

# ARITAKE-WILD

Joint European Level Social Partners'  
Work-programme 2009 – 2010

Joint Study on Restructuring in the EU27  
Final Phase

Finland  
National Dossier

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**National Dossier - Finland**

**Author's note**

As the author of this draft report I would like to thank the project co-ordinator on behalf of the Finnish social partners, Antti Aarnio at SAK for the excellent support in the context of preparing this report and organising the study visit to Helsinki in January 2009. I would also thank the social partner representatives who provided important information and advice in the context of the joint meeting in Helsinki. Finally, I would like to thank Mika Maliranta at the Research Institute of the Finnish Economy and Jaakko Kiander, director of the Labour Institute for Economic Research as well as Pekka Tiainen at the Ministry of Labour and the Economy for the support and information provided in the context of the preparation of this report.

*Eckhard Voss*

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## Introduction

This report on the role of the Finnish social partners in restructuring was prepared following the discussion of an initial draft by the national social partners at a seminar held in Helsinki on 5<sup>th</sup> March 2009. The Finnish national seminar was the 21<sup>st</sup> in a series of national seminars that will cover all EU member states by the end of 2009.

The document is presented as an “expert report”. It represents the views of the consultants involved in its preparation and does not purport to represent the views, either individually or collectively, of the Finnish social partners or the Finnish case study company representatives that contributed to it, or those of the European level social partner organisations that were responsible for its commissioning.

The prime purpose of the report is to contribute to the development of a synthesis paper that compares and contrasts the roles of the social partners in restructuring in the countries studied with a view to drawing lessons for the future and to help shape the activities and priorities of the social partners at the European level in this area. It also informs readers on the role played by the Finnish social partners in the process of economic restructuring at the national, sectoral and enterprise levels. By the end of the project, similar national reports will have been prepared and been discussed by the social partners in all 27 EU member states. It is planned to develop an overall discussion document based on the role of the social partners in restructuring in every country in the European Union for consideration by social partner representatives from throughout the EU. A final conference to present the results of the project will be held early in 2010.

Frequently, studies of the role of the social partners in restructuring have focussed on well publicised cases where significant numbers of jobs have been lost in “household-name” companies. In this series of reports it is hoped to capture social partner influence on a broader range of restructuring activities that involve not only major job losses in private sector companies, but also what we have chosen to call “silent restructuring”. Silent restructuring includes change processes that have affected significantly the nature of work undertaken within a company or public sector organisation without major job loss. It also describes the changes taking place in small and micro enterprises that typically fall below the radar of official redundancy statistics. In this way the overall study will seek to capture how the social partners have influenced both the quantitative and qualitative effects of anticipating and managing economic restructuring.

The main body of the report is presented in three sections;

- ✧ Section one – a macroeconomic review of restructuring;
- ✧ Section two – the role of the social partners in restructuring;
- ✧ Section three – case studies.

The first two sections of the report were briefly presented and discussed at the national seminar. The Finnish social partners were asked to comment on the accuracy of the report; to suggest areas that might be “over” or “under” stated or omitted; and to assist in the drawing of overall conclusions on the effectiveness of the Finnish social partners at all levels in the anticipation and management of restructuring. Individual cases of restructuring were presented by company representatives (both from the management and employee sides) directly involved. Based on these presentations and other available information, case study reports were prepared and are included in the third section of

this report. This final national report takes into account the content of the meeting, but remains nonetheless an “independent expert report”.

Finally, it should be noted that the ultimate audience for this document is “non Finnish” and the authors therefore apologise to the national seminar participants for providing elements of detail and background that may appear obvious or superfluous to the Finnish reader. The inclusion of this material is essential however if the broader objectives of the project described above are to be accomplished.

*Alan Wild, Expert Coordinator of the Project*

## Section one: A macroeconomic review and trends of restructuring in Finland

Finland today has an extremely good record on a number of economic, social and economic indicators in the European Union (which it joined in 1995); in the Euro Zone (adoption of the Euro took place at the beginning of 2002) and globally. The Finnish economy has performed very well in the last decade, with strong GDP growth in a low-inflation environment, rising employment and a sound fiscal position. Finland is also regarded as a role model both for having managed the severe structural economic disruptions which occurred in the early 1990s successfully and in benefiting from the opportunities provided by globalisation.

A recent OECD survey on Finland stressed in particular the following features of the “Finnish way”:

“(...) these include openness to international trade and foreign direct investment, a high education level of the population, and a strong innovation record. Indeed, top Finnish firms (...) have been flexible and innovative in taking advantage of these opportunities through outsourcing and specialization. Moreover, the government plays a key role in easing the pain that economic restructuring can involve (...)”<sup>1</sup>

With the active involvement of social partners, Finland has developed a particular variant of flexicurity called “change security” which is based on a combination of measures to strengthen competitiveness, education standards, active employment policies and strong social safety nets. Less well known than the so-called Danish “golden triangle” or the Swedish “job security” approaches, the Finnish case is particularly interesting since the “change security” model emerged from responses to the severe economic crisis which hit Finland in the early 1990s.

Alongside clear evidence of success, concerns about weaknesses in the Finnish model of change have been identified by Finnish and other commentators. Compared with other Nordic countries unemployment remains relatively high and contains a significant structural dimension. Alongside Finland’s high unemployment are simultaneous labour shortages, in particular in the fast growing area of private services. The challenges of population ageing and rising health costs pose challenges for the municipal authorities that bear the main burden for health and old age care. Finally, the Finnish industrial sector has come under increased pressure as a result of recent restructuring activity in the forestry, pulp and paper and telecommunication industries.

These structural weaknesses must be considered alongside the sudden and recent economic shock that has hit Finland as the global economic and financial crisis unfolds<sup>2</sup>. The Finnish social partners and academic observers regard the current economic crisis and the expected decline in industrial output to be comparable to the economic depression of the early 1990s ... and the most severe “test case” for the Finnish model to date.

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<sup>1</sup> OECD Policy Brief: Economic Survey of Finland 2008, p. 3.

<sup>2</sup> The report was drafted in March 2009

# 1 Macro-economic review and indicators

## i) Population

At the end of 2007 the total population of Finland was 5.3 million making it one of the most sparsely geographically populated countries in Europe. Finland's population has always been concentrated in the southern parts of the country, a phenomenon which became even more pronounced after 20<sup>th</sup> century urbanisation. The biggest and most important cities in Finland are the cities of the Greater Helsinki urban area comprising Helsinki, Espoo and Vantaa. Other large cities are Tampere, Turku and Oulu.

The share of foreign citizens in Finland is 2.5% - among the lowest of the European Union countries. Most non-Finns are Russian, Estonian and Swedish. In the course of 2007 Finland's population grew by 23,500 and this increase was the largest since 1992. For the first time since Finland's independence, the country's migration gain from abroad contributed more to the increase in population than natural growth.<sup>3</sup>

The challenges facing Finland in the context of the ageing population are more pronounced than in any other European country. According to Eurostat, by 2020 Finland will have the highest old-age dependency ratio in Europe.

### Old-age dependency ratio 2000 – 2020 (projected)

(Population aged 66 and over as a percentage of the working age population (16-64))

	2000	2010	2020	Change 2000-2020
Finland	25.9	29.7	41.4	15.5
Denmark	25.5	29.6	35.7	10.2
Sweden	30.9	33.8	39.8	8.9
Germany	28.0	34.1	38.6	10.6
EU-15	28.3	31.4	37.3	9.0

Source: SAK: Finland Statistics 2006, p. 48, based on Eurostat data.

In 2007, Finns born in 1948 were already the country's largest single population by birth year. At the same time life-expectancy has increased rapidly. Against this background, the Finnish government regards population ageing as the "biggest challenge in the years and decades ahead":

"The baby boomers are now reaching retirement age, and neither younger age groups nor immigration will be able to replenish the dwindling labour supply. The latest population projections by Statistics Finland indicate that by 2050, the working age population (ages 15-64) will decline by more than 250,000, and at the same time the population aged 65 or over will grow by more than 700,000."<sup>4</sup>

## ii) GDP development, wealth and social cohesion

GDP growth in the first half of the 1990's reflected the deep economic crisis the country went through at the time. Since then Finnish GDP annual growth rates have been significantly above the EU average level have exceeded the level of other Nordic countries and the United States. Economic growth in Finland was above 4% in 2006 and

<sup>3</sup> For more information on population and labour force, visit [http://www.tilastokeskus.fi/til/vrm\\_en.html](http://www.tilastokeskus.fi/til/vrm_en.html).

<sup>4</sup> Finnish Ministry of Finance: Stability Programme update for Finland 2008, Helsinki, p. 7.

2007, contributing to a further acceleration in GDP per capita towards a slightly higher average level than the other Nordic countries and significantly higher than the EU and Euro area. In 2005, GDP per inhabitant in Finland was € 25,900 which places the country in ninth place in the EU, slightly higher than Germany in tenth place.

The Finnish wage level is around the European average and its rate of growth is significantly below the level of productivity increase. Prices in Finland are higher than average, and this reduces the purchasing power of Finns. However, as indicators of social cohesion show, Finland is characterised by a balance of economic objectives in order to maintain and increase the effectiveness of the economy on the one hand and the typical “Nordic values” of equality and social cohesion on the other. This means that although productivity growth determines the overall development of economic resources, employment is fundamental to welfare and that a fair distribution of income is more easily realised when the greatest possible proportion of the working-age population obtains its income from gainful employment. Employment is a key factor in Finnish attitudes toward well-being, inclusion and happiness.

**GDP at constant prices (annual percentage change)**

	5-year averages				2006	2007	Estimates 2008	EU Commission Forecasts	
	1992-96	1997-01	2002-06	2009				2010	
<b>Finland</b>	<b>1.3</b>	<b>4.6</b>	<b>3.0</b>	<b>4.9</b>	<b>4.5</b>	<b>1.5</b>	<b>- 1.2</b>	<b>1.2</b>	
Denmark	2.6	2.4	1.8	3.3	1.6	- 0.6	- 1.0	0.6	
Sweden	1.2	3.3	3.2	4.2	2.5	0.5	- 1.4	1.2	
USA	3.3	3.5	2.7	2.8	2.0	1.2	- 1.6	1.7	
EU area	1.4	2.9	2.0	3.1	2.9	1.0	- 1.8	0.5	
Euro area	1.5	2.8	1.7	2.9	2.7	0.9	- 1.9	0.4	

*Source: EU Commission: Interim Forecast, January 2009, Directorate-General for Economic and Financial Affairs.*

There are however concerns about current trends with regard to equality and “Nordic values”: According to a recent survey conducted by the OECD, the gap between rich and poor has widened more in Finland than in any other wealthy industrialised country over the past decade. The survey indicates that income disparities grew particularly quickly in the period of economic recovery from 1995 – 2005. The report also notes that Finland is one of the few countries where inequality of incomes has also grown between the rich and the middle-class, and not just between rich and poor.<sup>5</sup> At the same time it should be stressed that in 2005 income disparities in Finland were still overall amongst the lowest in the world. Finland is ranked seventh, and its neighbours Denmark and Sweden have the lowest income disparities in the world.

iii) The ranking of Finland in global and European indicators

In comparisons of international competitiveness, Finland ranks consistently among the world’s top nations. In the Global Competitiveness Ranking of the World Economic Forum in 2008 Finland rated sixth and held first place in measures of the basic requirements of doing business (such as institutions, infrastructure, macroeconomic stability and education). According to the Global Competitiveness Report, Finland is one of the world’s leading innovation-driven economies. Finland also leads in provision of

<sup>5</sup> Helsinki Sanomat, International Edition – Business & Finance, 13.11.2008.

primary and higher education and training where it outperforms both Denmark and Sweden.

A marked difference between the three Nordic countries relates to labour market flexibility. While Denmark is ranked highly on labour market flexibility (4th), Finland (23<sup>rd</sup>) and Sweden (26<sup>th</sup>) rank significantly lower, although both countries are rated more flexible than other important EU countries (e.g. Germany: 58<sup>th</sup>, France: 105<sup>th</sup>, Italy 126<sup>th</sup>). This means that labour market efficiency in the Nordic countries outweighs any perceived rigidities in wage setting, high non-wage labour costs and expensive hiring and firing costs.

The UNDP Human Development Index (HDI) looks beyond economic figures to a broader definition of well-being and quality of life providing a composite measure of three dimensions of human development: living a long and healthy life (measured by life expectancy); being educated (measured by adult literacy and enrolment at primary, secondary and tertiary education); and having a decent standard of living (measured by purchasing power parity (PPP), income). The HDI for Finland in 2005 (latest available data) was 0.952, e.g. a rank of 11<sup>th</sup> out of 177 countries.

#### Finland's ranking in the UN Human Development Index 2005

HDI value	Life expectancy at birth (years)	Combined primary, secondary and tertiary gross enrolment ratio (%)	GDP per capita (PPP US\$)
1. Iceland (0.968) 9. Netherlands (0.953) 10. France (0.952) <b>11. Finland (0.952)</b> 12. United States (0.951) 13. Spain (0.949)	1. Japan (82.3) 19. Cyprus (79.0) 20. UK (79.0) <b>21. Finland (78.9)</b> 22. Greece (78.9) 23. Belgium (78.8)	1. Australia (113.0) 2. New Zealand (108.4) 3. Denmark (102.7) <b>4. Finland (101.0)</b> 5. Ireland (99.9) 6. Canada (99.2)	1. Luxembourg (60,228) 12. Netherlands (32,684) 13. Sweden (32,525) <b>14. Finland (32,153)</b> 15. Belgium (32,114) 16. Australia (31,794)

Source: UNDP 2008

With regard to the implementation of the Lisbon strategy, Finland is also towards the top of the European and world league tables. In the Lisbon Review 2008 of the World Economic Forum, Finland is in third position after Sweden and Denmark with regard to the implementation of the Lisbon targets. Finland does particularly well in the policy fields of innovation and R&D, enterprise environment and sustainable development (1<sup>st</sup> place) and social inclusion (2<sup>nd</sup> place).

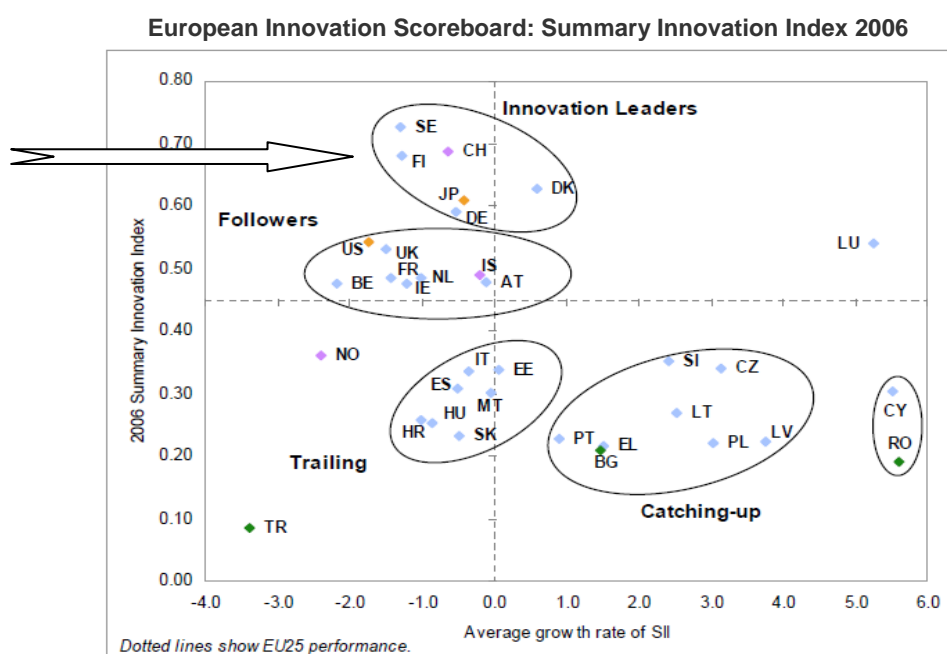
#### Progress on the Lisbon Indicators 2008

Country	Final Index		Sub-indexes							
	Rank	Score	Information Society	Innovation and R&D	Liberalization	Network Industries	Financial Services	Enterprise	Social Inclusion	Sustainable Development
Sweden	1	5,71	1	2	3	4	1	7	3	2
Denmark	2	5,64	3	3	4	2	2	6	1	4
<b>Finland</b>	<b>3</b>	<b>5,64</b>	<b>7</b>	<b>1</b>	<b>6</b>	<b>6</b>	<b>4</b>	<b>1</b>	<b>2</b>	<b>1</b>
EU-15		5,07								
EU-27		4,73								

Source: World Economic Forum: Lisbon Review 2008.



Finally, it should be noted that according to the results of the European Innovation Scoreboard, Finland also one of the “innovation leaders” group in Europe together with Sweden, Denmark, Switzerland, and Germany (see below).



Source: European Innovation Scoreboard 2006. Maastricht Economic Research Institute on Innovation and Technology (MERIT) and the Joint Research Centre (Institute for the Protection and Security of the Citizen) of the European Commission

#### iv) The structure of the Finnish economy

Although Finland mirrors the broad European trend towards a service sector based economy (services accounted for 64.2% of GDP in 2007 of which 47% came from the private sector), Finland still is characterised by a strong secondary sector (32.6%, of which 26.2% is in industry, 6.4% in construction) and also a significant primary sector contributing 3.2% to the national GDP in 2007.

#### Gross domestic product by industry (%) 1998 - 2007

	1998	2002	2006*	2007*
Agriculture, forestry, hunting and fishing	3,5	3,4	2,8	3,2
Industry	28,4	27,3	26,3	26,2
Construction	5,3	5,2	6,0	6,4
Trade	10,1	10,3	10,5	10,3
Hotels and restaurants	1,4	1,4	1,5	1,5
Transport, storage and communications	10,1	11,0	10,1	9,8
Financial intermediation	3,6	3,4	2,6	2,9
Real estate and business activities	15,7	16,9	18,1	18,2
Administration, compulsory social security	5,1	4,9	4,9	4,7
Education	5,0	4,8	4,8	4,7
Health and social work	8,1	8,0	8,6	8,4
Other services	3,7	3,5	3,7	3,7
Gross domestic product at basic prices	100	100	100	100

\* Preliminary data;  
Source: Statistics Finland. National Accounts.

v) The position of small and medium sized companies

As in other EU countries, most enterprises in Finland are small. In 2007, more than 63% of all employees were employed in the micro, small and medium sized enterprise sector while only 37% worked in companies with more than 250 employees. In total, only around 290 enterprises employed more than 250 employees. At the same time the large enterprise group almost 29% of the workforce and generated around 40% of the total turnover.

**Enterprise structure by size-groups, 2007**

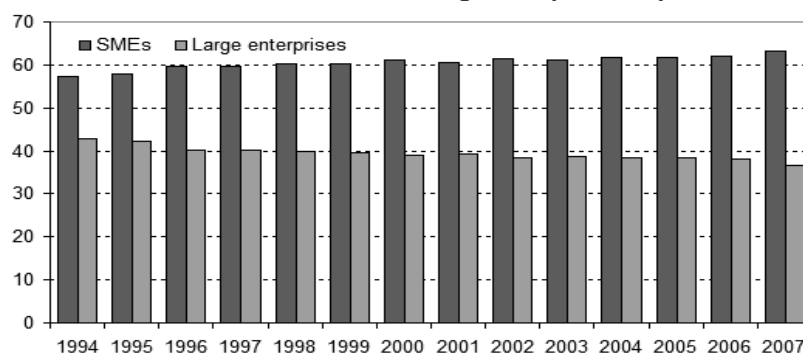
	Enterprises	%	Personnel	%	Turnover	%
0 – 9	290.963	94,2	405	27,3	60.617	16,2
10 – 49	14.891	4,8	288	19,4	60.222	16,1
50 – 249	2.420	0,8	243	16,4	64.734	17,3
250 – 499	355	0,1	122	8,2	38.915	10,4
> 500	288	0,1	424	28,6	150.101	40,1

Source: Statistics Finland, Business Register 2007

The share of the SME sector in Finland has grown continuously since the mid-1990s – while the employment share in 1994 was around 58% it increased since then to more than 63% in 2007 according to official data.

