



From Steering Capitalism to Seeking Market Acceptance

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Sami Outinen 

FROM STEERING CAPITALISM TO SEEKING MARKET ACCEPTANCE

Social Democrats and employment in Finland,
1975–1998

This article puts into a historical context the employment conceptions and policies of leading Social Democrats in Finland from 1975 to 1998. It takes into account both the strategic decision-making and public argumentation of the Social Democrats in employment-sensitive issues related to economic, employment, labour market, state company, competition, globalization and integration policies.

Finland's Social Democrats moved towards emphasizing private sector-led employment, approached the middle classes, adopted monetarist ideas, accepted the 'market economy' and favoured 'controlled restructuring' over counter-cyclical measures in a series of steps in 1975–1998. The deregulation of financial markets meant a shifting of the basis of Social Democratic employment policy from steering the capitalist economy to seeking market acceptance of the party's politics. This did not manage to guarantee full employment in Finland during the period.

Furthermore, Finland's Social Democrats seemed initially to practise a 'third way' type of 'Bad Sillanpää' policy long before its adherents in the UK, such as Tony Blair. After the mid-1970s, the Finnish Social Democrat-led governments no longer imitated Sweden, while implementing many reforms which were followed by the Swedish Social Democrats.

Keywords Finland, social democracy, employment, economic policy, third way, Nordic, globalization

Introduction

The aim of this article is to put into a historical context the employment conceptions and policies of leading Social Democrats in Finland from 1975 to 1998. It concentrates on the decision-making of the most influential political party in Finland at that time,

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the Social Democratic Party (SDP), and analyses how leading Social Democrats conceptualized the transformation of Keynesian post-1945 welfare states with full employment policies into unemployment-hit Schumpeterian post-national workfare regimes from the mid-1970s onwards.¹ This happened also in wage work-oriented Nordic societies,² such as Finland, where Social Democrats urged the maintenance or achievement of full employment.³

Regulation theory distinguishes five interacting fundamental institutional forms in capitalist societies. This cross-sectional framework enables us to sketch the most significant dimensions of employment and analyse the employment-related policies (given in brackets) of Finland's Social Democrats as follows: the nature of the state (economic employment and unemployment security policies); the wage-labour nexus (labour market agreements); the monetary regime (national and global monetary regulation); the forms of competition (state company, privatization and competition policy issues); and international interaction, examples and parallels (European integration and economic globalization, as well as the impact of Sweden and international organizations).⁴

The following empirical archival analysis reveals that the leading Finnish Social Democrats considered that general economic policies, labour market policies and transnational connections had a more important impact on employment than the more narrowly defined 'employment policy' (public employment measures governed by the Ministry of Labour), 'unemployment security policy' or the development of public welfare services in 1975–1998. Globalizing financial markets gained a substantial role in Social Democratic employment conceptions, whereas at the same time the role of state companies was weakened in their opinion.

The dilemma of social democracy⁵ and unemployment has been explained by weakening global economic growth,⁶ the rising of the middle classes⁷ and the increasing attractiveness of neoliberalism also among Social Democrats.⁸ However, these factors do not themselves explain why social democracy and its full employment policy faced difficulties from the mid-1970s on. It is important also to analyse how Social Democrats themselves have conceptualized these processes and practised policies which have changed the premises of employment. Thus, the goal of this article is to research how Social Democratic strategic decision-making and public argumentation on employment issues developed in Finland in 1975–1998.

An important aspect of this is the relation of Finnish Social Democrats' own employment-related ideas to the concepts of socialism, capitalism, markets and neoliberalism. Neoliberalism is an established ideology which has been formulated by, for example, Friedrich von Hayek from the 1930s onwards. Its breakthrough occurred in the 1970s when Milton Friedman managed to motivate the feasibility of neoliberal premises amidst an economic downturn in the West. It included in its central features public service and social benefit retrenchments, labour market flexibility, privatization, tight fiscal policy against budget deficits, tight monetary policy against inflation and free exchange rates, as well as free movement of goods, services, capital and labour within and across nations.⁹

Studying these factors enables us to observe new hybrids of thought between social democracy, other ideologies and economic theories, as well as to analyse the continued importance of Sweden as a (Nordic) model for Finland from the 1930s to the 1980s.¹⁰ Furthermore, the article analyses the relation of Finland's Social Democrats to the discussions on the crisis,¹¹ direction,¹² third ways¹³ and the future of social democracy.

It initially seems that Finland belonged to the avant-garde of the Social Democratic 'third-way policy' compared to the Centre-Left policies of Bill Clinton's democrats, Tony Blair's New Labour and Gerhard Schröder's Social Democratic Party of Germany (SPD) in the 1990s.

This article applies the methods of conceptual history. This means analysing how research subjects themselves have interpreted and conceptualized the surrounding reality,¹⁴ constructed social problems¹⁵ and made reflexive comparisons,¹⁶ based on their experiences and expectations.¹⁷ It means deconstructing the ways in which leading Finnish Social Democrats sketched their alternative scopes of action in time and distinguishing the struggles between the different conceptions of employment of leading Social Democrats.

Thus, the article analyses what factors the leading Social Democrats *themselves* perceived to be *the most critical* from the point of view of employment in Finland in 1975–1998 and how they *themselves* conceptualized the impact of globalization, European integration, other political parties and business interests on their policies. The primary aim of this article is to distinguish *the major turns* and conflict lines in the employment-related decision-making and thought of leading Finnish Social Democrats.

