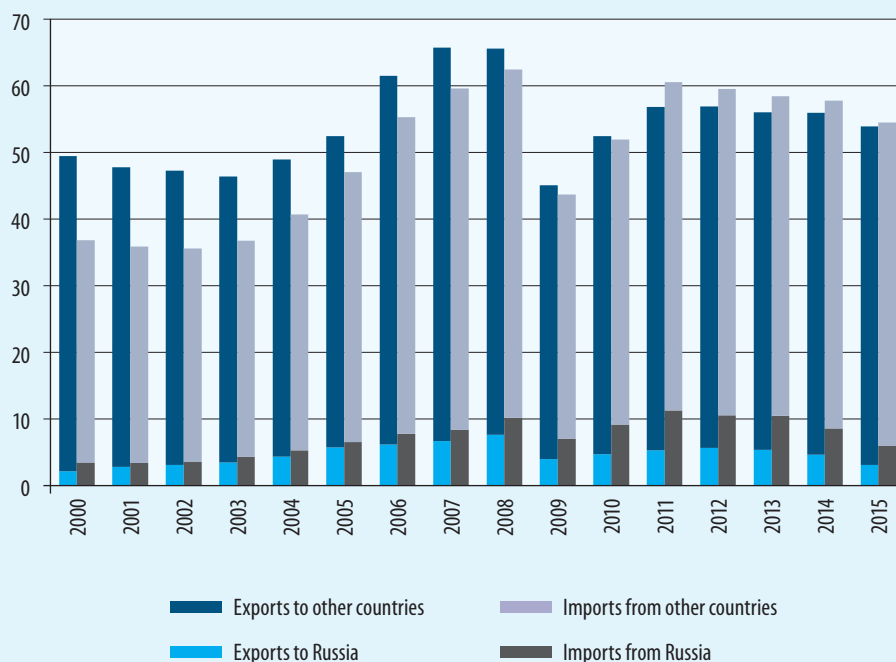
Source: Statistics Finland (2016a).

Figure 3.2 Finland's national debt, 1980–2014



Source: Statistics Finland (2016b).

Figure 3.3 Finland's trade with the Russian Federation and other countries, 2000-15 (in billion Euros)

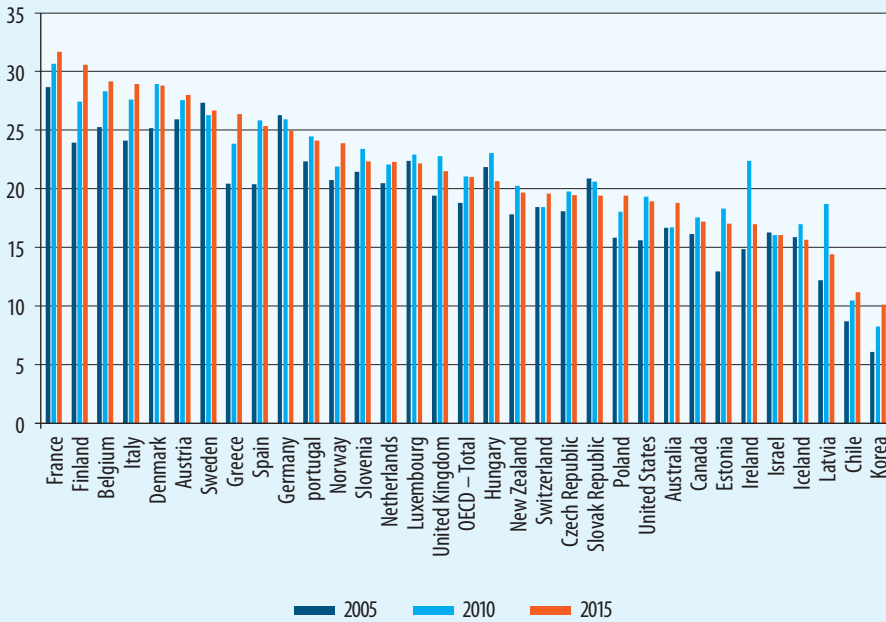


Source: Finnish Customs (2015).

Constraints on economic recovery included: high wages, high social subsidies, complex regulations and high taxes, an ageing population and limited labour force, persistent unemployment and growing globalization (Singula and Kumar, 2012); nonetheless, Finland seemed to fare better than most Eurozone countries and managed to keep its 'triple A' credit rating (*ibid.*). However, in Finland too, one factor that might have contributed to the continuation of the crisis was the slowness of politicians to react to the crisis (Pihlanto, 2012).