It should also be noted in this context that the Finnish business population is characterised by a high number of sole entrepreneurs who run around 50% of all companies in Finland. These one-person enterprises often work in networks and tend not to grow over time as employers.

**Shares of small and medium-size, and large enterprises of personnel 1994-2007, (%)**



Source: Business Register. Finnish enterprises 2007. Statistics Finland

vi) Employment and unemployment

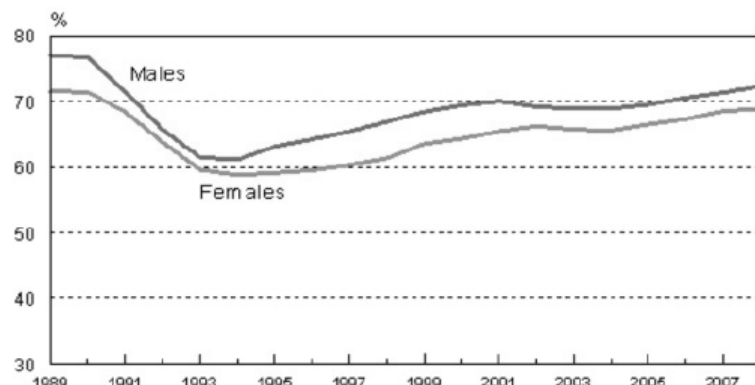
According to Eurostat figures, in 2007 Finland reached an overall employment rate of 70.6% in the 15 to 64 year age range and, alongside Denmark, Sweden, the Netherlands, Austria and the United Kingdom, is one of the Member States that has met the overall EU target for 2010 of an employment rate of 70%.

Finland quite easily achieves EU targets on the female employment rate (more than 60%) and the employment rate of older people (more than 50%). In 2006, the female employment rate was 67.3% and the older persons' employment rate was 54.5% with both rates significantly increasing since 2000 (female rate: +3.1%, older people rate +12.9%). Employment rates in Finland have traditionally been very high for both men and women, suffering a sharp slump during the 1990's economic crisis before recovering in more recent years (see figures on next page).

Employment development in Finland since the early nineties has been characterised by two phases. The Finnish economy plunged into a deep slump, with a decline in GDP by 6.2% in 1991 after a period of rapid growth in the 1980s and unemployment grew more

drastically in Finland than in any other OECD country since the Second World War.<sup>6</sup> Unemployment increased from 3.2% in 1990 to a peak of 16.6% in 1994 with more than 400,000 people unemployed. At the same time the employment rate declined to less than 60% and the number of employed people fell by 18% (or 450,000). Around 5% of the labour force became economically inactive in the labour market. During that crisis, several industries saw a drastic fall in employment – the construction sector lost half of its workforce and manufacturing, trade, hotels and restaurants approximately a quarter. Generally, men were hit harder than women by unemployment since male-dominated industries were more negatively affected.

#### Employment rates by sex in 1989-2008, 15-64 year old



Source: Statistics Finland, Labour Force Survey.

When the economic slump ended in 1993 and 1994, Finland experienced seven years of rapid economic growth with an annual GDP growth of 4.5% between 1994 and 2000. In this period employment rose again by a total of 313,000. Though GDP growth slowed down after 2001 the employment rates continued to rise, though not re-achieving the high water mark of 1990. Since 2000 the number of unemployed persons has continuously decreased – from 253,000 to 171,000 in 2008 with an unemployment rate down from 9.6% to 6.4%.<sup>7</sup>

Though part-time work in Finland is becoming more and more important, the share of part-time employment is below both the EU average level and the respective figures for Sweden and Denmark. In 2006, only 14% of all employees worked part-time in Finland compared to an EU average of 18.1%. Finland shows significantly smaller shares than Denmark (23.6%), Sweden (25.1%) or the UK and Germany (around 26%). As a result, the Finnish full-time employment rate is among the highest in Europe.

#### Employment indicators 1995 - 2006

Country	Employment rate			Full-time employment rate			Part-time employment		
	1995	2000	2006	1995	2000	2006	1995	2000	2006
EU 27	---	62.2	64.3	---	58.2	58.9	---	16.2	18.1
EU 15	60.1	63.4	66.0	55.6	58.0	59.3	15.8	17.7	20.8
Sweden	70.9	73.0	73.1	63.9	65.1	66.6	20.5	19.5	25.1
Denmark	73.4	76.3	77.4	66.8	69.3	69.0	21.8	21.3	23.6
Finland	61.6	67.2	69.3	56.5	64.9	66.2	11.6	12.3	14.0

Source : EU Commission: Employment in Europe 2007

<sup>6</sup> Figures from: "Finland's response to the challenge of globalization". Prime Minister's Office, 2006, p. 88.

<sup>7</sup> Statistics Finland, Labour Force Data as of December 2008.

vii) Labour productivity, labour costs and compensation

From 2000 to 2006 the average annual increase in overall Finnish labour productivity was 2.1%, significantly above the average increase rates of the EU-15 (1.3%), the United States (1.9%) and also Denmark (1.7%), Sweden (2%) and Germany (1.7%)

**Annual Change of labour productivity 2000 - 2008**

	2000	2001	2002	2003	2004	2005	2006	2007	2008
EU-15	1,9	0,6	0,6	1,0	1,8	1,0	1,6	1,5	1,5
USA	1,6	0,5	2,7	2,7	3,0	1,8	1,4	0,9	2,1
<b>Finland</b>	<b>2,7</b>	<b>1,1</b>	<b>0,7</b>	<b>1,7</b>	<b>3,3</b>	<b>1,5</b>	<b>4,0</b>	<b>2,0</b>	<b>2,0</b>
Denmark	3,1	-0,1	0,5	1,7	2,1	2,4	1,3	1,9	2,1
Sweden	1,9	-0,8	1,8	2,0	4,7	2,5	2,4	1,6	2,3
Germany	2,3	1,4	1,1	1,5	1,7	1,5	2,5	1,7	1,8

Source: EU-Commission: *Employment in Europe Report 2007*

Labour productivity can be improved by increasing the capital stock, and/or modernising it by innovation and/or by improving the skill level of the labour force. As studies in productivity development in Finland have shown, the impressive Finnish growth performance after the recession in the 1990s can be explained largely by the latter factors, in particular innovation and improved human capital.<sup>8</sup> In particular the following four factors have been described as crucial factors in productivity growth in the decade after 1994:

- ✧ Productivity growth was heavily concentrated in some industries, in particular the manufacturing of electrical equipment;
- ✧ Productivity growth changed from extensive growth due to increasing capital to more intensive technical progress and the improvements in total factor productivity, referred to as “creative destruction”;
- ✧ Productivity growth benefited from reallocation of resources towards more productive firms;<sup>9</sup> and
- ✧ Improvements in the quality of labour increased productivity growth.

As a result of stable and continuous growth in labour productivity real unit labour costs in Finland between 2000 and 2008 decreased by -1.2%. Compared to the EU-15 average (-3.0%), Denmark (-3.4%) or Germany (-5.9%) the decrease in labour costs in Finland was rather moderate.

viii) Educational attainment and qualifications

Finland ranks highly with regard to measures of educational attainment and the qualifications attained by its population. This is illustrated by the following features recorded in a recent OECD survey<sup>10</sup>. With an entry rate into tertiary education of around 76% Finland is in the top five group of OECD countries (OECD average 56%). The

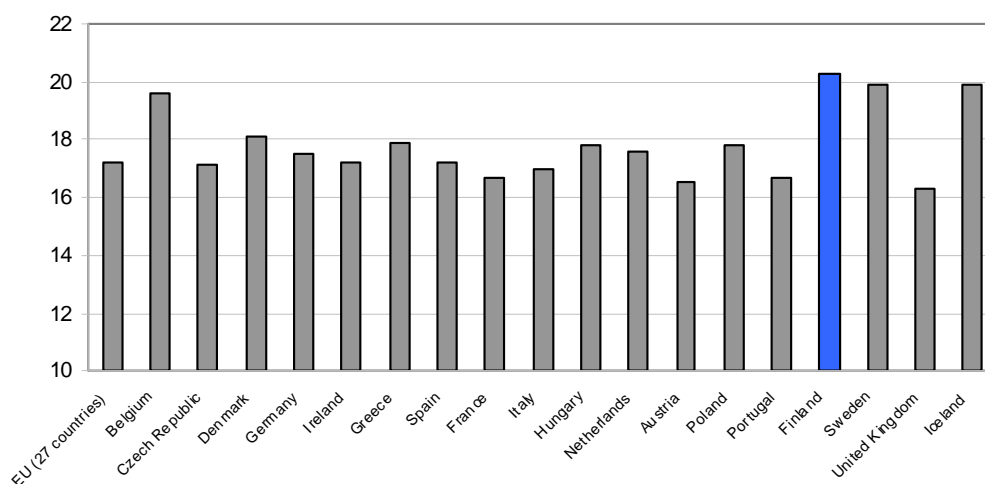
<sup>8</sup> See for example: Honkapohja, S; Koskela, E; Leibfritz, W.; Uusitalo, R. 2006: *Economic Prosperity Recaptured: The Finnish Path from Crisis to Fast Growth*, p. 70.

<sup>9</sup> This process has been described as “creative destruction”: Studies show that the improvements in productivity were achieved to a large degree by the reallocation of resources (including job flows) from the less productive sectors and plants to more productive ones. As shown for example by an empirical study on the manufacturing sector, starting from the mid 1980s the aggregate productivity growth by resource reallocation has been substantially faster than the within plant productivity growth. See: Maliranta, Mika 2003: *Micro level dynamics of productivity growth. An empirical analysis of the great leap in Finnish manufacturing productivity in 1975-2000*, Helsinki.

<sup>10</sup> OECD: *Education at a Glance 2008*.

graduation rate for first degree tertiary programmes of 47% is also significantly above the OECD average. As the following figure shows, Finns are also in first place in the EU with regard to the expected years in education over a lifetime with an average of 20.3 years compared with an EU-27 average of 17.2 years.

**Expected years of education over a lifetime, 2006**



Source: Eurostat

Finland also occupies a high-ranking position with respect to education spending as a percentage of GDP: In 2005, the country was amongst those with the highest financial contribution to support education, with public expenditure on education as a percentage of GDP of 6.3%.<sup>11</sup> However, OECD data shows that there is also a trend of a decreasing investment in education relative to national income: Starting from a comparatively high base by OECD standards, over the period 1995-2005, spending on educational institutions in Finland increased by 36% as compared to an OECD average of 42%. Over the same period, GDP in Finland increased by 43%, which is higher than the 37% on average across OECD. As a result, total expenditure on educational institutions as a share of GDP decreased by 0.30%.<sup>12</sup>

#### ix) Further and continuous education and training

Further and continuous vocational education and training has become increasingly important for both workers and firms, given the long-term trends of structural economic and social change over the past decades. In this context European comparative surveys regularly show very sharp differences among EU member states in terms of levels of training as illustrated in the figure below, based on the European Working Conditions Survey. In 2005, Finland and Sweden ranked joint first in terms of the amount of training received by people at work.

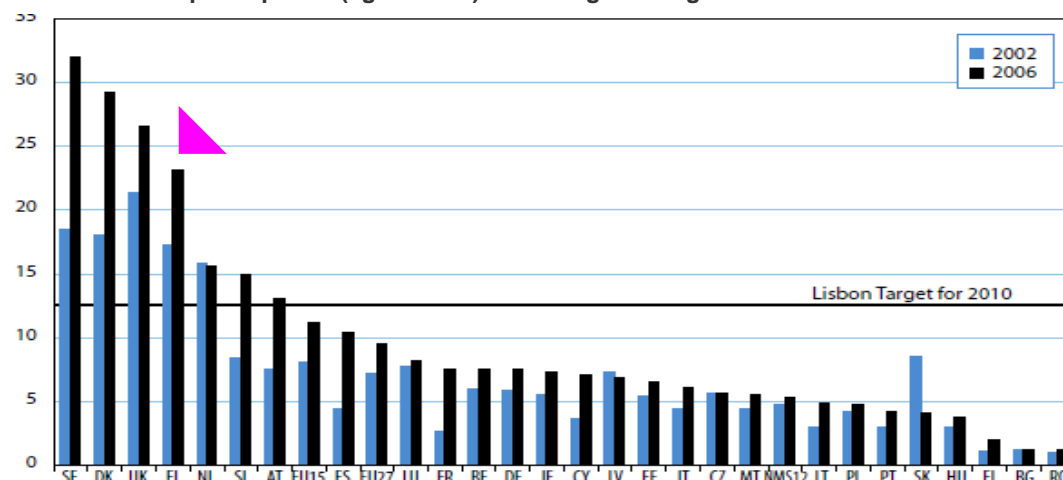
Other data illustrate the top-rank position of Finland with regard to participation rates in job-related training: According to OECD surveys, the total expected number of hours in non-formal job-related training per worker in 2006 was 669 – well above the OECD average of 389 hours, and with employed women expecting more hours in non-formal job-related education and training than employed men (701 versus 637 hours respectively). In line with this the level of participation in non-formal job-related training in

<sup>11</sup> Eurostat: “5% of EU GDP is spent by governments on education”. Statistics in Focus 11/2008.

<sup>12</sup> OECD: Education at a Glance 2008. OECD Briefing Note on Finland, p. 10.

Finland (36%) is twice as high as the OECD average (16%).<sup>13</sup> Finnish workers' participation rate in lifelong learning in the 25-64 age group is more than 25% and comfortably meets the Lisbon target of 12.5%.

#### Trends in adult participation (aged 25-64) in lifelong learning 2002 – 2006



Source: EU Commission: Industrial Relations in Europe Report 2008, p. 60.

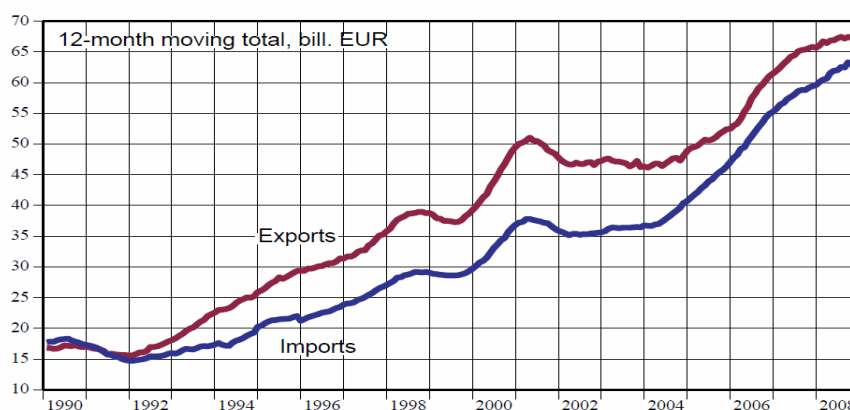
#### x) The development of foreign trade and direct investment

One of the major and most substantial changes in the Finnish economy has been the increasing internationalisation of companies in all sectors. This strong integration into the world economy can be illustrated most easily by comparing foreign trade to GDP: In 2005, exports amounted to 38% of GDP, imports to 35% of GDP.

Exports from Finland in 2007 amounted to € 65,500m (Imports: € 59,500m) and had significantly increased since 2003 after a brief period of decline at the beginning of the century.

Finland's exports of goods is illustrated by the strong position of the electronics and the wood and paper industries – these sectors contribute more than 40% to overall export volumes. In 2007, 37% of Finnish exports were investment goods and more than 46% were raw materials – in both groups of goods the country has a strong trade surplus. The biggest single contributors to foreign trade in 2007 were machinery and transport equipment (42% of total exports and 36% of total imports) and basic manufactures (31% of exports and 13% of imports) illustrating the strong bias of foreign trade towards intra-industrial trade and the internationalisation of production.

#### Development of export and import 1990 - 2008



<sup>13</sup> OECD: Education at a Glance 2008. OECD Briefing Note on Finland, p. 19.

Source: Confederation of Finnish Industries based on Board of Customs data.

Finland's most important trading partners are based in Europe: Russia and Germany were the most important suppliers – in 2007, 14% of Finnish imports came from each of these countries. The third most important supplier was Sweden with a share of 10% in Finnish imports. In fourth position with a share of 7.5% in Finnish imports was China which is now a more important supplier than the UK (import share 5%).

China is also an important export destination with 3.3% of all Finnish exports going there – and enjoying a similar share of the Finnish exports as France (3.4%). The most important export markets however are Germany, Sweden and Russia with 10-11%, followed by the United States (6.4%), the UK (6%) and the Netherlands (5.6%).

The internationalisation of Finnish business is also shown in the robust growth of foreign investment within Finland and in Finnish investments abroad. Foreign direct investment by Finnish companies increased rapidly from the middle of the 1990s to the beginning of this decade, when FDI growth came to an end, only to increase again after 2005. On the other hand, as direct investments in Finland by foreign enterprises have also continued to increase, the difference between investment stocks has diminished since 2000. Nonetheless FDI by Finnish enterprises is still clearly greater than those by foreign companies in Finland.

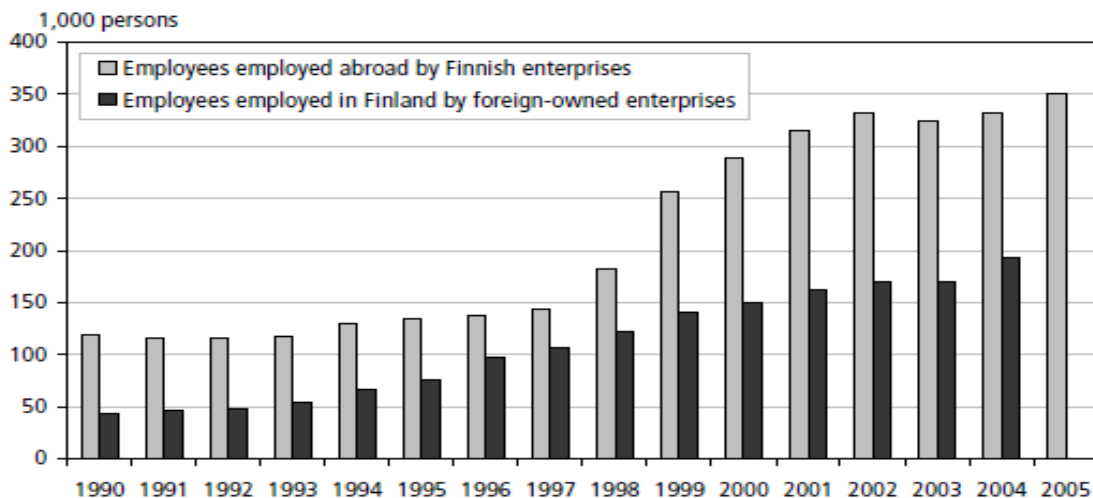
**Investments to and from Finland 1995 – 2004 (€ billion)**

	1995	2000	2001	2002	2003	2004
<b>Direct Investments, investment stock</b>						
Finnish investments abroad	11,0	56,0	59,3	61,0	60,3	59,5
Foreign investments in Finland	6,2	26,1	27,3	32,4	36,6	41,1

Source: SAK Finland, based on Bank of Finland and Statistics Finland data.

In terms of employment, internationalisation is furthest advanced in manufacturing, where the increase in personnel has been especially high. In 1995 the number of employees employed by the foreign subsidiaries of Finnish manufacturing enterprises was approximately 115,000. By 2005 it had increased to nearly 240,000. Altogether, Finnish enterprises employed nearly 350,000 people abroad in 2005.

**The number of employees employed abroad by Finnish enterprises and the number of employees employed in Finland by foreign-owned enterprises (1990 – 2005)**



Source: Prime Minister's Office: Finland's response to the challenge of globalisation, figures based on Bank of Finland and Statistics Finland

It should also be noted that the number of people employed by foreign enterprises in Finland has continued to grow. This development can be considered a positive sign of the strengthening of Finland's position in the competition for enterprise locations.

xi) Macro-economic effects of the current global economic crisis on Finland<sup>14</sup>

The Finnish economy fell victim to the global crisis relatively late and from a strong underlying growth momentum with GDP up by 4.5% in 2007. According to the European Commission's Economic Forecast of January 2009, GDP growth in 2008 was around 1.5% - higher than in the EU and Euro zone (see table in ii above). For 2009, the Commission expects a decline in GDP by 1.2% which would also be more modest than that anticipated in other EU countries. According to the January forecast, employment is expected to decline by about 1.5% in 2009 before stabilising thereafter. The Commission expects a negative impact on unemployment to be somewhat smaller than might be anticipated as population ageing will reduce the labour supply. However, according to the Commission's forecast the unemployment rate is expected to increase from the 2008 rate of 6.4% to 7.8% in 2009 and 8.0% in 2010.<sup>15</sup>

This data suggests that Finland is comparatively better off than many other European countries with regard to the economic effects of the financial crisis and its impact on the real economy. However, according to most recent (February 2009) forecasts of Finnish research institutes, the macro-economic indicators in 2009 and 2010 will be much worse than expected by the European Commission in January. According to a forecast of the Labour Institute for Economic Policy Research PT<sup>16</sup> the economic slump in the last quarter of 2008 was already significantly higher than expected and came as something of a shock. The value of Finnish goods exports collapsed in November (down 20% compared to the level achieved in November of the previous year) and the annual growth rate of industrial production in November-December was negative (-10 to -15%). The Institute is expecting a decline in GDP of 3.7% in 2009 and slightly less than 1% in 2010. In the light of the deterioration of the labour market figures in November and December 2008, it is expected that the rate of unemployment will rise significantly in 2009 and 2010 by a total of 100,000 people. This would result in an unemployment rate of 7.4% in 2009 and 8.8% in 2010.

Compared with the deep economic recession of the Finnish economy in the early 1990s, the drop in exports and industrial production is similar. However, compared to the 1990s crisis, the service sectors – in particular wholesale and retail trades – are not expected to be affected by the same degree. The Labour Institute does not see the pure financial crisis as the main reason for the current "real economy" recession. They suggest the main driving factor to be a spiral of weakening demand rather than the availability of financing. Against this the financial recovery measures announced by the Finnish government in January 2009<sup>17</sup> are criticized as not reflecting the best possible solution to the problem:

"Since the expansionary impetus of fiscal policy is based almost entirely on cuts in taxes and employers' social insurance contributions, not on public investments and other spending increases, the economic policy stimulus to the economy will remain rather modest."<sup>18</sup>

<sup>14</sup> It should be noted that as the other parts of this report, this chapter has been completed by the end of February 2009 thus not taking into account more recent figures and developments.

<sup>15</sup> EU Commission: Interim Forecast, January 2009, p. 41.

<sup>16</sup> Labour Institute for Economic Research: Finnish economy headed for a deep recession. Economic Forecast for 2009-2010, February 3, 2009.

<sup>17</sup> Further details on instruments and stimulus measures with regard to the economic crisis as well as the position of the Finnish social partners will be described and discussed in chapter 3.6.

<sup>18</sup> Labour Institute for Economic Research: Finnish economy headed for a deep recession. Economic Forecast for 2009-2010, February 3, 2009, p. 2.



## 2 The nature and extent of restructuring in Finland

### i) Macroeconomic change

During the twentieth century, Finland has experienced faster growth in production and wealth than in any other European country. In 1913, Finnish income levels were just 60% of the industrial countries' average. Based on the rapid industrial growth of the sawmill industry and then the paper industry, Finland went through a rapid process of catching up. At the beginning of the century Finland's GDP per-capita was significantly lower than that of many South American countries and in 1950 it remained roughly the same as that of Argentina. By the late 1980's, Finnish GDP per capita had exceeded the average income level in the OECD area.

In the 1980s Finland had become aligned economically with a small and relatively rich group of EFTA countries (Austria, Iceland, Norway, Sweden and Switzerland). Unemployment rates in Finland were among the lowest in the OECD countries and employment rates were among the highest. By 1990, the Finnish employment rate had reached 74.1% and unemployment was at the historically low rate of 3.2%.

After a long period of rapid economic growth, at the beginning of the 1990s Finland experienced an unexpected and exceptionally deep economic recession. In 1991 GDP fell and the unemployment rate increased sharply and more drastically than in any other OECD country since the Second World War. In 1994, unemployment reached its peak and at the same time the employment rate declined to 59.9%. During the economic slump the number of employed people fell by 450,000 between 1991 and 1994 (see textbox below).

The 1990s crisis resulted in a major structural change in the Finnish economy. Many low productivity firms which had exported to the Soviet Union and served the domestic market disappeared. The banking sector shed half of its labour force in the process of restructuring. Although all kinds of jobs were affected, low-skilled jobs suffered most.<sup>19</sup>

The recovery from the 1990's crisis was equally remarkable. Economic growth resumed, new firms and industries became prominent and brought affluence again to Finnish society. In a remarkably short period of time Finland experienced a dramatic change from a traditional industrial country largely shaped by the wood and paper industry into a high-tech economy as the illustration on export composition below shows. In the ten years between 1990 and 2000 the share of high-tech exports in total exports rose from about 7-8% to nearly 30%. While in 1990 industrial production and exports were still dominated by paper, pulp, metal products and machinery, by 2000 the electronics industry had become the biggest export industry.

"It is rare that a new dominant industry can grow so quickly. That, of course, was mainly due to the growth of mobile communication revolution. In 2000 Finnish Nokia Group was the world's biggest manufacturer of mobile phones and the Finnish production of telecoms equipment had a global market share of 7%."

*Source: Jaakko Kiander: The Evolution of the Finnish Model in the 1990s: From Depression to High-Tech Boom, VATT Discussion Papers, 2004, p. 12.*

<sup>19</sup> Honkapohja, S.; Koskela, E.; Leibfritz, W.; Uusitalo, R. 2006: Economic Prosperity Recaptured: The Finnish Path from Crisis to Fast Growth, p. 7.

### Finland's "depression" 1990 – 1993

The liberalization of financial markets in the mid-1980s unleashed a credit boom supported by strong capital inflows in 1987-1989. At its peak, in 1988, bank credit grew by almost 30 per cent. A substantial part of borrowing by the private sector was in foreign currency. Monetary policy geared towards maintaining a fixed exchange rate with respect to a currency basket could not reign in monetary expansion, while fiscal policy did not restrain domestic demand markedly, either. The result was an overheating of the economy with booming asset prices, record high investment ratios, the unemployment rate coming down to just over 3 per cent and weakening cost competitiveness.

In 1989, the first strains in the economy emerged, and asset prices started to decline. The already weakening economy was then hit by a series of shocks: rising European interest rates due to German unification in 1989, weaker economic growth in western export markets in general following the Gulf crisis and, finally, the collapse of the Soviet Union, which resulted in the sudden disappearance of a major export market in 1991. The current account deficit increased to almost 6 per cent of GDP. Devaluation speculation increased domestic rates further, and in November 1991 the currency was devalued.

GDP started to decline as early as 1990 and a vicious spiral developed with weaker incomes and higher interest rates reducing domestic demand, causing unemployment, debt service problems for highly leveraged firms and households, bankruptcies, declines of asset prices, further declines in domestic demand etc. The devaluation of 1991 did not remove devaluation expectations and interest rates remained high, finally forcing the flotation of the currency in September 1992. Further depreciation took place, burdening companies that had borrowed in foreign currency. Bank loans turned increasingly nonperforming and had to be written off, resulting in losses that wiped out the capital of many banks. A significant part of the banking system was taken over by the government and the rest was very much dependent on various types of bank support to remain operative. As a result of the slump, about 450,000 jobs or 18 per cent of all jobs disappeared, and the unemployment rate increased to almost 17 per cent, even if many people withdrew from the labour market. Public finances fell deeply into the red, with the general government deficit exceeding 10 per cent of GDP. Central government debt increased from almost zero to over 70 per cent of GDP. Automatic stabilizers were clearly working but discretionary fiscal expansion was ruled out by increasing risk premia and problems of credit availability. Instead, measures were taken to consolidate public finances through expenditure cuts and some tax increases. From early 1993, interest rates began to come down gradually. Exports started to grow in 1991, but only upon the stabilization of domestic demand did GDP resume growth, towards the end of 1993. Unemployment peaked in 1994.

*Source: "Finland's response to the challenge of globalisation".  
Report by the Secretariat of the Economic Council, 2006, p. 158*

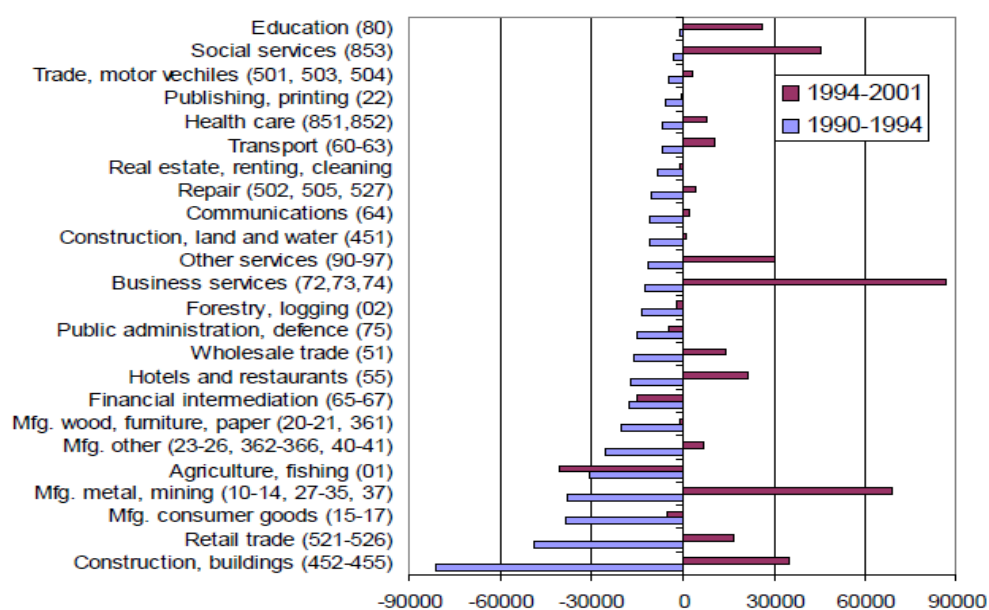
As described in a study on the Finnish economic model<sup>20</sup> the economic recovery and decisive improvement in the competitiveness of Finnish enterprises was based on a policy mix of the following main measures:

- ✧ Currency depreciation in 1992-93 which led to a rapid export growth significantly faster than the recovery of domestic demand.
- ✧ Wage moderation and strong growth in labour productivity, which together helped to reduce unit labour costs in almost every year after 1991. Since 1995, wage moderation has been achieved through agreements between the government and the labour market parties, and supported by tax cuts.

As the following figures illustrate, the recession in the early 1990s resulted in massive job destruction and – in the context of recovery afterwards – new job creation which changed the Finnish labour market significantly. The concentration of job losses in certain industries, in particular construction and manufacturing, is notable. When employment started to increase in 1994, the largest increase occurred in services and manufacturing – largely due to the sharp growth in the electronics industry.

<sup>20</sup> Jaakko Kiander: The Evolution of the Finnish Model in the 1990s: From Depression to High-Tech Boom, VATT Discussion Papers, 2004.

## Change in employment by industry during the recession and recovery

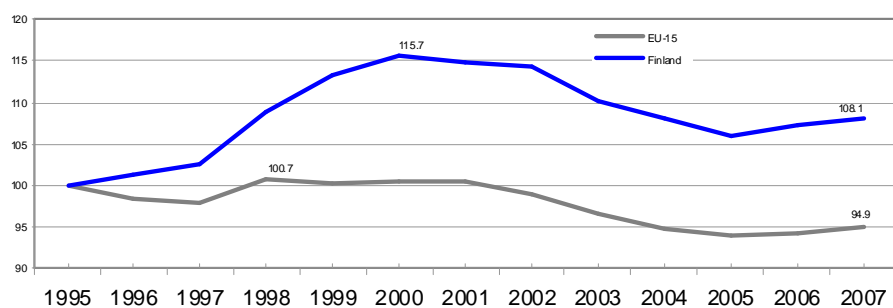


Source: Honkapohja, S.; Koskela, E.; Leibfritz, W.; Uusitalo, R. 2006: *Economic Prosperity Recaptured: The Finnish Path from Crisis to Fast Growth*, p. 76.

### ii) Structural change in manufacturing

Unlike most other Western industrial countries, the share of manufacturing in total production in Finland increased for nearly ten years after the beginning of the 1990s. If Finland is compared to the EU-15 average, the differences in manufacturing employment since the middle of the nineties are striking. At the start of the recovery period between 1995 and 1997 manufacturing employment in Finland increased at a time when it was in decline in the EU-15. After that, and until 2001, employment in Finnish manufacturing showed a strong increase until the phase between 2001 and 2005 when it decreased again. The employment peak was reached in 2000 with 480,000 employees. In contrast to this, manufacturing employment in the EU-15 had already reached its peak in 1998 and experienced a period of stagnation before it declined after 2001. In the period from 2005 until 2007, manufacturing employment in Finland increased again by 2% while the EU-15 manufacturing employment figures show only a slight increase by 0.9%.

### Manufacturing employment in Finland compared to the EU-15 average 1995 – 2007 (1995 = 100)

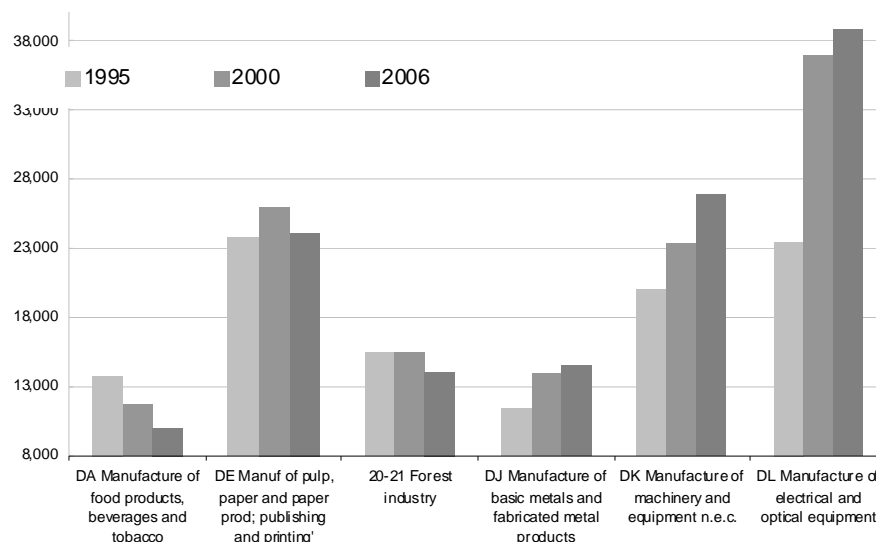


Source: Eurostat Labour Force Data, author's own calculations

After the recession of 1991-1993 a rapid and significant structural change took place in Finnish manufacturing employment. The most striking feature of this change was the rapid growth of the electrical and optical equipment sector (the “Nokia effect”) which functioned as the driving force and quickly became the largest industrial sector in terms of both production and exports taking over this position from the pulp and paper sector. Employment in the manufacturing of electronic and optical equipment between 1995 and 2000 increased by 13,500 jobs and in 2006 amounted to nearly 39,000 and it became the most important single sub-sector of manufacturing. At the same time the production of machines, machinery and vehicles, and basic metals and metal products increased substantially. With around 27,000 jobs, in 2006 the manufacture of machinery and equipment was the second most important sub-sector in Finnish manufacturing.

The structural change in manufacturing has been reflected strongly in the nature of employment. After the depression, growth in manufacturing employment was concentrated in high technology and knowledge-driven production. This also led to an increase in well-paid jobs with higher-than-average skill levels while the number of less demanding jobs stagnated or, in certain sectors, even decreased.

### Employment development in the main manufacturing sectors 1995 - 2006



Source: Statistics Finland

As a consequence of technology based growth since the mid-1990s, Finland has often been described as the most successful model for the introduction of the “New Economy”, i.e. the production and use of modern information and communication technologies. In fact, the substantial structural change in the Finnish economy largely was the result of the sharp rise of the ICT industry (information, communication and technology).<sup>21</sup> This is very clearly illustrated by the rising share of ICT industries in the economy. For example, the ICT share in value added rose from 4.2% in 1980 to 10.6% in 2003 with a particularly strong increase in the second half of the 1990s. There are estimates that the ICT industry alone contributed nearly one third to overall economic growth in the period of 1995-2002<sup>22</sup> and it also contributed substantially to the overall increase in labour productivity in Finnish manufacturing during the 1990s.

<sup>21</sup> See: Dahlman, C. J., Routti, J. & Ylä-Anttila, P. (2006): Finland as a knowledge economy. Elements of success and lessons learned. Knowledge for Development Program, World Bank Institute.

<sup>22</sup> Honkapohja, S.; Koskela, E.; Leibfritz, W.; Uusitalo, R. 2006: Economic Prosperity Recaptured: The Finnish Path from Crisis to Fast Growth, p. 101.

It is well known that a major part of the success story of Finnish ICT industries is due to the phenomenal success of just one company, the Nokia Group – though the full story of course is not only Nokia. However, the domination of the Finnish high-tech sector by Nokia is very striking and makes Finland one of the most unusual countries in the world.<sup>23</sup> The size of Nokia relative to the Finnish economy and society can be measured by various indicators. At the peak of the ICT boom in 2000, it was estimated that Nokia accounted for around 2.8% of the entire Finnish GDP and contributed over 1.6% of the annual growth of the country. In 2001, Nokia's R&D spending was close to one third of total R&D spending in Finland and nearly half of the overall private sector spending on research and development

Compared to this substantial impact on Finnish economic growth and in particular the ICT industry of the country, the direct impact of Nokia on employment is much smaller, although it is by far the biggest single private sector employer. In 2007, the Nokia group in Finland employed around 23,000 employees<sup>24</sup> which is about 2% of total employees in the private business sector.

### iii) Structural change in the service sector

Employment in the Finnish service sector has risen throughout the last two decades (with the largest increases in healthcare, social services and business services). There are however some structural weaknesses in Finnish service sector employment that are regularly mentioned in political and research debates. In terms of the proportion of production and employment, the Finnish private services sector is smaller than in countries at a similar level of development. While the export of services in proportion to the size of the economy is average compared to the EU-15, the proportion of services with respect to total exports remains relatively low in Finland (which of course can be explained by Finland's strong export-oriented manufacturing sector).

A structural weakness often pointed out is the relatively low labour productivity of private services in Finland. The average labour productivity of private services is approximately 5% lower than the EU average, although there are large differences in the productivity of different sectors (labour productivity is above the EU average in financial services and transport and storage, while substantially below the EU average in hotels and restaurants, real estate, business services and telecommunications).