These issues have been the main focus of the EC Country-Specific Recommendations (Council of the European Union, 2015). Although Finland did well in international competitiveness comparisons in 2015, even these showed a striking drop in just a couple of years (World Economic Forum, 2015). Public social expenditure has been very high in Finland compared to many other countries (figure 3.4) and the economy faces serious sustainability problems. The significant use of budgetary automatic stabilizers in Finland helps explain the rapid increase in the share of public expenditure, due to income transfers during periods of a downturn in production. At the same time, the reliance on these stabilizers may also help to explain the lack of radical political adjustment measures during the crisis.

Figure 3.4 Public social expenditure as % of GDP



Source: OECD (2016).

One of the main recent debates relates to (labour) cost competitiveness. According to the Research Institute of the Finnish Economy, the cost competitiveness of the business sector and of the main industries has worsened significantly since the early 2000s, as measured through real unit labour costs. One half of the decline in the competitiveness can be attributed to slow productivity growth and the other half to the rapid increase in labour costs (Maliranta, 2014).

Another controversial issue is the size of the public sector. It was claimed by the new Prime Minister that Finland's public expenditure had risen to 58 per cent of total GDP, and this was linked to the over-sized public sector work force (530,000 in 2014). This, however, is disputed, as official statistics indicate a significant decrease in the number of central government personnel between 2000 and 2014, although there has been a smaller increase in local government employees over the same period (Ministry of Finance, 2015b; Municipal Employers, 2015). In order to assist recovery from the 1990s recession, the long-term Finnish Workplace Development Programme (TYKE) was implemented in the context of tripartite arrangements and coordinated by the Ministry of Employment. This programme continued under the auspices of the Finnish Funding Agency for Innovation (TEKES) from 2008 onwards, but with no more programme-based funding of projects. An evaluation study in 2010 concluded that there were risks associated with the loss of the strengths of the programmatic approach under the new TEKES coordination, and also that there was a lack of representation on the part of the social partners.

The Committee on Social Policy Reform (SATA Committee) was an example of a tripartite working group with heavy responsibilities. It dealt with the interrelations between taxation, basic income, unemployment benefits and working life development. In 2009, the central trade unions SAK and AKAVA withdrew from the Committee due to their mistrust of the Government. Many of the reforms were considered to have been unsuccessful – and even the Government shared this view. Despite these upheavals, there was still a certain degree of consensus regarding the financial goals of the reforms.

2.3 The political context

Various government coalitions have tackled the financial crisis, which hit Finland later than most other countries – from 2008 to 2015. The Governments’ attention has focused mostly on public expenditure and national debt, which increased greatly due to the use of automatic stabilizers to sustain the level of welfare.

There have been four different coalitions and five different Prime Ministers over the crisis period, as shown in table 3.1.

Table 3.1. Government coalitions during the crisis

Years	Coalition	Parties in the coalition
2015	Three-party centre-right coalition	The Centre Party – Prime Minister Juha Sipilä, the Finns Party and the National Coalition Party
2014–15	Five-party mixed coalition	The National Coalition Party – Prime Minister Cai-Göran Stubb, The Social Democratic Party, Swedish People’s Party, Green Party and Christian Democrats
2011–14	Six-party mixed coalition	The National Coalition Party – Prime Minister Jyrki Katainen, The Social Democratic Party, Swedish People’s Party, Green Party, Christian Democrats and Left Alliance
2010–11	Four-party centre-right coalition	The Centre Party – Prime Minister Mari Kiviniemi, The National Coalition Party, Swedish People’s Party, Green Party
2007–10	Four-party centre-right coalition	The Centre Party – Prime Minister Matti Vanhanen, The National Coalition Party, Swedish People’s Party, Green Party

Source: Author’s own elaboration.

The political temperature had already begun to rise before the banking crisis, when centre-right Governments and Prime Ministers took the helm. The decline in social dialogue reflected the diminishing support for and power of the Social Democratic Party, which had traditionally been more reliant on the contribution of labour organizations to labour market policies.

The second Government of Matti Vanhanen (2007–10) consisted of a four-party centre-right coalition. Alexander (Cai-Göran) Stubb (later to become Prime Minister between 2014 and 2015) was appointed as Minister for Foreign Affairs, without being a Member of Parliament. In 2007, the Confederation of Finnish Industries (EK) refused central-level bargaining, and sectoral-level negotiations took place instead. The Government at that time gave only limited information to the public, and there were

some controversies relating to foreign policy – as well as to alleged election financing irregularities in which labour organizations were involved. The transparency of the Prime Minister and his Government was called into question, but without any significant consequences. For his part, Alexander Stubb questioned Finland's traditional domestic policies, such as appointment practices, as well as foreign policies, and he introduced the active use of social media in communications. He also consulted a variety of experts – bringing in the business world to advise on Finland's "brand" (2008); Finland's ambassadors to advise on foreign policies (2008); and Swedish experts to advise on Finland's competitiveness (2014).