### iv) Outsourcing and Offshoring

*Outsourcing* – In the 2000s, outsourcing became a normal part of business practice. According to a survey conducted in 2006 by the Research Institute of the Finnish Economy<sup>25</sup>, no less than two thirds of companies operating in Finland with more than 10 staff outsourced tasks to other companies at the beginning of the century. Outsourcing has been most common in the wholesale and retail trade sector.

Nearly three quarters of wholesale and retail trade companies have outsourced some of their tasks, but it is also common in the manufacturing and service sectors. According to the survey, and contrary to the generally-held belief, most outsourcing from Finnish companies has been domestic. Operations have remained in Finland, but the party performing them has changed.

Some outsourcing has however been directed at foreign countries. In the industrial sector, offshore outsourcing has been more common than in the wholesale and retail

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<sup>23</sup> On the Nokia story see: See Yrkkö, J. and R. Hermans (2002): Nokia in the Finnish Innovation System, ETLA Discussion Paper No 811.

<sup>24</sup> Second in the league of private employers is Stora Enso, the biggest Finnish paper, packaging and forest products company with a global workforce of 32,000 of which around 10,000 in Finland.

<sup>25</sup> See: Finland's response to the challenge of globalization, Report by the Secretariat of the Economic Council - PART II, p. 60.

trade and service sectors. More than 15% of industrial companies have outsourced tasks to foreign countries. In the wholesale and retail trade and service sectors, offshore outsourcing is notably more unusual.

Outsourcing by Finnish companies is not limited to the more basic tasks. Nearly a quarter of companies conducting research and development have outsourced R&D related tasks. This share is surprisingly large. Often, R&D is considered an activity that companies prefer to only carry out internally. For some R&D, outsourcing is a better solution. R&D outsourcing has generally been at least partly domestic and all companies outsourcing R&D offshore have also outsourced some of it in Finland.

Regarding the main motives of outsourcing, the survey mentioned above suggests three objectives:

- ✧ The most important has been acquiring additional capacity. Through outsourcing, companies can increase their capacity without making investments. The saved investment amount is thus freed up for other uses or investment targets;
- ✧ In part, the objective of acquiring additional capacity is related to another major objective, that of increasing flexibility. For a large part of outsourcer companies, outsourcing offered a solution for increasing their flexibility. The need for flexibility arises from the fact that short delivery times cause major variations in the utilisation of capacity;
- ✧ A third, central objective for outsourcing is obtaining cost savings. Companies aim at lowering their production costs by commissioning manufacturing partly or entirely from other companies.

In part, R&D has been outsourced for the same reasons as manufacturing. Acquiring technology or knowledge has, however, clearly been the most important reason for outsourcing R&D. Companies use outsourcing in order to utilise technological know-how from other companies.

*Offshoring* – After a quiet phase at the turn of the century, the internationalisation of Finnish companies has continued rapidly. In 2000, Finnish enterprises employed a total of 288,000 staff outside the country, and by 2005 this number had increased to a total of 350,000 (Bank of Finland 2005).

The rise in foreign employment is reflected most strikingly in the sharp rise in foreign employment in large Finnish-based firms. While the share of foreign personnel of the ten largest firms was less than 15% in 1983, it increased to over 60% in the year 2002 and has increased further since then. Focussing on the development of employment in the technology industries, in 2008 the Federation of Finnish Technology Industries published data showing that in 2008 the technology industries for the first time employed more people outside than inside the country. Since 1998 the number of employees in technology industries in Finland according to the institute's estimations has grown from 220,000 to 275,000 but at the same time personnel employed abroad has expanded from 110,000 to 280,000.<sup>26</sup> One of the largest sectors for technology employment is the electronics industry with an overall employment of around 200,000 employees. More than two thirds of the workforce in 2008 was employed abroad and only around 63,000 in Finland.

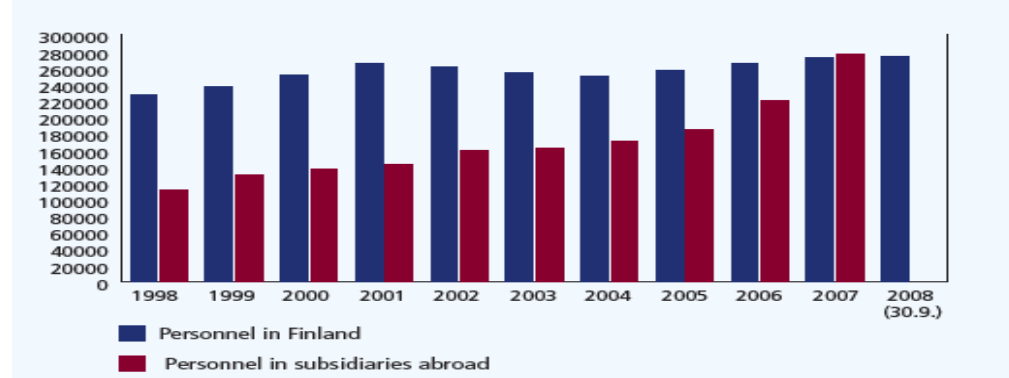
Increases in foreign staff in Finnish companies during the 2000s have been mainly result from the expansion of activities abroad. Offshoring tasks from Finland accounted for a much smaller proportion and there are estimates that just 15–25% of this increase is due to offshoring. It should also be noted that offshoring is bidirectional, i.e. tasks are

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<sup>26</sup> "Finnish technology industry now has more employees abroad than in Finland", Trade Union News from Finland, 26.08.2008.

offshored both from Finland to foreign countries and vice versa since internationalised companies aim at locating each task or subtask in optimal areas.

#### Employees in Finnish technology industries in Finland and abroad, thousands of persons



Source: Federation of Finnish Technology Industries.

The motives for offshoring are diverse.<sup>27</sup> The offshoring of production tasks has nearly always been related to cost savings. In particular, offshoring to lower cost countries (so called “best-shoring”) has been a way of decreasing production costs. Offshoring has also often been targeted at obtaining other savings, e.g. reducing transport costs by relocating manufacturing closer to markets. In addition to costs and logistics, increasing flexibility has also been an essential factor in offshoring production. Increasing flexibility has been a central objective both of offshoring and outsourcing production and close to two thirds of companies that have offshored production tasks have aimed at increased flexibility. Research based on Finnish data indicates that the overwhelming majority of foreign investments made by Finnish enterprises have not displaced domestic investments.<sup>28</sup> However, it has also been noted that the investment rate of domestic enterprises in Finland decreased during the 1990s. The main reason for this was not seen in redirecting investments but a switch from investment-driven growth to knowledge-based growth, i.e. investments rather in R&D and intangible capital rather than in real estate and machines.<sup>29</sup>

#### v) Mergers and Acquisitions

According to a survey carried out by the Labour Institute for Economic Research<sup>30</sup> on the development of mergers and acquisitions in Finland over the period 1989 – 2003, M&A development is clearly dominated by domestic mergers and acquisitions. The share of cross-border mergers and acquisitions in the total is only around 10%. Merger and acquisition developments mirror the major phases and trends in restructuring and economic change in the Finnish economy. For example, the restructuring of the Finnish banking sector during the years of the economic crisis in the early 1990s resulted in a particularly sharp increase in domestic M&As in 1993. The survey also indicates that there was a substantial increase in the number of cross-border M&As during the latter part of the 1990s.

Regarding the sectoral distribution of different types of M&As, the study found that crossborder M&A activity has been most intensive in transport, the wholesale trade, and

<sup>27</sup> See: Finland's response to the challenge of globalization, Report by the Secretariat of the Economic Council - PART II, p. 66/67.

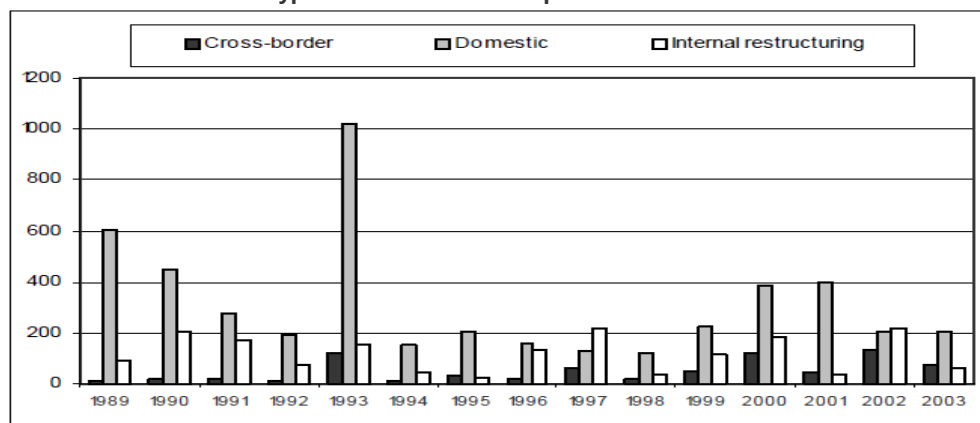
<sup>28</sup> Oksanen, O. (2006): Are foreign investments replacing domestic investments? – Evidence from Finnish manufacturing. The Research Institute of the Finnish Economy ETLA, Discussion Papers No. 1001.

<sup>29</sup> Dahlman, C. J., Routti, J. & Ylä-Anttila, P. (2006): Finland as a knowledge economy. Elements of success and lessons learned. Knowledge for Development Program, World Bank Institute.

<sup>30</sup> See: Lehto, E. and Böckerman, P.: Enemy of Labour? Analysing the Employment Effects of Mergers and Acquisitions, Labour Institute for Economic Research, 15 October 2006.

real estate, renting and business activities. These particular sectors covered around 60% of all cross-border M&As during the period of 1989-2003. The difference in the incidence of cross-border M&As between manufacturing and services is interesting, because most of the earlier studies have used data covering solely manufacturing. Domestic M&As have been most common, by a wide margin, in finance and insurance, reflecting the structural change in the sector during the depression.

**The number of different types of M&As over the period 1989-2003**



Source: *Enemy of Labour? Analysing the Employment Effects of Mergers and Acquisitions*, Lehto, Eero and Böckerman, Petri, Labour Institute for Economic Research, 15 October 2006, p. 14

vi) Public sector restructuring

The public sector in Finland is large in terms of both the number of employees and its share of GDP. Of the total of the approximately 2.4 million employed labour force in Finland in 2004 (including entrepreneurs), nearly one quarter was employed in the public sector (18% in local government, 5.6% in central government and 0.9% in church organisations – which in Finland belong to the public sector).

Central government agencies and departments, their duties, operations and personnel have undergone significant changes over the past fifteen years. The number of employees has been reduced from over 215,000 employees in 1988 to slightly fewer than 124,000 in 2004.<sup>31</sup> Most of this decrease is due to converting government agencies and departments into unincorporated state enterprises, incorporated state companies and municipal companies. Around 5,000 employees work for the national ministries while 20,000 are employed by the 100 or so agencies that are responsible for certain areas of administration. Regional and district offices of the state administration employ a further 55,000 workers.

Against the background of the economic recession in the 1990s, which resulted in a large deficit in public sector finances, public expenditure was cut while efforts were made to retain the heart of the welfare State. This was achieved, inter alia, through the use of modern public management techniques including opening public services to competition, reform of the budget system and more focus on performance management techniques. A recent reform project for example, aims at increasing the productivity of state administration, e.g. by shared service centres. The productivity programme will reduce the number of state workers by 14,500 to 109,000 by 2015.

<sup>31</sup> Ministry of Finance / Commission for Local Authority Employers: *The Finnish Public Sector as an Employer*, 2006.



## Finnish public sector personnel in 2004

	Central government	Local government	Church*
Number of personnel	124,000	431,000	21,400
Women	49%	77%	70%
Part-time	9%	14%	18%
Permanent employees	80%	73%	66%
Officeholders	83%	40%	48%
Labour costs of total expenditure	14%	53%	62%

\*The church figures are for 2005.

Source: Ministry of Finance / Commission for Local Authority Employers: *The Finnish Public Sector as an Employer, 2006, p. 3.*

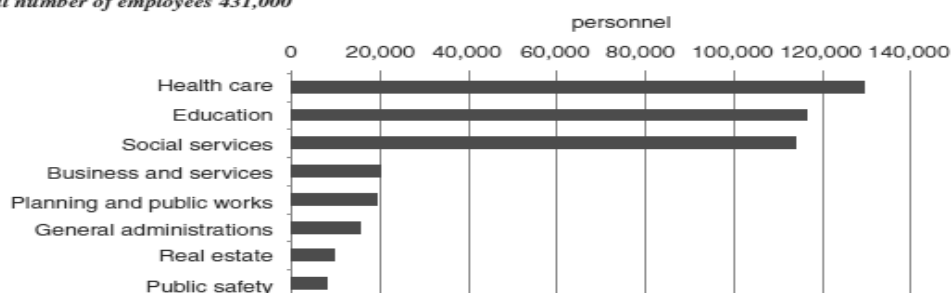
Other major reforms are the reform of regional administration and the university sector. From 2010 universities will be transformed to either entities under public law or foundations, and the 35,000 employees will no longer fall under the state budget. There is also a relocation of between 4,000 and 8,000 employees underway from Helsinki to the regions by 2015.

### Local government restructuring

The most important reform project currently under way in the Finnish public sector is the restructuring of local government and municipal services. Finland is one of the most decentralised – or better localised – countries in the European Union. There are 415 local authorities (1 January 2008) and some 200 joint municipal authorities, all of which are independent employers having far-reaching powers including the right to tax the income of their residents. They have a total budget of over € 30 billion, and combined personnel of more than 430,000. Since the Finnish welfare state is mainly based on municipally produced services, local authorities take care of primary health care, social services such as day care for children, and education services. More than 80% of all local government personnel work in these sectors.

### Local government personnel in 2004

Total number of employees 431,000



Source: Ministry of Finance / Commission for Local Authority Employers: *The Finnish Public Sector as an Employer, 2006, p. 5.*

Local government in Finland is facing major challenges. An important one is how to deal with the increasing number of local authorities with a very low number of residents – there are 81 local authorities with less than 2,000 inhabitants and 173 with 2,000 to 6,000). The sustainable provision of welfare services in a situation where the population ages, the post-war baby boom generation retires, internal migration increases, and where external economic changes pose serious challenges.

Against this, the central government launched a comprehensive restructuring project in 2005.<sup>32</sup> Its goal is to create a system which ensures high-quality municipal services today, and which will remain viable in 2020. The project focuses particularly on the way

<sup>32</sup> Information provided by the “Association of Finnish Local and Regional Authorities”, [www.kunnat.net](http://www.kunnat.net).

local authorities provide services, i.e. on the structural and financial foundation of the system. Coordinated by the Minister of Regional and Municipal Affairs and in cooperation with the Association of Finnish Local and Regional Authorities and, following the traditional Finnish consensus policy, of opposition parties in Parliament, three alternative and quite different possible models were developed (a district model<sup>33</sup>, a regional model<sup>34</sup>, and a model of vital basic local authorities) with the last one chosen for the follow-up work and the implementation of the reform.

The goal of the model of “vital basic local authorities” is to increase the financial resources and population of existing local authorities. On average a local authority would have 20,000 to 30,000 inhabitants – thus the number of local authorities would be cut by around a quarter. Otherwise the duties and the tax and administrative systems would be based on current practise. After the preparation and consultation process, the Finnish Government submitted a proposal for a framework act to Parliament in September 2006 which closely involves the local authorities in the implementation of the reform. By autumn 2007 local authorities had drawn up individual implementation plans and reports, cooperation plans in the 17 urban regions and assessments of how the provision of services is to be ensured in local authorities in a difficult financial situation.

The implementation plans prepared by municipalities must include the following aspects:

- ✧ An analysis of the population and service requirements in the municipality for the years 2015 and 2025;
- ✧ A municipal financial plan, and should it be impossible to cover the deficit during the planning period of the financial plan, an action programme;
- ✧ A report on the coverage of the service network;
- ✧ A plan on the organization of the main municipal functions and the adequacy and development of personnel resources.

Based on these implementation plans, the local authorities themselves have the responsibility to carry out the restructuring projects.<sup>35</sup> The activities in the context of implementing the restructuring plans will be the issue of an implementation report to be provided by the Finnish government to the Parliament in 2009. Based on this, the restructuring process will be completed by the end of 2012.

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<sup>33</sup> In the district model districts corresponding to the present ones would provide social and health services. These districts would have a population base of 100,000–200,000, they would be controlled by a convention of municipal councils, and their finances would come from the local authorities and partly directly from the state. This would differ from the current state of affairs – e.g. hospital districts receive all their funding from their member local authorities.

<sup>34</sup> In the regional model Finland would have 20–25 regional municipalities with direct taxation powers – similar to what local authorities now have – and, unlike the current regional councils, directly elected councils. The regional municipalities would assume the current duties of the regional councils. The Finnish Constitution would however pose a problem as at present it gives local authorities the right to tax and to receive state subsidies. Therefore, this system would require an amendment of the Constitution.

<sup>35</sup> See also the case study on the Salo municipality in part III which is based on a presentation in the context of the Finnish social partners’ seminar on restructuring on 5<sup>th</sup> March in Helsinki.

## **Section two: The role of the Finnish social partners in restructuring**

### **Introduction**

Several studies on structural change and restructuring in Finland have stressed the important role of Finnish politics, the labour market system and the part played by the social partners and social dialogue in the context of successfully anticipating and managing change and restructuring at various levels of economic, industrial and labour market policy. In this context the following aspects seem to be crucial elements of the Finnish experience in particular and the Nordic Model in general:

- ✧ Managing restructuring and industrial change is based largely on a joint understanding of the main labour market challenges, effective organizations and a broad social consensus focusing on development of the information society and export-oriented economic policy as the major driving forces of growth;
- ✧ Education and innovation policy plays a crucial role by focusing on high levels of investment in education and R&D. Equal access to education is an important factor;
- ✧ Finnish modernisation policy is based on a highly developed system of industrial relations, active involvement of trade unions and high standards of income security and employment services.

A particular feature of this model of modernisation and the Nordic innovation system seems to be some kind of “working method” where specific modernisation or reform projects are defined and undertaken by the relevant social partners – often in cooperation with the government – and which are implemented on the basis of a stable social consensus.

In the following paragraphs we review the major framework conditions for social partnership as a cornerstone of managing structural change and restructuring processes in the Finnish economy.

### **1 The Social Partners and Social Partnership in Finland**

Labour relations in Finland differ from other Nordic countries due to the peculiarities of the country’s national history, including its agricultural tradition and the struggle for independence which finally resulted in the Civil War 1918-19. Political problems and a largely “patriarchy oriented” industrial structure hindered the early stabilisation of the Finnish labour market and industrial relations. The relationship between workers and employers relaxed during the Winter War of 1939-1940, and in 1940 the labour market organisations acknowledged each other as negotiating parties.

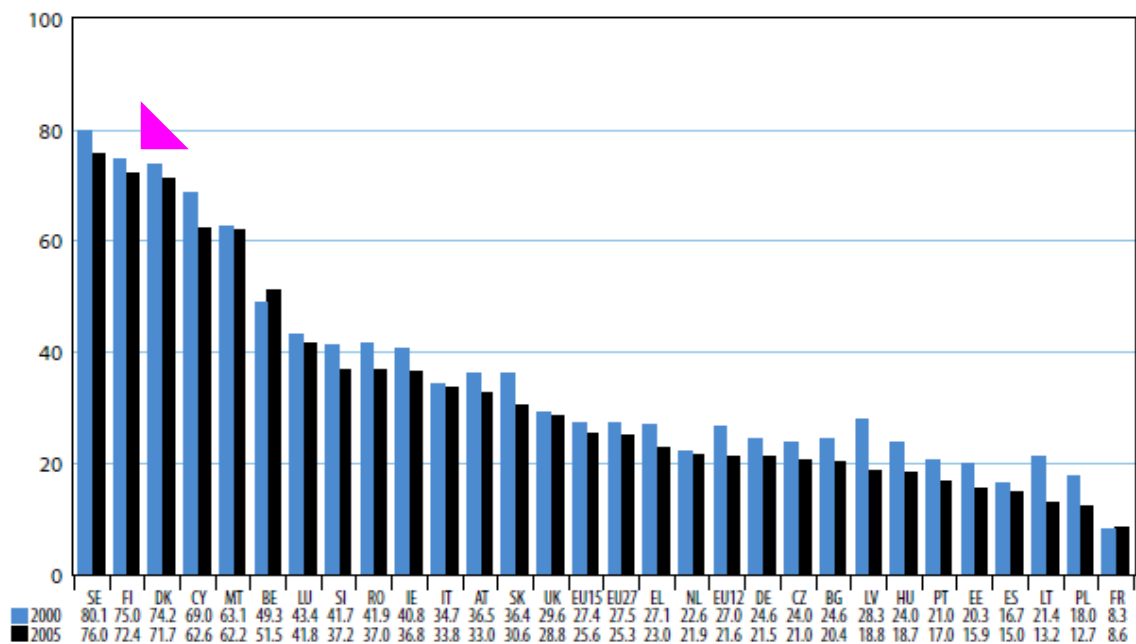
Since the end of the 1960’s and the establishment of the first centralised wage policy agreement in 1968 (“Liinamaa I agreement”), labour market relations in Finland have been shaped strongly towards tripartite cooperation reflecting what we tend to call “the Nordic Social Model”. During the final decades of the century, conflicts between the social partners have been reduced, and the labour market system has become an important national institution. Labour market cooperation has become an important basis for the welfare state policy.

Tripartite cooperation and established labour market relations were an important resource when Finland came through a particularly deep depression in the first half of the 1990's, during which the net loss of jobs was approx. 400,000.

i) Trade unions

Trade Union density in Finland is high, with around three-quarters of employees in unions and an overall membership of some 2.1 million trade unionists. Not all of these members are in the workforce, with a significant number being retired, unemployed or still students. Even when non-working members are taken into account, a very large proportion of Finnish employees are union members. The 2008 Employment in Europe report estimated union density in Finland at nearly 73% in 2005.

Trade union density, EU-25, 1995-2004



Source: European Commission: Industrial Relations in Europe 2008, p. 74.  
Data based on ICTWSS database 2007.

Individual Finnish unions enjoy considerable autonomy and are organised in three confederations, broadly on occupational and educational lines. The three confederations are SAK, STTK and AKAVA, all of which are members of the ETUC. All three confederations comprise a number of separate affiliated unions, although recent years have seen a number of union mergers. Affiliated unions have their own constitutions and considerable negotiating autonomy.

SAK (*Central Organisation of Finnish Trade Unions*) is the largest and oldest trade union organisation in Finland with 1,046,000 members. The union was founded in 1907. It largely organises manual workers, although around a third of its members today are non-manual. SAK has 21 affiliated unions, primarily organised on an industry basis. The largest SAK affiliate is JHL, the union for the public and welfare sectors, which has 225,000 members and which was created through a merger involving six unions in 2005. The next largest is PAM, which represents workers in the private services sector and has 207,000 members. The metalworkers' union with 165,000 members is in third place.

STTK (*Finnish Confederation of Salaried Employees*), founded in 1946, is the second largest confederation with 646,000 members. It organises the majority of non-manual

workers. STTK has 20 affiliated unions organised both by occupation and industry. Its largest affiliate, with 125,000 members, is TU, the union representing non-manual workers in private industry and industrial services. Close behind is the health union TEHY with 124,000 members.

*AKAVA (Confederations of Unions for Academic Professionals in Finland)*, founded in 1950, is the third largest Finnish union confederation, has 461,000 members and organises graduate employees. AKAVA with 31 affiliates is organised occupationally. Its largest union, OAJ, covering teachers, has 115,000 members.

The three confederations work closely together and there has been a co-operation agreement between them since 1978. In recent years, merger activity within the Finnish trade union movement has accelerated and currently attempts are being made to merge a number of trade unions. One of the biggest mergers, involving six trade unions affiliated to SAK, aims to form a new Union of Professionals in Technology, TEAM. The process has recently entered a stage where the individual unions ballot members on the merger.

At the same time, four trade unions affiliated to STTK are progressing towards a merger and a new union with 190,000 members is due to start operations from the beginning of 2010. The new union will be by far the largest STTK affiliated union organisation.

#### Trade Union Structure and membership in Finland in 2006

Union	Sector and affiliated unions	Membership*
SAK	21 affiliated organisations, workers in the industries, public sector (municipalities and state workers), transport sector and private service industries. Around two thirds are blue-collared and one third white collar workers. Nearly half of SAK members work in the industrial sector, about one third in private services and one fourth in the public sector. 46% members are women	1,046,000
STTK	20 affiliated organisations. Membership consists of white-collar employees of the state, municipalities, industries and the service sector. STTK also organises students in vocational schools and universities.	646,000
AKAVA	31 affiliated organisations. Union mainly organises highly educated salary earners in all industries and services. Approximately half of the members are women, half work in private and the other half in public sector.	461,000

*Source: Ministry of Labour: Industrial Relations and labour legislation in Finland, 2006.*

#### ii) Employers' Organisations

According to data provided by the Finnish employers' organisations, the member density was at around 70% in 2003, significantly higher than the EU-25 average (57%). There are three main employer organisations in the private and public sector respectively:

*The Confederation of the Finnish Industries (EK)* officially started operating in the beginning of 2005, when the Employers' Confederation of Service Industries and the Confederation of Finnish Industry and Employers united to form one organisation. EK offers blanket representation for all private industries and companies of all sizes. In 2005, EK had 44 affiliated associations and some 16,000 member companies with approximately 950,000 employees. 96% of EK members are SMEs. EK is a member of BUSINESSEUROPE.

*The Federation of Finnish Enterprises (SY)*, founded in 1996, is the central organisation for small and medium sized enterprises in Finland and is the Finnish member organisation in UEAPME. It has more than 400 entrepreneurs' associations in towns and municipalities, 21 regional and 48 sectoral organisations and, through its affiliated organisations, 106,000 member companies, some 43,000 of which are employers. The affiliated companies – most of them SMEs – employ 450,000 employees, of whom some 340,000 are wage earners.

In Finnish agriculture, *the Federation of Agricultural Employers (MTK)*, founded in 1945 negotiates collective agreements for some 1,170 member organisations covering around 10,000 workers in farming and other rural sectors.

Similar to the trade union movement, the private employers' organisations have experienced significant recent merger and cooperation activities. In November 2008, eight employer organisations affiliated to the Confederation of Finnish Industries EK, established a cooperation organisation, known as *Palvelualat ry.*<sup>36</sup>

In the public sector there are two employer organisations covering local government and state employees. In addition, there is also a clerical employer organisation.

*The Local Authority Employers (KT)* represents the interests of municipalities and federations of municipalities at the labour market. A total of 432 municipalities and 210 federations of municipalities are within the scope of agreements in the municipal sector. They cover 431,000 civil servants and employees, or one fifth of the Finnish salary earners. The centralised lobbying for municipalities as employers began in 1970 when the predecessor of KT, the Municipal Contracting Delegation, was established. KT is a member of the employer forum of the Council of European Municipalities and Regions CEMR and a member of the Finnish section of the CEEP.

*The State Employer's Office (VTML)* concludes collective agreements and contracts for the 124,000 employees working for the state.

Finally, *the Commission of Church Employers (KiT)*, formerly *the Church of Finland Negotiating Commission (KiSV)* looks after the interests of the Evangelic Lutheran Church, the parishes and the federations of parishes as an employer in labour market matters.

## **2 Employee participation and co-determination at different levels**

### **i) Workplace level**

Finland has one of the highest coverage of workplaces by employee interest representation in Europe. Union representation was legally required in companies with more than 30 employees, and a reform carried out in 2006 lowered this threshold to 20 employees. Union representation structures in companies below this threshold are possible and are common. In addition, safety representatives must be elected when a workplace has 10 or more employees.

Given the high level of trade union membership, employee representation at the workplace is primarily provided by the local union bodies rather than through statutory

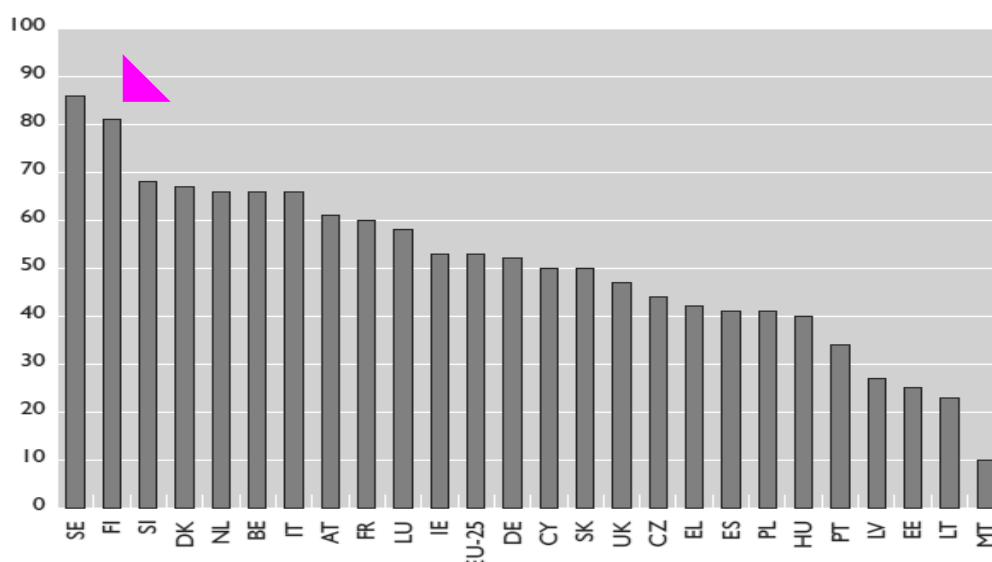
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<sup>36</sup> See EIRO: "Merger trends among trade unions and employer groups", 19.01.2009.

structures. Finnish workplace union representatives have the information and consultation rights, which in countries like Germany or Austria are exercised by works council members.

Trade union representatives are appointed on the basis of legally binding collective agreements signed between the employers and unions at national level rather than specific laws.<sup>37</sup> The first agreement specifically on union representation at the workplace was signed in 1969, and in 1970 legislation was adopted which included special protection for trade union representatives. In 1978 a further key piece of legislation, the “Act on Cooperation within Undertakings” was passed. This Act, including later amendments, provides a framework giving union representatives information, consultation and, in some cases, co-decisions making rights. The Cooperation Act does not specify legal requirements to establish a particular structure but rather identifies certain issues, where employees should be able "to exercise influence" on how they are handled. This influence is normally exercised through employee representatives, most frequently from the union, but issues can also be taken up by individual employees.

**Trade union or similar presentation at the workplace, % of employees (private and public sector)**



Source: European Commission, *European Industrial Relations Report 2006*, p. 71.

Trade union representatives at the workplace represent both the interests of the union and its members to the employer and represent the union to the members. Specifically they ensure that the employer observes the terms of the appropriate collective agreements and they can be involved in negotiating new ones.

If both sides want to, they can set up a cooperation committee composed of representatives of the employees and the employer, although the employer representatives cannot be in a majority. They normally meet regularly and often set up working groups to deal with particular issues or sections of the workplace. Cooperation committees are however not obligatory and where they do not exist other methods of allowing the employees to "exercise influence" must be found. These can include, meetings on specific matters as appropriate and negotiating agreements as to how particular issues will be handled. There are a series of important national agreements:

<sup>37</sup> The basic framework for the appointment of union representatives is set out in the national agreements. Each workplace has a senior trade union representative, who plays a crucial role, with additional trade union representatives for different departments and occupational groupings. The exact numbers are fixed by agreement at either industry or company level. Because of the structure of the Finnish trade union movement there are also normally separate unions representing manual and non-manual staff.

on modernisation and rationalisation, including technological change; training; and access to earnings statistics.

#### ii) Group and board-level participation

Finnish companies have a requirement to present an annual report at group level, provided the group employs more than 500 people in Finland. This report should cover the group's general position, including developments in production and employment levels, investment plans and profitability. As at lower levels, there is no requirement to set up a cooperation committee at group level, although this is possible if both sides agree.

Workers in companies with more than 150 employees have the right to participate in management decisions. How this is done, whether in a single-tier board, a supervisory board or at operating level, is left to local negotiation, with the company making the final decision. Finnish employees have the right to board level representation. However, much of the detail on how this works is left to local negotiation. Since 1992 employers have been obliged to provide some form of board representation if asked by at least two unions, which together speak for a majority of employees in the company. The precise form should be agreed between the employer and the unions, but can be at the level of the board of directors, at the level of a specially set-up supervisory board or at the level of management for specific operating units. If agreement is not possible, the company itself chooses the form of involvement. However, it must guarantee that employee representatives take part in decision-making on the economic future of the company.

#### iii) Collective bargaining

Since the end of the 1960s collective bargaining in Finland has been largely centralised with a national tripartite agreement (*tulopoliittinen kokonaisratkaisu*, often abbreviated as *tupo*) at the top level normally setting the framework for pay increases, often for two years or more with most industry agreements following its terms.

Since 1971, the principle of general applicability of collective agreements has been in effect in Finland. According to this principle, unorganised employers also have to comply with national agreements applicable to their line of business.<sup>38</sup> The implementation of the agreements is monitored by the Incomes Policy Settlement Commission (TUPOSETU), which is a joint organ of the Government and the labour market organisations. As a result of this, collective bargaining coverage in Finland is one of the highest in Europe. The system also means that the degree of bargaining centralisation is significantly above the European average as the figure below shows.

The objective of bargaining at the central level has been to establish guidelines for concluding specific collective agreements in each sector. If an agreement is reached in these negotiations, sectoral level agreements have to conform to the framework terms of the centralised collective agreement concluded by the central organisations. Consequently, the collective agreements of wage earners and salaried employees are mainly sector specific. Each sector has one collective agreement covering the whole country. It should be noted that there is no system in Finland for setting a single national minimum wage – minimum pay rates are fixed instead by the sectoral level agreements for each industry.

The centralised tripartite bargaining structure has played an important role in particular in macroeconomic restructuring situations and in periods of economic uncertainty.

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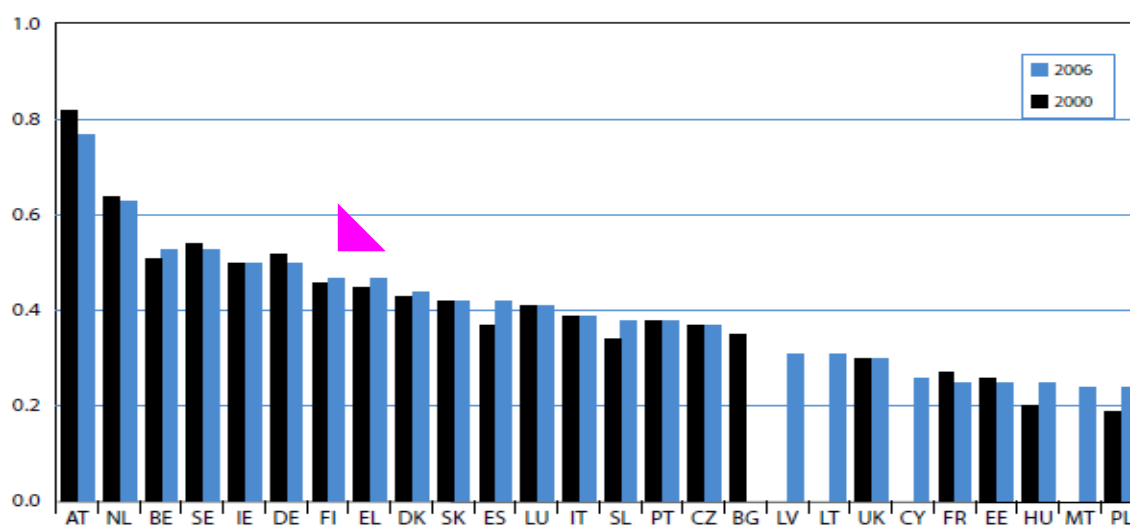
<sup>38</sup> In 2001, the so-called confirmation procedure of universally binding collective agreements was introduced, in which a special commission confirms the general applicability. An agreement is generally applicable, if it can be considered representative of the field in question.



During the last decade or so, there have been clear trends toward decentralisation in collective bargaining, with steadily increasing flexibility available at sectoral and/or enterprise level to adjust or develop collective agreements on certain working conditions (especially working hours) and in other fields. The decentralised approach enables deviations from the so-called basic conditions of the collective agreement in certain circumstances.

**Collective bargaining coverage and collective bargaining centralisation, 2000 and 2006 (%)**

	2000	2006
Finland	86.0	90.0
EU-27	62.0	62.9
EU-15	68.8	68.8



Source: *Industrial Relations in Europe 2008*, p. 76/78. Data based on the ICTWSS database.

While the future of Finnish tripartite bargaining has been questioned in recent years, in particular by the employers' side, it now seems clear that the centralised Finnish model is at a turning point. In 2008, the Confederation of Finnish Industries EK announced that the focus of negotiations in the future should be the sectoral level and there should also be more room for flexibility for company level bargaining. A major landmark in this context was the refusal by employers in the paper industry – an important sector in Finland – to accept the terms of the national agreement and which led to a bitter industrial dispute in early 2005, which was only finally resolved in July that year.

The employers' organisations argue that the logic of setting the 'pay norm' on the basis of an average productivity growth rate and to raise wages accordingly in all sectors should be replaced by a system in which the rate of productivity in each sector should determine the respective level of pay increases. Furthermore, more flexibility should be given to performance-based wages in the context of company-level bargaining.<sup>39</sup>

Finnish trade unions have criticised this position and highlight the important role of centralised income policy agreements for the successful management of the economic recession in the early 1990s and generally in the context of macro-economic policy objectives relating to the competitiveness and stability of the Finnish national economy. From the trade union point of view, sectoral bargaining will make it more difficult to work on such broad macro-economic goals.

<sup>39</sup> „Employers announce the end of centralised tripartite bargaining structure“, EIRO Report, 3 June 2008.

*Collective bargaining in the public sector* – in the public sector, the complete system involving bargaining, contracts and arbitration was created in the 1970 legislation concerning collective agreements. The system is based on negotiations between the employee and employer organisations. Contractual rights are almost as far-reaching as those in the private sector. Around 85% of central government employees are members of trade unions and in collective bargaining they are represented by the JUKO and Pardia federations or directly by the JHL trade union. With the exception of some small groups of senior civil servants, collective bargaining covers all state sector employees and is normally carried out over two-year cycles. The current collective agreement actually runs for 28 months coming into force on 1 October 2007 and running until 31 January 2010. This provides a basic framework of pay and conditions across the state sector but also allows for a considerable element of local bargaining with significant numbers of local agreements covering individual agencies, for example.

### **3 Micro and macro economic restructuring as an issue of social dialogue and collective bargaining**

#### i) The legal framework of employee involvement in restructuring operations

The Employment Contracts Act (55/2001) and the Act on Cooperation in Undertakings (the 1978 Cooperation Act and subsequent amendments) governs the information and consultation of employees in a situation where an employer is contemplating a restructuring programme that may have an impact upon employment. These laws also incorporate the provisions of the EU Directives on collective redundancies and transfers of undertakings in the case of restructuring affecting at least 10 jobs. Following the establishment of a working group appointed by the Finnish Ministry of Labour in 2003 and the recommendations of this group, the Act on Cooperation in Undertakings was reformed in 2006. The changes included extending the scope of the Act to include all workplaces with at least 20 employees (previously 30) and also cover associations and foundations.