3. The role of social dialogue in national policy-making in the post-crisis period

From interviews held with the trade unions, it would seem that – since the severe recession in the 1990s – there has been a gradual erosion of the long tradition of active labour organizations contributing to the building of the welfare state. Their role has become increasingly limited and consultative, while the Government has taken more control while seeking compromises to improve the economic outlook. This was visible, for example, in relation to the pension reform in 2013 – and again in 2015, during negotiations on a social agreement related to the Government's fiscal consolidation programme.

On the other hand, the EK and its organizational predecessors expressed ambivalence towards social dialogue; despite their departures from and criticism of central level bargaining, they always returned to the tripartite negotiating table.

After the recession – and despite the economic recovery achieved – changes in the labour relations system started to take place by the end of the 1990s; as a result, the so-called TUPO (the national income policy agreement) tradition began to weaken. This reflected the erosion of the social corporatist model. The role of the Government's social security package to support bipartite agreements diminished, and sectoral-level negotiations started taking on greater importance. At the outbreak of the 2008 crisis, the era of centralized incomes policy agreements seemed to be coming to an end in Finland. The EK announced that sectoral, enterprise and even individual-level bargaining would be the negotiation models of the future.

This became manifest in 2007, when the EK withdrew from central-level collective bargaining altogether and sectoral-level negotiations took place during the 2009–10 period. These industry-level negotiations, however, led to significant pay rises – at least in the construction and health care sectors – which prompted the employers once again to return to the national agreements, partly in order to achieve more modest pay rises and wage coordination. The new national level agreements were no longer called "TUPOs" (national income agreements) but rather "framework agreements". The employers continued to maintain that the time of centralized agreements was over but, partly on account of political pressure, they once again became engaged in framework agreements in 2011 (Marttila and Pursiainen, 2015). It should be added that after the pacts agreed in 2011 and 2013, the EK declared on 25 November 2015 that the current year's tripartite agreement would be the last for them, causing severe criticism from the workers' side. But this did not yet represent a complete collapse of the tripartite tradition.

The 2011 agreement was called the “framework agreement 2011–13 to secure Finland’s competitiveness and employment”; among other things, it included modest wage rises (2.4 per cent and 1.9 per cent in the second year).

The agreement elicited mainly a positive reaction from the social partners. The crucial issue was the raising of the general retirement age, which was turned into a wider agenda. The workers’ side saw that well-being at work, rather than the retirement age per se, was key to extending careers. The successful agreement was considered significant proof of the value of tripartite social dialogue and paved the way for the incoming Government in 2011 (Jokivuori, 2010). It had not only symbolic but also practical value for both companies and employees.

In 2013, the agreement at national level continued under the tripartite tradition, using the term “pact for employment and growth”.²¹ The two main themes were pension reform, and the decision to begin developing the bargaining system itself and the Act on Mediation in Labour Disputes. The latter gave rise to industrial peace negotiations, which broke down in 2015. The difficulties reflected underlying tensions on the eve of the new “crisis government” of 2015.

The new Government of 2015 consisted of a three-party centre-right coalition: the Centre Party – Prime Minister Juha Sipilä, the Finns Party and the National Coalition Party. The Government proposed a “social agreement” on employment and competitiveness for labour market parties, which would have included, inter alia, an agreement to extend annual working time in order to reduce unit labour costs by at least 5 per cent. In August 2015, SAK rejected the agreement for the first time (it subsequently rejected it four times).

The absence of the Social Democratic Party in government since the elections in 2015 marked another major shift in the role of the social partners and social dialogue in Finland. The major reforms concerning local government, the pension system, the organization of social and health care and the social security system, were all criticized for their slow progress under previous governments, and almost all of them remain still to be implemented in full. Nonetheless, these reforms were launched through tripartite negotiations held prior to the economic crisis.

The pension reform agreed in 2014 continued to make progress towards implementation, despite AKAWA’s opposition. In May 2015, the many details that had earlier been left open concerning the private sector were agreed upon, under the aegis of the Ministry of Social Affairs and Health. The Government proposal²² was taken to the Parliament on 3 September 2015 and will be effective from 1 January 2017.