The employer is required to consult on major changes in work organisation and methods; major investment plans; closures and transfers of production; company mergers; rationalisation proposals; redundancies and dismissals, both individual and collective; changes in normal working hours; recruitment policies; the use of outside labour such as agency staff; and the mechanisms for internal communications. Consultation should normally take place in advance, although in certain limited circumstances it can be after the event. At the end of the process on all these issues management takes a final decision.

Employers are obliged to negotiate with employees' representatives on the parameters of a restructuring exercise. The negotiations should last for six weeks,<sup>40</sup> although there is no obligation for the bargaining parties to reach an agreement. Nor can employees' representatives block or delay employer restructuring plans. Some suggest that in practice, that simply making an announcement can be deemed as having fulfilled this obligation, meaning that no "real" negotiations are actually held.

There are two areas where employee representatives by law need to agree before the employer can act (a veto right). These are works regulations and training in co-determination itself.

Against the background of many restructuring cases where limited information and consultation with employee representatives took place, the SAK and STTK during

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<sup>40</sup> In a reform of the law in 1997, the negotiation time on collective redundancies was reduced from three months to only six weeks.

negotiations in 2004 on income policy defined their main objective as being that of improving protection for workers facing redundancy. The system of so-called 'change security' was formally put in place by the Finnish labour-market authorities in 2005 (see below). The reform of the Cooperation Act in 2006 was also aimed at improving cooperation at the company level in the context of restructuring. The reform emphasised the need for agreement between the two sides and requires more detailed consultation over employment and training, including the production of a human resources plan. Work-life balance issues also have to be considered. In addition, the use of sub-contractors would have to be reviewed on an annual basis.

Besides providing improvements in the legal framework of dealing with restructuring at the company level, the 2006 reform also illustrates the functioning of the Finnish labour market system (see also below the chapter on the role of national tripartite negotiations). The reform was carried out on the basis of tripartite working group consultations and both the employers' federations and the three trade union confederations expressed satisfaction regarding the progress of the results of the three-year working group.<sup>41</sup>

## ii) The concept of "change security"

According to the 'change security'<sup>42</sup> operational model, before commencing the restructuring process an employer is obliged to start a negotiation process and prepare a plan for action; an evaluation of the scale of the dismissals; and details of employment measures. The employer is also required to negotiate when reducing the workforce. S/he must outline to the employees' representative a proposal for an action plan to promote employment at the start of the cooperation procedure. An action plan must always be drawn up in cases where a dismissal threatens at least ten jobs. The objective is to enhance cooperation between the employer, employees and the employment office. The employer is required by law to inform the local employment office of substantial redundancies. The formal negotiations carried out according to the regulations stipulated in the Act on Cooperation within Undertakings need to be informed to the local labour administration. There is a formal guidance by the Ministry of Labour and the Economy on how to proceed in cases where more than ten employees are threatened by unemployment. The same list of actions can in some cases be carried out also in cases where there are less than ten employees involved. The main procedure is as follows:

- ✧ The employer provides a comprehensive list of information on all employees involved which might help the authority to plan further action (e.g. training);
- ✧ The local labour market office arranges a meeting at the workplace to inform those possibly affected. The information package covers all issues related to possible future unemployment (how to search for a job, training possibilities, unemployment benefits, etc.);
- ✧ A design of an individual plan on job search, training etc. is started;
- ✧ In the case of more large scale restructuring a special programme is launched by the local employment office at the work place.

This procedure illustrates the intensive cooperation between the three main parties in the change security model in practice. While the employers' proposal should include details of using planned employment services and an account of how the employer will support the employee's training and job-seeking activities, the final action plan is prepared together with the staff as a part of the cooperation procedure. If fewer than ten

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<sup>41</sup> However, it should be mentioned that the Federation of Finnish Enterprises SY, which represents small and medium sized enterprises was critical to the lowering of the thresholds and scope of enterprises covered by the Act on Cooperation since this will make the operation more difficult.

<sup>42</sup> Further information: [http://www.mol.fi/mol/en/99\\_pdf/en/92\\_brochures/change\\_security\\_20050715.pdf](http://www.mol.fi/mol/en/99_pdf/en/92_brochures/change_security_20050715.pdf).

employees are to be dismissed, the employer must set out the ways in which it will help the employees in question to find work or training on their own as well as gain access to employment through public employment services during the notice period. The change security measures also cover staff reductions due to economic and production-related reasons where only a small number of employees are to be dismissed. It also covers employees on fixed-term contracts.

In addition to the provision of information, other important tasks are undertaken by the employment offices. They advise employers and employees on the content and implementation of action plans. They also train consultants to build their capacity in the field of change security in order that they may then act as “mobile resources” in the event of large-scale lay-offs.

A study completed in 2007 showed that the change security model has worked relatively well to date and the overall picture of the effectiveness of the model is positive. Early intervention of the labour administration, activation of job seeking measures and rapid utilisation of training are perceived as particularly positive aspects. The biggest problems relate to publicising the model and to dealing with substantial skills deficits. Another challenge is the readiness of both employers and employees to take full advantage of change security.

The Ministry of Employment and Economy together with the social partners are currently cooperating in improving the system of change security.<sup>43</sup> Plans will be prepared for all regions and localities to make provisions for sudden and unanticipated structural changes. Efforts will be made to improve the opportunities for employees of SMEs in particular to participate in training before their employment finally ends. Workforce training implemented in cooperation with companies will be increased.

The model of change security is not only applied in the context of restructuring in the private enterprise sector but also in change situations in the public sector as the following example shows.

#### **Change Security - the Reform of Finnish Transport Administration**

The Finnish Transport Administration commenced a major restructuring process in 2008. It was generally agreed that significant benefits would be achievable through the merging of the existing transport infrastructure agencies into a larger and more effective Transport Infrastructure Agency covering all forms of land and water transport. Benefits were also possible from the merging of the various safety agencies into a single Transport Safety Agency covering all modes of transport. The most important benefits were considered to be an improvement of effectiveness, operational quality, efficiency and productivity, achievable through the strengthening of the transport system structure and by utilising the best practices from similar functions in different agencies. According to the reform programme, the six infrastructure and safety agencies of the administrative sector of the Ministry of Transport and Communications (*Ministry*) are to be merged to form two larger units: the Transport Infrastructure Agency and the Transport Safety Agency which will be established as of 1<sup>st</sup> January 2010.<sup>44</sup>

There are also certain elements of “social innovation” in the reform process. With regard to labour relations the reform process is guided by the Finnish Government’s policy on “change situations in the state administration” as well as by a decision of the Ministry of Finance made in 2007 on change management and change security in state administration. In addition, a change security operating model and remuneration system to apply in certain transition situations has been agreed between government and trade unions through public-sector employment contracts and collective agreements. The basic principles of these guidelines are worthy of note:

<sup>43</sup> “The Lisbon strategy for growth and jobs 2008-2010”, Ministry of Finance, 36c/2008, p 90.

<sup>44</sup> Further information: Ministry of Transport and Communication: “Transport Administration Reform Interim Report: Main Principles of the Reform”, Report of the Reform Management Group, Helsinki, 13 October 2008

- ✧ No-one is to be made redundant as a result of the change;
- ✧ Personnel will transfer to the new agencies on current terms and benefits;
- ✧ A change security agreement and security clauses on the status of personnel will be negotiated and agreed with government bargaining agents;
- ✧ In supervisory appointments, from senior management downwards, attention will be paid to gender equality in accordance with the Government Programme;
- ✧ Steps will be taken to ensure that remuneration is incentive and competitive;
- ✧ Wage security and payroll systems are to be standardized through negotiation and agreement with more than 30 personnel organizations;
- ✧ Sufficient funds are to be budgeted for further and supplementary training, retraining and for the maintenance of professional skills;
- ✧ Particular attention will be paid to safeguarding well-being in work, and
- ✧ Statutory employer-employee negotiations under the Act on Cooperation within Undertakings will be arranged.

### iii) The role of national tripartite negotiation for managing structural change

In recent years, periodic incomes policy agreements have been essential stabilising factors that have contributed to rapid economic growth. Centralised agreements have also been developed in crisis situations, for example in the periods of currency devaluation and high inflation before Finland joined the European Union. The reduction in working hours has also always required a centralised agreement. In this way, incomes policy agreements have played a significant role in getting through the 1990's recession by their moderating impact on wage setting agreements.<sup>45</sup>

Through centralised national income policy agreements, the social partners have attempted to reach a common understanding of the best choices for the national economy in terms of economic growth and real wages. There has been a general consensus between government and the social partners to sustain and improve national competitiveness and to increase employment rates, in order to assure sufficient tax revenues and to keep inflation under control. This general position is illustrated by the last two national agreements for 2003-2004 and 2005-2007 which offered a relatively moderate pay increase, with tax cuts contributing to an improvement in employees' purchasing power.

Tripartite cooperation in Finland is not only about pay and wage developments. An emerging trend in the recent decade is the so-called "continuous negotiation system": Under this system, the social partners take responsibility for joint projects and working groups which are clearly defined and described in the respective central collective agreement. In this system of continuous cooperation and negotiation, the social partners work together on projects of mutual interest focussing on a wide variety of topics in the context of structural change and working life in Finland.

For example, in the last period of incomes policy 2005-2007 alone, 23 bipartite or tripartite working groups were defined, some of which were new and others follow-up projects of previous initiatives. The joint projects address a wide range of issues, including employment opportunities, control of the illegal economy, improvement of the Finnish "flexicurity" model, local bargaining, equal opportunities, improving the framework conditions of employee representatives (in particular with regard to restructuring) and working conditions.

The well established tradition of bipartite and tripartite cooperation will remain in place when centralised wage bargaining disappears. In 2007 for example, a new tripartite project was established outside the central collective agreement focussing on the issue of productivity in the Finnish economy. This so-called "round table" was initiated by the

<sup>45</sup> See overview of national agreements in annex.

Finnish government. It comprises a range of labour market organisations including the public sector social partners as well as a representative of the Ministry of Employment and the Economy.

iv) Tripartite cooperation on restructuring and productivity

In the context of the round table on productivity, the social partners and the government examined the effects of restructuring on job creation and destruction as well as its effect on working life over the past decade. It also examined which economic sectors had created new jobs and in which sectors jobs were lost. The findings show that a quarter of a million jobs were created and lost on average annually during the last decade. Over this period, the rate of job loss has remained relatively constant, while the number of new job creations has varied significantly. Some 10% of workers in the private sector changed their job every year in the period 1991 to 2005.

The round table explains the good record of Finland with regard to productivity and job creation to a large degree by structural change. At the same time as the best and most competitive production methods, products and services have generated new jobs, in economic sectors with low productivity levels, companies have experienced turnover decline, job loss and/or bankruptcy.

From the point of view of the Finnish labour market representatives, this trend of structural change requires active labour market policy measures and a further elaboration of the concept of “flexicurity”. The labour market organisations agree that in order to remain economically competitive and increase productivity, the country needs policies and measures that combine labour flexibility on the one hand, and “change security” with regard to employment and social rights on the other. There is broad consensus between the Finnish social partners and the government that – when job distribution across occupations and industries changes continuously – different types of measures are needed to help workers to adapt to these changes and increase their occupational as well as geographical mobility. In this context the labour market organisations favour an approach to vocational training based on the needs of a rapidly changing demand for labour and they have called for a further improvement in the continuous vocational training system. For the social partners and the government, a workforce with strong vocational qualifications and regularly updated skills are key elements of an adaptable workforce.

v) The role of social dialogue in continuous vocational training (CVT) and skills development

The role of the Finnish social partners in the system of CVT is very important, and in particular in the implementation of the national CVT guidelines and objectives at the enterprise level. Co-operation between social partners and training authorities takes place between the Ministry of Labour, the Ministry of Education and the social partners. The social partners also have representatives on the management board of the National Board of Education. In recent years the Ministry of Education has set up vocational training committees at the branch level in which the social partners, together with the authorities and representatives from universities, anticipate and monitor training needs. The social partners participate in a number of other working groups and committees which work on planning, controlling and monitoring training.

The Act on Vocational Education regulates the organisation of CVT in cooperation with representatives of working life. The most important channels through which the social partners participate in planning CVT aims and priorities are the training committees, the Advisory Board for Educational Cooperation and the Adult Education Council set up by the Ministry of Education. There are also governing bodies and consultative committees in educational institutions. The government established a tripartite Council for Labour

and Training Affairs in 2004 to consider labour and education policies and their major challenges and strategies. Central labour market organisations have high-level representatives in the council. In the field of vocational adult education and training there are qualification committees, which are appointed by the Finnish National Board of Education and organised on a tripartite basis. Their tasks include supervising and steering the organisation of competency tests; confirming approved qualifications; and signing qualification certificates. The Adult Education Council prepares reports on adult education and training and takes positions on issues concerning areas of interest and future policies.

According to the new reformed Act on Cooperation within Undertakings agreed in 2006, and which came into force in July 2007, every company with more than 20 employees should prepare an annual personnel plan which includes training targets. This plan has to be discussed with workers' representatives. In addition to the development of the enterprises' workforce, the plans should also describe the principles governing the use of different types of employment relationships. They should also contain an estimate of changes in the employees' vocational skill requirements and the reasons for these. Based on these factors, annual training targets are then prepared. The implementation of the plan and targets must be monitored in co-operation with workers representatives. The scope and breadth of the personnel plan varies between larger and smaller companies.

#### **The principle of lifelong learning in Finland and the role of CVT**

The Finnish education system is built on the principle of lifelong learning, to provide opportunities for further study for people of all ages and with any level of education. Both certificate-oriented and non-certificate-oriented forms of education and training are available for adults. The adult education sector is commonly divided into three parts:

- ✧ Self-motivated learning, to provide adults education and training appropriate to each student's own objectives, circumstances and level of education. It is completely or partially funded by the educational administration;
- ✧ Labour market training for unemployed people, procured by the Ministry of Labour;
- ✧ CVT, i.e. training financed by individual employers and usually undertaken during working hours. This trains employees in accordance with employer needs with a view to increasing productivity and profitability and motivating personnel. In-service training takes place either in workplace or in training organizations, usually the same ones for self-motivated and labour market training.

In-service training is promoted both in legislation and through general income policy agreements. The law encourages the use of in-service training in situations where an enterprise's production structure changes so that staff competences no longer match the enterprise's operational models. The current Act on Cooperation within Undertakings requires enterprises with at least 20 employees to draw up annual training plans and to update them where the number of employees is reduced.

Continuous vocational training is designed 'to maintain and enhance the vocational competence of the adult population, to provide students with opportunities for independent self-employment, to develop working life and promote employment and to support lifelong learning'. It provides an opportunity to complete further or specialist vocational qualifications or individual modules of these qualifications. It can be undertaken at school or as apprenticeship.

While the State funds 90 % of the costs of certificate-oriented vocational further education and training, CVT as in-service training is covered by 50 % of the costs through public funds. Employers pay salaries which correspond to the collective agreement but get a subsidy for workplace training. About 40 vocational adult education centres provide vocational further education and training.

*Source: EIRO: Finland: Collective bargaining and continuous vocational training*

vi) Specific initiatives of social partners with regard to restructuring

*General demands and positions of the social partners* – As the paragraphs above illustrate, all of the major labour market actors in Finland are strongly committed to tripartite and bipartite frameworks of consultation, dialogue and negotiations in order to deal with the tasks and challenges associated with economic and social change.<sup>46</sup> However, there are also issues and topics on which the Finnish social partners strongly disagree, as the recent initiative of the employers' organisation on the future of centralised wage bargaining has shown.

Another controversial issue in Finland is how to deal with the challenges of globalisation and the continuous task of increasing the competitiveness of industry. On this question an important issue under discussion is whether or not labour costs are a constraint or a driver of the competitiveness of Finnish firms or not. As part of the debate over Finland's international economic position, labour costs have become a central issue. In 2004, the employer's confederation EK published the results of a survey of international labour costs, concluding that Finland's position was not good enough and the situation was worsening. The survey found that labour costs in Finnish industry were the fourth-highest in the EU and that private sector labour costs had risen by an average of 4.2% annually since 1997. In contrast, the average annual rise in euro-zone countries generally was just 3.2%. According to EK, productivity has risen in recent years compared with Finland's competitors but this has chiefly taken place in the electrical and electronics industry. EK suggest that if that sector's contribution is left out, industry's overall competitiveness has decreased in the last 10 years and deterioration in price conditions has further worsened the situation. EK has also published an international comparison of working time pointing to the finding that normal working hours are relatively low in Finland, which they see as an impediment to Finland's competitiveness.

Finnish trade union organisations do not share this view. They argue that the figures do not tell the whole truth. According to SAK, Finnish industry remains competitive for five reasons:

- ✧ Labour costs in relation to productivity in Finnish industry are said to be the third-lowest in the euro-zone countries (after Ireland and Italy);
- ✧ Wages continue to be relatively low as Finnish gross annual earnings are the fourth-lowest in the 'old' EU 15;
- ✧ Labour costs are only one measure of competitiveness – it is also important to take into account high worker competence levels in Finland and that the welfare state yields many positive effects on competitiveness;
- ✧ Despite the fact that *normal* working time is not particularly high in Finland, *actual* annual working time is, with Finland having the fourth-highest level in the OECD; and
- ✧ Finland was recently rated by the World Economic Forum as the most competitive country in the world for the third time in succession.

Many commentators suggest that a better understanding of competitiveness can be gained by looking at the levels of company profitability. In a survey conducted by the Labour Institute for Economic Research, this issue was examined later in 2004 and it was found that the profitability of industrial firms increased substantially in Finland during the 1990s, and by 2001 was second only to Ireland in the EU15 and fourth in the EU25. .

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<sup>46</sup> Recent agreements between the Finnish social partners for example have been concluded on changes of the pension contribution system, improvements in the system of unemployment benefits and the system of longer leave of employees (up to one year). See "Labour market parties agreed on a comprehensive social policy package", Trade Union News from Finland, 26.01.2009.

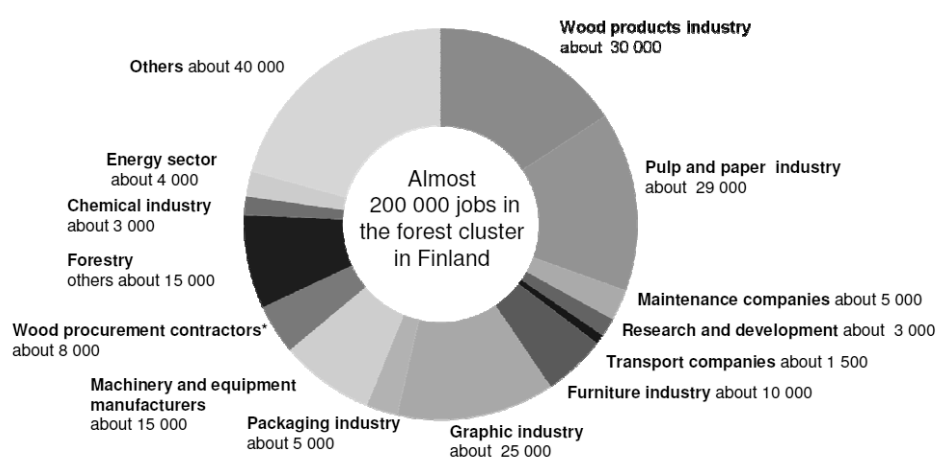


Finally, the Finnish trade unions assert that too many concessions have already been made on the pay front. The share of labour costs in value added by companies reduced quite substantially in the 1990s following the recession early on in the decade. This was largely the result of unions committing themselves to wage restraint in order to increase the competitiveness of Finnish firms. Against this, further reducing the share of labour costs in a context of better economic circumstances has been hard for many unions to accept in more recent years.