From the point of view of social dialogue, the pension reform was implemented with a heavy hand from the Government. The labour organizations were tasked to produce a common proposal, with the Government threatening to take action in the event that they did not succeed.

The pension reform will raise the retirement age gradually (by three months per age cohort) for those born in 1955 or after, towards a statutory pension age of 65 (now 63).

²¹ See in English: http://www.akava.fi/files/10395/Pact_for_Employment_and_Growth.pdf.

²² Government proposal (16/2015) on changing occupational pension scheme, available at: https://www.eduskunta.fi/FI/vaski/HallituksenEsitys/Sivut/HE_16+2015.aspx (18 September 2015).

Those born in 1962 and after will thus have a retirement age of 65. The pension age will be tied to life expectancy, so that the pension age will probably rise by two months per year for those born in 1965 or later. The present age-related pension accruals will be abandoned – with the exception of those currently aged between 53 and 62 years. The calculation base will be a little higher (Ministry of Social Affairs and Health, 2015). The new pension system also intends to encourage part-time jobs for pensioners.

Four separate public sector pension systems will be integrated into one Pension Act under the auspices of KEVA (Local Government Pensions Institution). Personal pension ages will not be raised, while professional pension ages will be raised for those born in 1955 or later.

Overall, the reform will raise the expected average retirement age from 60.9 in 2013 to 62.4 by 2027. The number of employees is estimated to increase by 24,000 persons (1 per cent) by 2027. In the long-term, pensions will be significantly lower in relation to salaries. The reform has been assessed as quite promising (Kautto and Risku, 2015).

The new Government programme was severely criticized²³ for its impact on women's employment, traditionally one of the backbones of high employment in Finland. The Government's intention to cut overtime, shift work and Sunday compensation was deemed to hit particularly hard the health and service sectors, traditionally dominated by women. However, plans concerning cuts in overtime pay and Sunday compensation were later replaced by cuts in holiday pay.

During the national level social dialogue process, quite exceptionally, Finland's Prime Minister Juha Sipilä gave a televised speech²⁴ on 17 September 2015, which dealt with the ongoing economic crisis. He urged labour unions to agree with the Government's framework. The following day, there was a planned strike by wage earners and 30,000 people collected in the centre of Helsinki to protest against the Government cuts. The Prime Minister gave the workers' associations one more chance to formulate their proposals on how to reach the competitiveness targets by the end of September.²⁵ The employees' side had a list of several reforms that the Government rejected.²⁶ The social partners complained that they should have been consulted over recent cuts to the earnings-related unemployment benefits (Eurofound, 2015). After several attempts, the national level negotiations (on a Social Agreement) were again interrupted at the end of November 2015.

Local bargaining was one major theme in the Government's programme. The main aim was to make hiring easier for employers, by allowing local deviations from the collective agreements. In return, the Government introduced the possibility of improving social security in the case of employees who were made redundant. One of the changes envisaged was to give laid-off workers the opportunity to participate in employment-related training. In late 2015, there was an ongoing discussion about forming a tripartite working group to address questions relating to local bargaining, following the suspension of national agreement negotiations. The idea of strengthening local bargaining

²³ <http://www.hs.fi/kotimaa/a1433910187625> (21 September 2015).

²⁴ http://yle.fi/uutiset/katso_ja_lue_sipilan_puhe_tasta_kokonaisuudessaan/8311098 (21 September 2015).

²⁵ <https://twitter.com/juhasipila> (21 September 2015).

²⁶ <http://www.kansanuutiset.fi/uutiset/kotimaa/3431398/ei-kelvannut-neuvottelupöytäan-palkansaajilla-oli-pitkailista-tyoelaman-uudistuksia> (21 September 2015).

seems to be largely accepted by all stakeholder groups – although some interviewees saw the public sector as a problem in this model.

To sum up, the early years of the crisis were characterized by the continuation of major reforms and initiatives that had been launched before, accompanied by revitalization measures. There were several tripartite working committees addressing different issues. For a long time, the direction that the structural reform policies took was generally regarded as justified, and the social partners were traditionally strongly involved. In the light of this history, the Government acknowledged the importance of social dialogue and did not suggest major changes to the overall system, even given the interruptions to the national level negotiations during the period 2007–10. However, internal political wrangling partly overshadowed economic realities and the evolving global crisis, which included the taking of somewhat new positions in industrial relations: for example, part of the National Coalition Party's political campaign in 2007 was to push for wage increases for nurses. It seems that Finland was caught up in the middle of a structural modernization process, a changing political balance of power (towards the right), and a redefining of industrial relations, as well as increasing international tensions. All of these factors resulted in the erosion of trust between the social partners and the Government.