#### *Social partners' cooperation on the future of the forest and paper industry*

According to the Forest employers' federation, the Finnish forest cluster employs directly or indirectly, more than 200,000 Finns. This is around 8% of total employment in the country and makes the forest cluster one of the most important industry sectors in people terms.

#### **Employment in the Finnish Forest Cluster**



Source: Finnish Forest Industries Federation, 2009.

According to the Finnish Government, the country's forest industry and in particular its core, the pulp and paper industry is currently "undergoing one of the greatest changes in its history".<sup>47</sup> The reason for this is a change in global demand and the division of labour between countries and different world regions. While in Western Europe and the United States the demand for many types of paper is stagnating or decreasing, paper production and consumption is increasing in Asia, South America, Russia and Eastern Europe. At the same time the pulp and paper industry in Western Europe and the United States is characterized by overcapacity and low profitability against a background of decreasing paper prices.

The global competitiveness of Finland's forest cluster industry is based on knowledge and technology, which for decades were at higher levels than those of its competitors. The sector was characterized by high levels of investment, production machinery with the best available technology and above average rates of productivity which compensated for production costs that rose faster than those of competitor countries. This position has been weakened in recent years. Since the mid 1990s, investment in the forest industry has decreased in Finland while the enterprises have invested mostly abroad (since the end of the 1990s investment abroad by forest industry enterprises have been three times greater than investment in Finland) and the industry has been gradually losing its technological lead.

<sup>47</sup> Honkapohja, S.; Koskela, E.; Leibfritz, W.; Uusitalo, R. 2006: Economic Prosperity Recaptured: The Finnish Path from Crisis to Fast Growth, p. 44.

Against this background, the sector has experienced significant restructuring with large numbers of redundancies in the major companies in the sector including Stora Enso, UPM and M-real.

The restructuring processes have resulted in different responses by the Finnish government and the participants in social dialogue and negotiations. When Finland's largest forest industry company, UPM, announced a major restructuring plan affecting about 3,000 employees in Finland in order to reduce overcapacity in 2006, the Finnish government established a special employment programme for employees in the sector under threat of dismissals and active support measures for people and local communities affected by large-scale redundancies. The actions of the social partners' in the Finnish paper industry have focussed on improving the competitiveness of the industry. The collective labour agreement concluded in 2005 between the Finnish Forest Industries Federation and the Finnish Paper Workers' Union required the two parties to establish a working group to examine possibilities for promoting employment, productivity and finding workplace-specific solutions in the paper industry. The dialogue was also joined by the Union of Salaried Employees, the Finnish Electrical Workers' Union and the Federation of Professional and Managerial Staff. The working group concluded its activities in late spring 2006 and drafted a report, which points to the development needs that the industry faces. According to the report, the productivity development of the Finnish paper industry has been outpaced in competing countries and the industry's profitability is weak. The report provides a summary of the negative trends in structural change and in the broad economic environment the sector faces. All facets of the operating environment have changed as the focus of production and demand growth has relocated to developing economies while, at the same time, demand for paper in Europe, the main market of the Finnish paper industry, is growing only slowly. Investment has focused on areas with the best growth and profitability opportunities and excess capacity in Europe is a major challenge for the industry. It is no longer possible to increase productivity through building larger paper machines, nor can the profitability of companies be promoted through devaluation. Furthermore, the rise in costs of labour force, energy, transportation and raw material as well as the dollar depreciation has complicated the situation in the industry.

In order to address this negative trend, the report concludes that the social parties must be prepared to change in order to strengthen competitiveness and establish better realistic parameters for retaining jobs in Finland. In this context the social partners see changes in the structure of manufacturing and the product range and development of new products with a higher degree of value-added input in order to strengthen the industry's chances for success over the long term. In addition, the working group on the future recommends a number of measures focusing on the operating environment.

*Sectoral social dialogue* – the “Finland in the global economy” project is an example of a comprehensive process of dialogue on structural change and competitiveness between the social partners at sector level. The aim of the sectoral aspect of the project was to discuss concrete ways in which the competitiveness of firms in particular sectors can be assured in the future. Similar talks have been held before, but the dialogue launched in 2004 was unprecedented. Never before had such discussions been held systematically and simultaneously in so many sectors – some 23 sectors were involved in the project.

In 21 sectors, the social partner organisations engaged in dialogue and cooperated in preparing a report setting out their joint analysis of ways to improve competitiveness.<sup>48</sup>

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<sup>48</sup> Only in sectors, in the forestry and chemicals sectors, the project ended without a joint result and only unilaterally endorsed reports were produced. However, as the sub-chapter on the pulp and paper industry illustrates this did not result in a general ending of all social dialogue and consultation.

The content of the reports from the different sectors varied considerably but some common themes emerged. In many cases, the social partners agreed on ways in which the education system should be improved. Education was often viewed to not sufficiently take into account the needs of companies. Proposals to improve the situation included new vocational training degrees, a wider use of apprenticeship contracts and increased cooperation between educational institutes and firms. Training organised by companies themselves was thought to be especially important, and it was proposed that taxes on training provided by employers should be lowered.

One of the main issues related to the labour market that emerged in the reports was the possibility of labour shortages in the future due to the overall ageing of the population. To tackle this, the social partners proposed, for example, that more immigrant workers should be allowed into Finland. Measures to increase the attractiveness of specific sectors in the eyes of workers were also seen as being important. These included, in the public sector especially, making the pay structure more rewarding. In various sectors it was agreed that more flexibility of working time and pay will be needed for firms to remain competitive. Other considerations that emerged in the dialogue included a need for more public funding of research and development and of technological development. More funding was also desired for firms entering international markets. In some sectors, a more steadfast defence of Finland's interests in the EU was seen as important for competitiveness.

*Social dialogue on restructuring in the public sector* – the state administration acknowledges the importance of having a constant dialogue with the trade unions over reform. The high level of collective bargaining and trade union membership across the whole economy is important particularly in as far as it provides some protection of pay and pensions for those employees affected by restructuring and being transferred within public enterprises. While the law on consultation and cooperation and cooperation agreements already establish the obligation to consult over restructuring, employers and trade unions also make use of informal structures on all levels of the administration to exchange information and influence over reforms. In this way, the employees can engage effectively and offer their expertise in the anticipation of and preparation for reforms. The government has, after consultation with the trade unions, developed a resolution on principles of personnel policy and methods in change situations.

#### vii) Responses to the current economic crisis (2009)<sup>49</sup>

The Finnish government has prepared an economic stimulus package which – measured in its share in GDP - is one of the biggest in the European Union. The package agreed at the end of January 2009 is worth €1.2 billion in state funds, representing 1.7% of Finnish GDP. By this measure, the Finnish economic recovery package is the third highest among the 27 EU Member states having a combined leverage effect of approximately € 2 billion.

According to the Finnish government, the overall aim of the measures is to minimise the number of people who are left without jobs, and to make it easier for those who are unemployed to return to work.<sup>50</sup> The package includes different types of measures in the field of job-creation and social policy. Job-creation measures include investment in road and rail infrastructure, public construction and school repairs. There is also the offer of a 10% subsidy for repairs to apartment buildings which are carried out before the end of 2009. This limitation is aimed at encouraging accelerated decisions on repair projects.

The package also includes more qualitative measures. On the education side, important solutions include improved access to vocational education. The situation of tens of

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<sup>49</sup> It should be noted that as the other parts of this report, this chapter has been completed by the end of February 2009 thus not taking into account more recent figures and developments.

<sup>50</sup> See Helsingin Sanomat: "Government unveils stimulus package", 30.1.2009.

thousands of people on temporary redundancy is to be improved by giving them access to labour services previously reserved for those made permanently redundant. The most controversial measure is that of relieving employers of paying social insurance contributions for their employees. The move will lead to a gap of more than € 830 million in state income. According to the government this gap will be compensated for in the future, mainly by raising environmental and energy taxation.

The package also includes measures which aim to increase social equality. It was decided to raise the minimum pension by €100 a month from 2011 which will affect approximately 120,000 Finns and to link minimum unemployment benefits, child allowances, support for home care and support for private care to consumer price indices which will also come into affect in 2011. The Finnish government expects these measures will have a positive labour market effect of around 20-25,000 jobs in 2009 directly or indirectly and thus halve the expected growth in unemployment.<sup>51</sup>

#### *Temporary lay-offs as the main instrument of dealing with sudden labour market crises*

The use of so-called temporary lay-offs is the main way Finnish enterprises have reacted to the current economic recession and to minimise dismissals. At the beginning of 2009 the Ministry of Employment and the Economy estimated that nearly 50,000 wage earners were either temporarily laid off or had received a notification of a “forced vacation”. By the beginning of February 2009 more people had already been laid off on a temporary basis than in the whole of 2008.<sup>52</sup>

The Finnish system of temporary lay-offs is quite unique on a global scale with the only similar system being in Norway. A temporary lay-off, or “an obligatory unpaid holiday”, is the Finnish version of flexible protection of employment. The instrument was included in the Finnish employment contract legislation in 1970. According to the Employment Contracts Act of 2001 laying off means a temporary (either for a fixed period of time or indefinitely) interruption of work and remuneration on the basis of an employer decision or an agreement made on the basis of an employer initiative. During the period of lay-off the employee is entitled to unemployment benefit. Temporary lay off can either be complete or by a reduction in regular working hours. The system benefits both employers and employees by recognising the employer’s need to keep professional workers tied to their companies even when the companies “for temporary reasons” are unable to organise work and pay salaries to everybody.

According to the Federation of Finnish Technology Industries representing a sector which has been one of the busiest in laying off staff, the system of temporary lay-offs offers an alternative to redundancies in situation where an economic upswing is anticipated, but enterprises don’t know when exactly this might happen. Though trade unions also acknowledge the value of this labour market instrument, they also identify certain difficulties. Depending on the individual situation, trade unions suggest that rather than laying off employees it would be better to keep them and invest in training and further qualification measures. According to the trade unions there are positive good practice examples of companies which have concluded co-determination negotiations with employees and local labour authorities which have resulted in the provision of training for those temporarily laid off.

Trade Unions also regard a significant number of temporary lay-offs as economically unjustified, i.e. employers dismiss staff temporarily without a genuine need. At the same time, the trade unions also acknowledge the effects of temporarily lay-offs on those employees retained in company employment. Those who remain with the company often

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<sup>51</sup> See Helsingin Sanomat: “Government stimulus measures aimed at halving growth in unemployment”, 2.2.2009.

<sup>52</sup> Helsingin Sanomat, International Edition, 8.2.2009.

have to take care of their own work but also the duties of others laid off which can result in extended working hours without a proper compensation.

*Pay freeze - a suitable instrument of economic recovery?*

At the beginning of 2009 the Confederation of Finnish Industries EK proposed a revaluation of the agreed pay increases in 2009 due to the rapidly changing economic situation. As part of the proposal, the employers' organisation also raised the idea of a postponing or freezing of previously agreed pay increases in 2009 in order to avoid layoffs and dismissals. At the same time the Chemical Industry Federation announced that it will start negotiations with trade unions in accordance with the crisis clause in the collective agreement to renegotiate the planned pay increase for 2009 (2.5% from May) which was agreed in 2007.

Trade Union representatives have rejected these proposals. From their point of view pay freezes would jeopardize domestic demand and hence have a negative effect on the economy. The Finnish Prime Minister has attempted to calm down the debate over freezing agreed pay increases. Instead of this, he suggested more attention should be directed at the forthcoming bargaining round. He generally shared the view that agreements on pay freezes or zero increase agreements in future pay negotiations might have a negative impact on domestic consumer demand.<sup>53</sup>

Economists have divergent views on the proposal to freeze pay increases. According to the Economic Research Institute PTT, the flexibility of freezing pay increases can help to avoid layoffs and dismissals, and can have a positive effect on the economy, particularly with regard to export companies. On the other hand, the Labour Institute for Economic Research PT, considers that the freezing of pay increases constitutes a bad move for the entire economy. According to PT a country could strengthen its exports this way, but the spill-over effects of this phenomenon would increase the strain on the global export market as purchasing power would decrease everywhere.

*A trade union initiative for a stabilising labour market agreement*

At the beginning of February 2009, the Council of Finnish Industrial Unions TP, an umbrella group of 14 trade union organisations both in industry and services<sup>54</sup>, published an initiative for a negotiated agreement between the trade unions organised within TP and the employers' organisations in these sectors in order to improve the competitiveness of companies and maintain the purchasing power of wage and salary earners. The agreement would cover a period of two or three years.

The Council invited the employers' organisations both from the industrial and service sector for an initial meeting at the end of February 2009 to discuss ways of finding common ground on employment strategies and domestic market improvements. Several European Works Councils (EWCs) of leading Finnish companies endorsed the proposed strengthening of cooperation between TP and business.<sup>55</sup>

The TP initiative aims to reach a broad agreement between the social partners on avoiding mass job losses, to strengthen and enhance company competitiveness, and to sustain strong domestic demand for goods and services. The agreement would cover 90% of Finland's two million wage earners. According to the TP President,

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<sup>53</sup> See EIRO: "Employers propose pay freeze for 2009", 4.2.2009.

<sup>54</sup> Member unions of the Council are the Chemical Workers' Union, Metalworkers' Union, Paper Workers' Union, Wood and Allied Workers' Union, Construction Trade Union, Electrical Workers' Union, Food Workers' Union, Union of Salaried Employees TU, Association of Business School Graduates SEFE, Association of Graduate Engineers TEK, Union of Professional Engineers UIL, Graphical Workers' Union and Union of Machine Supervisors. The Council's member unions are organizing almost 750,000 employees.

<sup>55</sup> See "Council of Industrial Unions TP works for a stabilising labour market agreement", Trade Union News from Finland, 4.2. 2009.

“... under these circumstances, freezing wages, curbing the growth of purchasing power, or weakening other terms of employment are not the right solutions.”

The trade unions have called for a wide ranging social accord that would be binding on the unions, labour market confederations, central employer associations, and the Finnish public sector.

## Section three – Case studies

### The Perlos case and managing structural change in the region of Joensuu/North Karelia

#### *Introductory remarks*

This case mainly illustrates the functioning of the Finnish model of change security and in particular the role of social partners and other key actors in the process of cushioning the effects of large scale redundancies for a region. The “story” described here therefore is not about the management of restructuring at the company level only but is mainly about the important role of local external actors.

#### *Company profile and context*<sup>56</sup>

The closure of two production plants of the mobile phone cover manufacturer Perlos Oyj in Joensuu and Kontiolahti, North Karelia by September 2007 not only gained public interest in Finland but also throughout Europe since it resulted in the first application procedure in the context of the European Globalisation Fund which was established in 2006. The closure, which directly resulted in 1,400 employees made redundant, was a result of major structural change in world trade patterns and the trend to delocalise production mainly to Asia in order to get closer to the new mass markets and customers and to achieve the benefits of lower production costs.

The two production plants were located in Northern Karelia, in the East of Finland, a region which is remote from the main population centres of Finland, as well as the rest of the EU. It is a thinly populated area which had already suffered from population losses over recent years and had a level of structural unemployment significantly above the general Finnish average.

According to the labour office, the unemployment rate in Eastern Finland in 2005 was averaging 14.2%, which was clearly higher than the national average in Finland. At the end of December 2006, the share of unemployed jobseekers in the labour force in the area of the Northern Karelia Employment and Economic Development Centre was 15.0% (national figure 9.5%), already the third highest in the country.

At the end of 2006, Perlos employed a total of 1,600 people in Finland and in particular in North Karelia Perlos had an outstanding position as a significant employer. According to the North Karelia Employment and Economic Development Centre there were 12,300 industrial jobs in North Karelia in 2005 of which 2,000 or 16% were attributable to the activities of Perlos. Perlos was not only the largest industrial employer in the province but also was important as a manufacturer of high value-added products.

<sup>56</sup> This case study report is mainly based on a summary of a presentation made by Hannele Jokiniemi from the North Karelia Employment and Economic Development Centre in the context of the Finnish Social Partners’ seminar on restructuring in Helsinki on 5 March 2009.

### *The driving forces and character of restructuring*

The main reasons for the Perlos delocalisation were a combination of comparative manufacturing cost advantages, the proximity of technology partners and a strong increase in local demand with demands in Asia (in particularly China) increasing much stronger than in the rest of the world. Another key factor determining the delocalisation was also the speed of the production cycle and an increasing pressure on suppliers in the mobile phone industry to respond to orders on a “just in time” basis and thus save inventory costs and maximise product demand flexibility. This necessitates moving manufacturing sites to the immediate vicinity of the large brands. It also cuts transport costs, which are particularly important in the production of the new generation of cheap mobile phones.

Before 2007, there had already been measures of restructuring at Perlos resulting in redundancies:

- ✧ In 2005 fixed-term contracts were not renewed and sub-contracting in the province was reduced
- ✧ In 2006 Perlos cut 570 permanent jobs in Finland, the majority in North Karelia

The situation worsened dramatically on 15<sup>th</sup> January 2007 (referred to locally as “Black Monday”), when Perlos announced the factory closure and resulting in approximately 1,000 people made redundant. The job losses in 2007 amounted to approximately 1.5% of total employment in the province, but the effects on the regional economy were significantly higher, amounting to approximately 3% of total employment. The redundancies also meant a fall in the gross regional product of approximately 4% for the region of Joensuu causing quite a dramatic situation for the region. While in 2007, the turnover in Finland on average increased by 7.4%, the increase in North Karelia was only 2.3% - the lowest of all Finnish provinces.

As a result of the Perlos restructuring, the situation at the labour market worsened again after a phase of improvement in 2005-2007. In 2008 the unemployment rate in North Karelia was 13.4% and the highest in Finland.

### *Managing change and the role of social dialogue and social partners*

In 2006, and in the context of the first wave of restructuring at Perlos, a “Working Group on Responding to Structural Change” was established comprising representatives of the Employment and Economic Development Centre (T&E Centre) of Northern Karelia (chair), the municipalities, representatives of the company, trade union representatives, business development agency, the employment office and training institutions. The main task of this working group was planning measures to foster re-employment and to provide individual support for people facing redundancy.

The action plan of the working group focused in particular on:

- ✧ Services from the employment office/T&E Centre for people made redundant;
- ✧ Clarifying the requirements of public projects (in the context of ESF funding) and preparation of a project portfolio to support individual training and employment opportunities;
- ✧ Measures to attract new companies and entrepreneurs to the Joensuu region;
- ✧ Clarifying opportunities for and demand in companies for development training;
- ✧ Further measures including clarifying the possibility of continuing/completing apprenticeships at Perlos, information on various training opportunities or organising advice for employees.