The social dialogue system in Finland is now at a crossroads. The economic and social policies adopted during the crisis reflected fundamental changes in the global and domestic spheres, in political power relations and in the competitive environment. The main trend, which had already started before the current crisis, has been towards downplaying the role of labour organizations and central-level bargaining. But this has been countered by the Government using new methods to utilize the potential of labour organizations to create commitment to the planned reforms. The results of this new practice are ambiguous – and difficult to determine as yet.

The role of the traditional media, social media and other forms of public communication in relation to social dialogue has increased during the crisis. One outcome of this change has been that the achievements and potential of social dialogue are being interpreted in new ways by the younger generation, and the fundamentals of traditional social dialogue seem to be increasingly called into question by the Government and the employers.

Despite the conclusion of a new Social Agreement and the fact that the basic elements and institutions of Finnish social dialogue remain, there will undoubtedly be major changes in labour legislation and social dialogue in the future, as a consequence of economic pressures and of the employers' demands for local bargaining and labour market flexibility. One example is the likely possibility of creating a low-wage sector, which does not currently exist in Finland.

The role of the Economic Council is important in the Finnish context, although it does not override tripartite agreements. The Council is led by the Prime Minister and consists of representatives of the main workers' and employers' organizations, as well as of ministries and some expert institutes ("tripartite plus"). It meets once a month and its purpose is to create a common awareness of economic factors and developments among stakeholders. It commissions studies on important topics and hears different experts in the sphere of economics. The Council also monitors international data, European Commission (EC) initiatives and OECD trends.

The role of the Economic Council, especially in the crisis period, is not easy to describe. The trade union representatives considered that the “income and cost development Secretariat”, under the Ministry of Finance, was an important cooperation forum between labour organizations, economic experts and Government officials, and that it was more relevant than the Economic Council, which only has an advisory and consultative capacity – although it has clearly helped in building consensus among stakeholders on economic trends.²⁷ This has supported the major structural reform process. There were no significant changes in the Council’s functioning during the economic crisis – although possibly the subject of short-term economic problems was more prominent in its meetings during the early years of the crisis. At present, the main issue is the long-term solution to problems.²⁸

On the basis of the review of memoranda (State Council, 2015), the role of the Government’s Economic Council is rather moderate and consensus-oriented. However, there is also the longstanding Information Committee on Cost and Incomes Development (TUKUSETO), which is a tripartite body under the auspices of the Ministry of Finance. This body monitors the implementation of labour market policies, and it has challenged the Government’s statistical comparisons of industrial productivity and economic outlook with other countries (TUKUSETO, 2014). One of its criticisms concerned the validity of drawing comparisons with countries having different kinds of industrial structures.

The EU Semester, launched in 2010, implements EU steering policy, according to which each Member State produces annual National Reform Programmes (NRPs) on economic policies and Stability Programmes, on the basis of the Commission’s Annual Growth Surveys, analytical country reports, country-specific recommendations and other EC guidelines.²⁹ In 2015, Finland was not included in the EC’s Excessive Deficit Procedure, but still had imbalances requiring monitoring and policy action.

In Finland, European Semester Officers were appointed somewhat later than in other countries, and not long before this study was undertaken. The procedures were not yet fully established. Although the EU Semester process is recognized as an important opportunity to monitor and compare Finland’s economic progress with other EU countries, it is not yet serving as a vehicle for domestic dialogue. The country reports seem to have been mostly prepared by Government ministries, without wider dialogue with stakeholders.

A number of issues were identified that seem to confirm the strengthening of the EU Semester process. First, reports and Finnish policies both seem to reflect EC recommendations and other guidelines more today than they did at the start of the financial crisis. Second, the EU Semester Officers have clearly become more active, and both formal and informal discussions are ongoing. Third, there have been high-level discussions concerning the possibility of opening up the Semester process to parliamentary debate, and even civil dialogue, to correct its lack of democratic participation at national level.

²⁷ Interview with AKAVA.

²⁸ Interview with the Economic Council representative.

²⁹ Based on interviews with EU Semester Officer and Member of Parliament, and own observations.

4. Industrial relations and collective bargaining in the post-crisis period

4.1 Impact of the crisis on collective bargaining

This section will provide a deeper analysis of the “Social Agreements” that were signed during the economic crisis, as discussed in the previous section. Before the onset of the crisis in 2007, the Finnish tradition of centralized agreements that had begun in 1968 came to a halt when the private sector employers’ association, the EK, declined to negotiate a new national agreement – on the grounds that they wanted greater flexibility in negotiations in order to better accommodate the individual needs of different industries and companies. As a result, industry-level bargaining predominated during the period 2009-10, although the employers’ central union retained a coordinating role. However, in 2011, in response to the worsening economic climate, the social partners agreed on the aforementioned tripartite framework for a new centralized national agreement on wages and working conditions. This agreement, while covering a range of non-pay issues, mainly set guidelines for negotiations at industry-level – but in contrast to the previous general incomes policy settlements, under which all workers were covered, the “2011 framework agreement only applied to industries having existing collective agreements” (ETUI, 2016).

The second centralized agreement was signed in October 2013, entitled “the Pact for Employment and Growth”. This provided for small pay increments over a two-year period and also covered non-pay issues, such as changes in social insurance contributions and unemployment benefit rules. Despite this development, the views of the employers’ and workers’ central organizations differed with respect to the significance of these agreements: first, because they were called “framework agreements” in 2011 and 2013 rather than “national incomes agreements”; and second, due to their apparently more restricted coverage.

During the crisis, no amendments were made to the legislation concerning collective bargaining. But the new Government that assumed office in May 2015 introduced a number of changes to be agreed with the social partners, aimed at revitalizing the economy and increasing competitiveness, in particular by cutting labour costs and social security, and promoting local-level bargaining. Nonetheless, major disagreements have emerged over the past year regarding the measures necessary to address the crisis. These concern, inter alia, the Government’s proposals to boost competitiveness through new legislation to set limits on what may be collectively agreed with regard to annual leave and holiday bonuses. The social partners fear that such mandatory legislation would significantly limit their freedom to negotiate. Furthermore, the strategic programme set out by the new Government stated that if the social partners did not conclude a ‘Social Agreement’ (or a ‘competitiveness pact’) on measures to improve Finland’s competitiveness, fiscal consolidation measures of 1.5 billion Euros would follow (Tönnies Lönroos, 2015).

In March 2016, the Government approved the labour market organizations’ proposal for a social contract. The proposition included measures such as extending working time by one day per year and increasing employees’ social contributions. However, the proposal allegedly only results in about one third of the total increase in competitiveness needed, and thus the Government will have to adopt additional measures in any

event. Different scenarios may lie ahead, depending upon whether the central labour organizations are able to build sufficient internal consensus by June 2016 (SAKb, 2016). The situation therefore remains open at the time of writing.

Thus although no structural changes have been made to the collective bargaining system, it is expected that the State will have a strengthened role – particularly in proposing and demanding solutions from labour organizations to economic problems such as pension reform.

Despite these differences, a number of agreements were signed by the social partners during the various stages of the crisis, as may be seen in table 3.2.

Table 3.2 Collective bargaining and other agreements in Finland, 2007–16

Bipartite/tripartite agreement	Main points of the agreement	Role of the State
2007–10 sectoral agreements.	<ul style="list-style-type: none"> Employers' Confederation refused to sign the central tripartite agreement. This led to considerable pay increases and reduced competitiveness through industry-level negotiations. 	<ul style="list-style-type: none"> State not active.
Framework agreement 2011–13 to secure Finland's competitiveness and maintain employment.	<ul style="list-style-type: none"> Much lower wage rises than previously (2.4 per cent and 1.9 per cent in the second year). 	<ul style="list-style-type: none"> Government strongly signalled the importance of strengthened cooperation between the social partners. The main aim was the pension reform. State participates in the financing of unemployment insurance in 2012.
Employment and growth agreement in August 2013 (covering 90 per cent of workers).	<ul style="list-style-type: none"> Modest wage increase of 20 Euros per month + 0.4 per cent after one year. Increase in pension contributions. Pension reform details decided upon. Launch of negotiations on holidays and system of bargaining. 	<ul style="list-style-type: none"> Decrease in unemployment insurance payments. Some incentives for unemployed.
Employment and growth agreement extended in June 2015 (until 1 November 2016).	<ul style="list-style-type: none"> This national wage agreement (covering 90% or all workers) provided for a flat rate increase of 16 Euros per month for salaries below 3,720 Euros and a percentage increase of 0.43 per cent per month for those above it. Employment insurance fee for both employers and employees raised by 0.50 percentage points (to 1.00 and 1.15 per cent of salary respectively). 	<ul style="list-style-type: none"> Short new government period 2014–15 after Prime Minister Katainen's resignation. No major initiatives.