These activities reflect the “normal” procedure and this menu of instruments provided by the employment office/T&E Centre have been applied in similar cases of restructuring throughout Finland. However, in addition to these measures, additional activities were undertaken, in particular as the crisis worsened:

- ✧ Telephone surveys carried out by the T&E Centre amongst regional companies in order to map their labour force needs – in 2006 all regional companies were contacted and in 2007 a targeted survey was carried out resulting also in a business prospects survey;
- ✧ On the initiative of the Perlos employees, activities aiming at “marketing” their know-how were carried out, for example in the context of the “Learn and Work Fair” or the regional “Business Marketplace”;
- ✧ The trade unions established a joint advice point in the centre of Joensuu providing information and support for workers facing redundancy;
- ✧ From February 2007, services were made available through a new “Adult Education Advice Point” in Joensuu;
- ✧ Finally, there were several activities organized to express support and solidarity. In March 2007, a “Perlos Night” was organised and the Joensuu Evangelical Lutheran Church provided counseling in the affected Perlos plants

Against these experiences and activities carried out, the working group reached some major conclusions and recommendations on the best possible ways of cushioning the effects of redundancies on individual employees and on local communities. The recommendations made also illustrate important aspects of the Finnish model of “change security”:

- ✧ In a large scale redundancy situation, special measures are required which bring together the services of different bodies;
- ✧ “Marketing” the newly available workforce and its know-how to other companies and jointly developing forms of recruitment is important as well as a joint and strong focus of all stakeholders on creating replacement jobs;
- ✧ The labour office and other labour market institutions need constantly and proactively to highlight opportunities for entrepreneurship and options of training and retraining in a proactive and repeated manner to the workers affected by restructuring;
- ✧ When an entire business is going to close down, the opportunity of giving staff time off for training and further education as early as possible is crucial;
- ✧ It is important to highlight the importance of providing opportunities for transition assistance to small businesses;
- ✧ Finally, facing large scale redundancies requires a detailed “Contingency Plan”, i.e. a preparation and action model for redundancy situations which is jointly agreed by public authorities and other stakeholders comprising major measures, responsibilities and information.

Based on this experience, in 2007 the “Structural Change Group” for the Joensuu region was founded, including representatives of the City of Joensuu (chair), the Municipality of Kontiolahki, the T&E Centre, the Perlos company, trade union representatives, business development company, the employment office and the regional council in order to implement the activities and measures mentioned above in the most effective way.

Three strands of activities have been noted as particularly important:

- ✧ First, the provision of information and advice by the employment office, training organisations, the company, unemployment funds and trade unions;

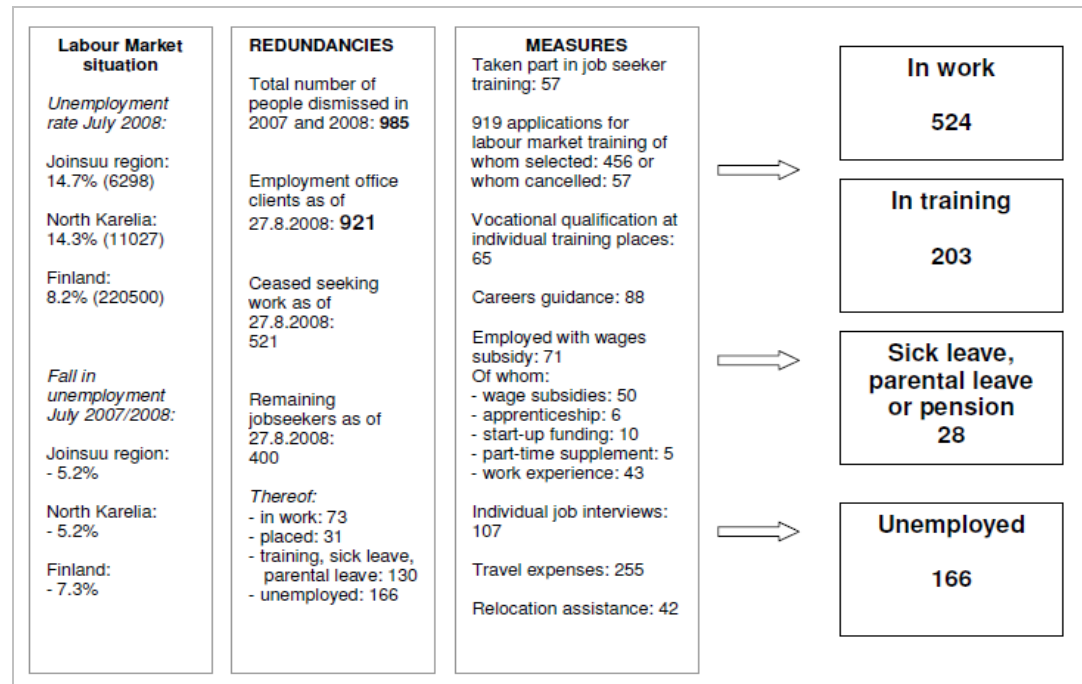


- ✧ Secondly, on-site re-employment support measures;
- ✧ Thirdly, spiritual support provided by the parishes.

These measures, which were coordinated also by a “Change Security Unit” established in 2007, relied on the mobilisation of various financial resources, e.g. the company’s financial support package, bank loans, employment and regional support funds as well as business support funds.

The following figure illustrates the impressive achievements of the various measures of support provided;

**Perlos Oy restructuring and situation as of 27.08.2008**



Source: North Karelia Employment and Economic Development Centre.

### Factors for success

According to the stakeholders involved, the most important factors in managing major redundancy situations such as the Perlos example are the following:

- ✧ It is important that a contingency plan exists which enables a quick response;
- ✧ Planning and implementing measures and support services must start immediately after information about *potential* redundancies is received;
- ✧ It is essential to ensure that there are sufficient personnel resources at the employment service available so that the needs of those made redundant can be dealt with quickly;
- ✧ Staff needs and labour demands in the regional business community must be identified immediately (telephone survey) so that action can be targeted at sectors which are recruiting, in line with the needs of the employers and employees;
- ✧ Opportunities to apply for and receive additional funding must be transparent and clarified at a stage as early as possible;
- ✧ Networking and the continuous cooperation of all relevant actors (including the company itself) and stakeholders is necessary in order to develop consistency of approach from a number of different viewpoints;

- ✧ Finally, the restructuring process and measures implemented have to be evaluated.

In the context of the Perlos case two evaluation projects clearly highlighted the importance of these factors. A survey carried out amongst workers made redundant also showed that the role of the labour office was very important in the overall process and that the trade unions played a vital role at all stages of reacting to and dealing with the restructuring process.

## Municipal restructuring in the Salo Region

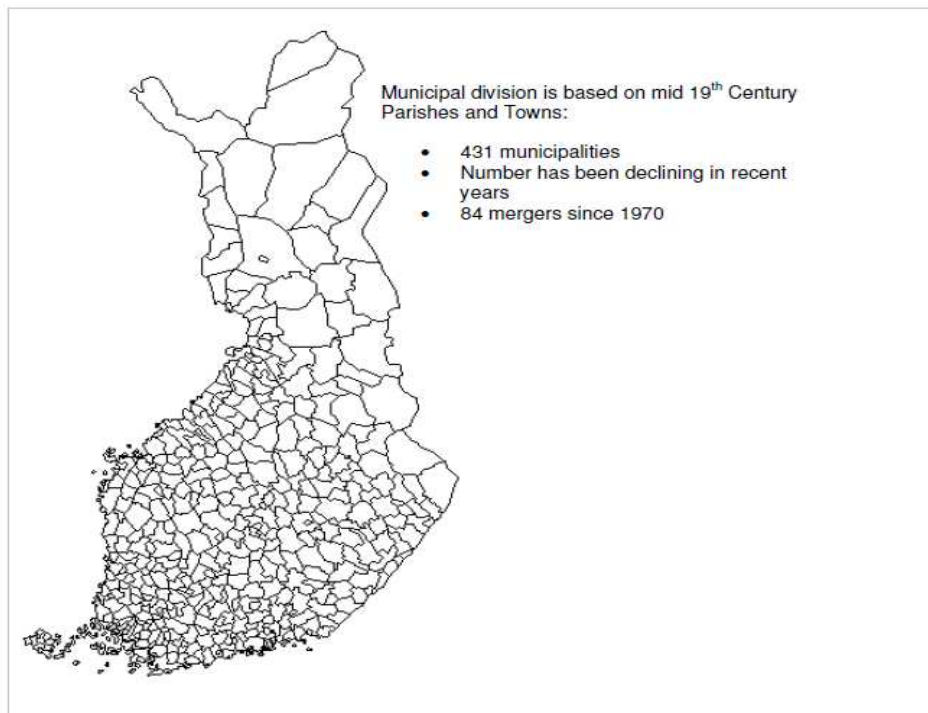
### *Profile*

The City of Salo, with a population of 54,500, is located in South-Western Finland, conveniently between the former capital Turku and the current capital Helsinki. Salo is quite well-known not only in Finland but also abroad since it hosts the Nokia headquarters.

### *Context and background of restructuring<sup>57</sup>*

Finland is a unitarian state with only two basic levels of government: state and municipalities which have shared responsibilities for the execution of the basic rights of inhabitants. Since no intermediate level exists, the scope of municipal tasks carried out in Finland is perhaps the broadest in the world.

### **Municipalities in Finland**



There are 431 municipalities and some 200 joint municipal authorities, all of which are independent employers. Each municipality is led by a town manager or municipal

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<sup>57</sup> This case study report is based on available information on the municipal reform in Finland and the presentation made by two representatives of the City of Salo (Christina Söderlund and Jorma Elovaara) in the context of the Finnish Social Partners' seminar on restructuring in Helsinki on 5 March 2009..

manager who has been appointed to a public service employment relationship by the municipality.

The municipalities provide basic public services for their inhabitants. They may provide statutory services themselves, through cooperation in the form of joint authorities comprising other municipalities or by outsourcing services to other local government or private sector operators.

The size of local and joint authorities as employers varies a lot. Three out of four municipal employers employ less than 500 people whilst the biggest employer is the City of Helsinki with some 36,000 employees.

More than 80% of all local government personnel work in the health care, social services or educational sectors, providing statutory basic local government services. Key areas in social services include children's day care, care for the elderly and social work. Health care covers specialised hospital care, primary health care, dental care and environmental health care. Ageing of the population will increase the need for health care services and care for the elderly. Education covers comprehensive schools, upper secondary schools, vocational training, polytechnics and libraries. Municipalities also have museums, theatres and orchestras.

Planning and public works deal with the necessary infrastructure. Business and services comprise unincorporated local government enterprises such as energy and transport services, some of which have also been incorporated or privatised in recent years.

The major driving forces of the reform and restructuring of the Finnish municipal structure were:

- ✧ The high fragmentation of services provided by the municipalities – with more than 400 individual municipalities and some 900 municipal administrative structures – municipal cooperation is becoming more and more important but at the same time it had become more difficult to manage it effectively;
- ✧ Economic strains and external pressures had resulted in the need for stronger cooperation in the field of business promotion and industrial policy;
- ✧ Further factors are demographic changes and, in particular the ageing population which will result in substantial change in the demand for municipal services.

Against these factors, the Finnish government initiated the "PARAS Project" in spring 2005 in order to prepare for a comprehensive reform of municipal structures, merge municipalities and develop a more effective system of local service provision. Other important objectives of the reform project were to improve and secure the provision of welfare services, to promote an attractive and competitive industrial policy and cushion staff lay-offs in the context of municipal restructuring and mergers.

In order to implement the reform in the best possible manner the following national timetable was scheduled:

- ✧ 2006: Framework legislation in the Parliament and detailed preparation;
- ✧ 2007: Framework legislation in force from January 1st; legislation drafting in the ministries;
- ✧ 2008: New legislation on elections in force; municipalities and regions prepare the execution of the reform; autumn 2008: municipal elections according to the new legislation;
- ✧ 2009: stronger municipalities and cooperation organs start from January 1st with many new laws in to force;
- ✧ 2010-2011: further execution of the legislation and follow-up of the reform.

From the perspective of the City of Salo, the restructuring process resulted in the merger of 10 municipalities in the region (Halikko, Kiikala, Kisko, Kuusjoki, Muurla, Perniö, Pertteli, Salo, Suomusjärvi and Särkisalo) and 4 further organisations into a new uniform municipality with 55,000 inhabitants called the City of Salo which together with the city of Somero constitute the Salo subregion.

In the case of the Salo, the reform process was organised mainly on the basis of the following phases: After a study phase in 2006/2007 and the decision of the municipalities to merge, the reform was implemented between June 2007 and the end of 2008. On the 1st of January 2009 the new municipality of Salo was established.

#### *The role of social partners and social dialogue in the restructuring process*

The process of municipal restructuring in the Salo region and the municipalities involved was carried out from the very beginning on the basis of an active involvement of trade unions – two shop-stewards were involved in the whole process on a full time basis.

The restructuring process was also accompanied by a collective agreement on organising administration, services and staff where employment related aspects were regulated. The agreement in particular aimed to provide a framework for job and change security and develop employment relations and standards of work for the 3,800 employees of the new municipality of Salo. The agreement was negotiated with all of the 10 municipalities and came into force after the merger into a single authority on 1st January 2009. In this context, staff job security for five years was agreed between the municipalities involved and the trade unions. A major objective of the agreement was to maintain good quality of work and the best possible human resources management in the new municipality. Consequently, the structure of the new organisation will be kept flat, heads of department will be the next level down from the mayor.

One of the most challenging tasks in the context of the restructuring process according to the trade unions involved was a smooth process of moving jobs and workplaces from the old employers to the new one. This process also includes significant changes in job descriptions and workplaces as well as employees moving to new jobs and activities. Here, the process of defining new job descriptions for the new municipality was carried out as a bottom-up process:

- ✧ First, the opinion of each employee regarding own wishes to develop their tasks at work were collected;
- ✧ Based on this, the staff organisation committee approved the job descriptions for the new municipality and placed employees according to their wishes.

This reorganisation process which was carried out in a remarkable short period of time (October 2007 – April 2008) would not have been possible without the active cooperation achieved with the shop stewards and trade unions. A major challenge in this context was pay harmonization, in particular of those employees (500 out of 3,800) whose job changed due to the restructuring.

To sum up, key factors of success according to the representatives of the municipality of Salo and the trade unions involved are the following:

- ✧ The whole process was based on a stable social consensus;
- ✧ Careful preparations included the active involvement of employee interests/trade unions;
- ✧ On this basis a remarkably rapid implementation of the reform was possible.

The Salo case today is today regarded as a model for other municipal merger processes in Finland.

## Conclusion

Finland's economic development during the last twenty years has been shaped by various forms of restructuring which have taken place at a rapid pace and intensity when compared to many other European countries. While macroeconomic restructuring in Finland followed the same broad paths of economic and structural change in the Western industrialised countries, the changes in the Finnish economy and society clearly were more intensive, e.g. the effects of globalisation and internationalisation of trade and production, the ICT revolution or the emergence of the "knowledge society".

In quite a short period of time and quite uniquely, Finland's economy experienced a comprehensive structural change from an economy very much based on forests and traditional, often forest related industries (the "forest cluster") to one of the pioneers of the "new economy" of the 1990s with a manufacturing sector meeting "best in class" global productivity levels. This change was very much driven by the success story of the Finnish information and communication technology and the electronics industry very much connected with Nokia.

In recent years, Finland has received much attention as a very dynamic economy with technology-driven prosperity, a success story of productivity growth, global competitiveness, technological achievements, capacities to innovate and adapt etc. Though this is correct, it should also be not forgotten, that Finland during the last 20 years not only experienced a long economic boom with high GDP growth and continuously increasing prosperity. At the beginning of the 1990s the country also experienced a sharp change from "boom to bust" (Jako Kiander). In contrast to the current economic crisis, the recession in the 1990 came from three mainly domestic issues – a Finnish domestic banking collapse; sharp decline in exports to Russia and reduced demand at home.

It has been noted by Finnish researchers that the "productivity miracle" of the 1990s was built to a large degree on "creative deconstruction" (Maliranta), e.g. significant restructuring at the micro-economic level and massive job destruction processes.

As this dossier shows, the specific Finnish model of social dialogue, bi- and tripartite co-operation in frameworks of "continuous negotiations" and finally the labour market model of change security played an important role in successfully managing the deep economic recession in the early 1990s as well as in the context of the current economic crisis.

In this context the Finnish example is interesting to outsiders because social dialogue has matured quickly over a relatively short period of time. The Finnish government together with the social partners have developed a number of highly interesting and innovative instruments and methods of managing change, adaptation to new challenges and tasks and crisis prevention and management. There is a particularly strong focus on investment in education and innovation. Currently, there is generally a remarkable degree of consensus amongst the social partners on the short and longer term challenges they face. In the short term the issues are early interventions in restructuring and making more use of various instruments (e.g. "temporary lay-offs") to preserve jobs. In the longer term, the problems remain ageing and structural change in the economy.

The strengths of social dialogue being able to manage structural change are based upon high trade union density; strong employers' willing to engage in joined projects; and long term engagement of the social partners in the fiscal and economic involvement that is not based on party politics.

With respect to the current economic crisis, the real dimension of which can only be vaguely estimated at the moment of writing this report, the big question is: *Will the Finnish model be able also to manage the current and international macro-economic crisis and the massive process of restructuring which is under way?*

According to the Finnish social partners, there are uncertainties about the outcome of the current economic situation and the measures adopted by the Finnish government in order to recover. In this context there is also a broad consensus on the need to improve and further develop the model of change security (key issues in this context are the coverage of SMEs and improving occupational and geographical flexibility).

Although the circumstances (including the room of manoeuvre of domestic monetary policy, i.e. a recovery strategy mainly relying on currency and export increase) are different today from 18 years ago – and surely not easier to manage – a major result of this report is that the preconditions, institutional settings and competences of social partners available in Finland in general are more positive than in many other European countries.

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## Annex

### Labour market settlements and development of earnings of wage earners in the period of incomes policy settlements

Year	Labour Market Settlement MChange from previous year in percentage points	All wage earners		
		Pay Level %	Agreements %	Inflation* %
1969	Liinamaa I	6.3	3.8	1.4
1970	Liinamaa II	9.2	4.9	3.1
1971	The UKK agreement	14.9	12.4	8.6
1972	The Härmäläinen-Laatuinen agreement	11.1	7.5	7.1
1973	Sector-specific agreements	17.2	11.7	14.7
1974	Lindblom phase 1.	22.6	13.5	17.7
1975	2. phase	19.6	12.3	17.6
1976	Miettunen mediation	11.2	7.8	12.7
1977	Liinamaa recommendation phase 1.	9.3	6.0	12.1
1978	2. phase	8.3	5.9	6.1
1979	Somerto-Oivio agreement	9.6	8.0	8.0
1980	Sector-specific agreements	14.9	12.4	13.5
1981	Pekkanen I year 1	10.9	8.2	10.5
1982	Pekkanen I year 2	11.9	8.2	10.5
1983	Sector-specific agreements	10.1	7.6	9.0
1984	Pekkanen (II) year 1.	7.3	4.6	6.3
1985	Pekkanen (II) year 2.	8.1	5.3	4.9
1986	Centralised	7.1	4.5	3.4
1987	Centralised	6.7	5.0	3.7
1988	Sector-specific agreements	10.3	8.0	5.9
1989	Kallio I	8.4	4.9	6.8
1990	Kallio II phase 1.	10.1	6.3	5.4
1991	Kallio II phase 2.	4.1	2.6	3.4
1992	Income policy agreement	1.0	0.0	2.5
1993	Income policy agreement	1.0	0.1	1.5
1994	Sector-specific agreements	2.2	0.9	1.7
1995	Sector-specific agreements	3.8	3.2	0.3
1996	TTT agreement phase 1.	6.0	5.4	0.7
1997	2. phase	3.8	2.5	1.8
1998	TTT agreement phase 1.	1.0	0.0	0.9
1999	2. phase	3.4	2.7	1.6
2000	Sector-specific agreements	2.9	1.8	3.9
2001	Incomes policy agreement phase 1.	4.4	3.2	1.7
2002	2. phase	3.2	2.4	1.6
2003	Income policy agreement phase 1	4.0	3.0	0.5
2004	2. phase	3.9	2.2	0.6
2005	Income policy agreement	3.5**	2.6	0.9

Source: Statistics Finland; Changes in pay levels. Impacts of agreements and drifts, and the impact of structural change in years 1968-1995. Percentage change from 4th quarter till 4th quarter

\* Consumer price index 1951:10=100, yearly revision to the IV quarter

\*\* Advance information

Source: Ministry of Labour: Industrial Relations and Labour Legislation in Finland, p. 20