Bipartite/tripartite agreement	Main points of the agreement	Role of the State
Social Agreement (also known as Competitiveness Pact) in February 2016	<ul style="list-style-type: none"> The negotiations were interrupted four times before agreement was reached. The terms include the cutting of public sector holiday pay by 30 per cent, an annual working-time extension without additional compensation, and increases to employees' and decreases to employers' social security contributions (SAK, 2016a). It also contained a preliminary proposal for the 'Finnish model'. 	<ul style="list-style-type: none"> Strong intervention by the State in order to encourage the social partners to sign the 'Social Agreement'.

Source: Author's own elaboration, on the basis of, inter alia, Jokivuori (2013).

The 'Finnish model' that was primarily agreed upon in the 2016 Social Agreement establishes a framework to enable export industries, and other sectors sensitive to international competition, to set limits on wage increases. It is based on the 'Swedish wage model'. In addition, the agreement gave rise to a new round of sectoral-level collective bargaining. The Government is scheduled to review these new collective agreements in the coming months and, if satisfied with the outcomes, will most likely – at least partially – abandon the 1.5 billion Euros proposed fiscal consolidation measures.³⁰

While the crisis is far from over in Finland, the status of the employees' and employers' central organizations is clearly diminishing, despite the conclusion of some partial central agreements. The way that labour organizations are being challenged by forceful Government law making bears witness to this. The most difficult problem still relates to the limited outcomes and benefits of the ongoing negotiations. For its part, the EK has declared its intention of abandoning the central-level agreements, which has given rise to several objections from the workers' side. Some critics have suggested terminating the Confederation's existence sooner or later (Marttila and Pursiainen, 2015). There have been no consequences as yet in relation to the reorganizations/mergers or the role of the central social partners. Discussions concerning a major merger of SAK and STTK, as well as some member unions from AKAVA, into a new peak-level trade union, have not yet come to fruition. The preliminary steps towards this operation began in November 2014, but the difficult negotiation of the new Social Agreement has undermined the process by highlighting the opposing views of each organization's members (Marttila and Pursiainen, 2015).

In short, this return to a centralized system of collective bargaining may not have happened without the crisis. Some support may have come from the joint round table on productivity, attended by representatives from all the labour market organizations in 2007–12. It preceded the joint Working Life 2020 Strategy (2012) by focusing on productivity and working life issues, launching research and development projects, and rewarding organizations.

³⁰ <https://www.eurofound.europa.eu/observatories/eurwork/articles/working-conditions-labour-market-industrial-relations-law-and-regulation/finland-developments-in-working-life-q1-2016> (21 September 2015).

Although collective bargaining in Finland has become increasingly decentralized, the unionization rate among wage earners (figure 3.5), as well as the number of collective agreements and workers covered by them, remains relatively high. While no official statistics are available on the number of collective agreements signed in Finland, a communication by the Ministry of Social Affairs and Health suggests that the number of (binding) sectoral collective agreements in place rose from 140 in 2002 to 165 in 2015.³¹ Thus no radical changes can be reported as yet, but these may occur in the future. It is difficult to understand or predict future changes in industrial relations in the Finnish context merely by looking at labour market statistics, changes in legislation or the content of collective agreements. This is because the rather dramatic central-level contradictions may lead to an increased social and ideological polarization of the population, especially given the fierce internal confrontations of the past and the poor current economic conditions.

Figure 3.5 Unionization rate of wage earners (men and women) (%), 2009 and 2013



Source: Ahtiainen, 2015.

The number of labour disputes has varied considerably between years. However, during the economic crisis, the number of disputes, as well as the number of working days lost, has increased overall (table 3.3). These include the major strikes opposing the Government's plans to impose cuts in 2015.

³¹ Communication by the Ministry of Social Affairs and Health, 3 December 2015.

Table 3.3 Labour disputes, 2006-15

Year	Disputes	Participants	Working days lost
2006	97	48 276	85 075
2007	91	89 729	94 579
2008	92	15 992	16 352
2009	139	50 485	91 899
2010	191	137 526	314 667
2011	163	59 164	127 758
2012	86	14 984	17 254
2013	121	19 567	25 999
2014	128	69 248	40 526
2015	163	134 427	108 911

Source: Statistics Finland (2016).

5. Conclusions

In this study, observations have been made concerning the changing characteristics of Finnish social dialogue in terms of 1) economic developments; 2) tripartite bargaining with the Government involved; 3) consultation with the social partners, including the activities of the consultative committees and the official consultations; and 4) joint actions by the social partners (see table 3.4).

Table 3.4 Summary of the observations

	2008-10	2010-14	2015
Issues	“Decentralization”	“Crisis Escalates”	“Crisis Government”
Economy	<ul style="list-style-type: none"> Moderate increase in unemployment, high increase in Government debt. 	<ul style="list-style-type: none"> Short recovery period and then worsened economy. 	<ul style="list-style-type: none"> Finland exceeded the EU average unemployment rate of 9.5 per cent and funding of welfare became threatened.
Tripartite bargaining	<ul style="list-style-type: none"> Decentralization 2007–10; The Government and employers take charge. 	<ul style="list-style-type: none"> Centralized framework agreements in 2011 and 2013; wage moderation. 	<ul style="list-style-type: none"> Government takes action -> “Social Agreement” proposal and four deadlines; threat of “forceful legislation” to improve Competitiveness Agreement in February 2016.

	2008-10	2010-14	2015
Consultation	<ul style="list-style-type: none"> Government stimulus packages in 2009 and 2010; extending careers and related working groups; struggling with pension reform; social security reform (SATA) in trouble; the Government took the lead, EK was more passive. 	<ul style="list-style-type: none"> Tripartite pension reform 2014; negotiation system and labour disputes law reforms in trouble; successful Career Agreement 2012. 	<ul style="list-style-type: none"> Pension reform continued; sectoral union AKT and EK withdraw from negotiations; the Government promotes local bargaining and introduces cuts, e.g. to unemployment benefits; workers dissatisfied.
Joint actions	<ul style="list-style-type: none"> Workplace Development programme (TYKE) changes. 	<ul style="list-style-type: none"> Working life 2020 programme. 	<ul style="list-style-type: none"> EU Semester process strengthened.
Other developments	<ul style="list-style-type: none"> Governmental tensions; new approaches to unemployment (new Ministry); flexicurity models; privatization debate; local government reform; university reform; Labour Force Service Centres (LAFOS); public expenditure. 	<ul style="list-style-type: none"> Credit rating dropped to AA+; some adjustments in social security; structural political development programme (2013-15) with meagre results; lightening of company taxes and obligations with limited results; PES reform. 	<ul style="list-style-type: none"> Political power changes; major consolidation measures and cuttings in public expenditure; social and health care reform; criticism of the government plans; increase in labour disputes; lack of mutual trust.

Source: Author's own elaboration.

No major changes have taken place in the industrial relations landscape or labour organizations after the partial return to centralized agreements in 2010. However, the Government and the employers have the strong intention to increase sectoral- and company-level negotiations. The role of the State has become stronger with the latest Government – elected in 2015 – with unforeseen consequences for the industrial relations and overall national economy.

One aim of this study was to clarify the “learning” aspect of good practices in the context of social dialogue. While the employers insist on the need for adaptation to the global turmoil, the workers emphasize the need for innovation, education and new strategies. The Government’s programme, as well as the interpretation of the EU Semester policies, broadly covers both views but prioritizes the adaptation goal.

To conclude, major reforms are underway (in 2015) to tackle emerging challenges. Finland is in the midst of major restructuring and demographic changes. Indeed, it would be in a challenging position even without slowing global economic growth and its heavy EU-related financial and political obligations. Finland has distanced itself from its tradition of neutral foreign policy – and a strong political power struggle is taking place

between the various parties. These seem to be bound up with the issue of social dialogue and with the Government's efforts at reform. It is evident that focusing solely on the national social dialogue system is somewhat contrary to the wider EU policy interest, which undoubtedly calls for an integrated transnational perspective on this matter.

The issues at stake are not only the functioning of the labour market but also the ideological basis of the economic model, and negotiating different values among the Finnish population. At the moment, there seems to be a considerable risk that politics may alienate people more than ever before, if the "Social Agreements" fail to deliver. This fear has been reflected in the way that the Government has made great efforts to engage with the social partners. It remains very unclear, however, whether there is sufficient solidarity behind the Government's reform programme for it to succeed.

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Appendix

List of persons interviewed for the study

Government

Riitta Myller, Member of Parliament

Pekka Sinko, Secretary General of the Economic Council

Employers' Organizations

Leila Kurki, Finnish Confederation of Salaried Employees (STTK)

Eugen Koev, Confederation of Unions for Academic Professionals in Finland (AKAVA)

Minna Etu-Seppälä, Confederation of Finnish Industries (EK)

Workers' Organizations

Erkki Laukkanen, Central Organization of Finnish Trade Unions (SAK)

Raili Perimäki, Central Organization of Finnish Trade Unions (SAK)

Others

Ismo Grönroos-Saikkala, EU Semester Officer, Finland

Seppo Koskinen, Professor, University of Turku