This means analysing Social Democratic employment-sensitive political processes from agenda and goal setting via decision-making to the implementation of those decisions. It enables one to analyse the interaction of ideas and action in decision-making, and raises the question of whether Social Democratic programmes steered their decision-making or vice versa. In this way it is also possible to observe what strategic and structural factors explain the transformations in Social Democratic conceptions of employment in Finland in 1975–1998.

The analysis is based on the discussions, decisions, programmes, declarations and supplementary material of the SDP's Party Conferences and Party Directorate. The latter made all major decisions on the party's policies between party conferences usually organized triennially. The reading of the protocols of these bodies indicate that the SDP's position on employment-sensitive decisions of Finnish governments (the SDP took part in Finnish coalition governments in 1975–1998, except from 29 September 1976–15 May 1977 and 26 April 1991–13 April 1995) and the Bank of Finland were usually decided or at least discussed in the weekly meetings of the party's Directorate. Social Democratic ministers and a representative of the influential Central Organization of Finnish Trade Unions (SAK) usually took part in its meetings. The broader Party Council, which met a few times each year, was a leading body of the SDP between Party Conferences, but its influence in the party's daily politics was secondary compared to the Party Directorate. Furthermore, the decision-making in the Social Democratic Group in the SAK (the sole central organization of occupational trade unions) will be analysed in this article. This group dealt with the SAK's integral labour market-related issues before these were formally decided upon together with the Communists, the People's Democrats and, from the 1990s onwards, the representatives of the Left Alliance in the SAK's official organizations.

Consequently, the major sources of this project are, first, the protocols of Finland's Social Democrats describing their strategic decision-making and, second, the discussions in party congresses and programmes which may serve several functions from the blueprints of action to strengthening inner-party cohesion and seeking voter

or market acceptance.¹⁸ Thus, the most important archival sources for this article have been the protocols of the discussions of the SDP's governing bodies and the protocols of the Social Democratic Group in the SAK.

This introduction will be followed by four chronological sections: 'Bad Sillanpää' presents Social Democratic middle class-oriented third way policy in Finland in 1975–1978. 'Controlled Restructuring' shows Social Democratic answers to the challenges of industrial restructuring in Finland in the 1980s. 'Seeking Market Acceptance' analyses how the reactions of market forces become a major factor in Social Democratic employment issues in the 1990s. Finally, the last section draws conclusions concerning the article as a whole.

Bad Sillanpää (1975–1978)

From the early 1960s, Finland developed into a modern Western welfare state as a result of rapid structural change, changing from a primarily agrarian country into an industrial and service-intensive economy. The Finnish economy was built around the characteristics of economic growth, a strong export industry, wage work and rational planning. The main tenets of Finnish welfare policy were earnings-related social benefits, widening public services and collective labour market agreements built on a highly unionized labour force from the late 1960s onwards. State-owned companies played an important role in industrial production. Prices, wages, the movement of capital, interest rates and rents were regulated by state authorities and thus, ultimately, by the parliamentary political system, partly in collaboration with labour market partners.¹⁹ The economic boom in the first half of the 1970s meant that the Finnish economy recovered from the slower growth experienced in the late 1960s.²⁰

The building of the Finnish welfare state was generated by the parliamentary majority of the Left in the period 1958–1962²¹ and a consensus between employers and employees on the idea that skilled factory workers were the most important group within the Finnish economy. Furthermore, the Left again gained a parliamentary majority in 1966–1970 and formed, together with the Centre parties (Centre Party, Liberal People's Party and Swedish People's Party of Finland), several influential coalition governments in 1966–1975. In the same period, the division of both the SDP and blue-collar trade union into two organizations (the SDP was organizationally divided in 1959–1973 and the SAK in 1960–1969) ended, and a consensus-seeking approach, which was also promoted by President Urho Kekkonen, strengthened in Finnish society.²²

Finnish economic growth deteriorated at the turn of 1974/1975. Prime Minister and SDP party secretary Kalevi Sorsa argued in his party's Directorate that the future choices in economic and incomes policy (collective nation-wide agreements between government, labour market parties and agricultural producers on terms and conditions of employment, taxes, prices and social policy reforms) varied between 'dark and horrible'. He concluded that the negative trade balance was becoming the most difficult problem for the Finnish economy, and both the unemployment rate and inflation were predicted to rise.²³

The SDP decided in early 1975 that its primary objective was to improve Finland's negative balance of payments (Protocol (P) 23.1.1975, SDP:n talouspoliittisen työryhmän pöytäkirjoja liitteinen 1973–1975.²⁴ Its representatives in the government

supported the decision to strengthen fiscal policy.²⁵ In the meeting of the party's Directorate, Prime Minister Sorsa said that his coalition government (SDP and Centre parties) would allow a modest rise in unemployment as a necessary consequence of its measures. Public service cuts were only criticized at the meeting by Jaakko Hyvönen (a member of the Directorate) and Ulf Sundqvist (Minister of Education).²⁶ Social Democratic economic experts argued that the intensifying speculation against the Finnish markka in the financial markets made it difficult to practise a counter-cyclical economic policy.²⁷ This meant that the SDP's economic and employment policy followed a capitalist rationality.

However, the Social Democrats still stressed that democratic socialism was the ideological glue that held their programmes together at the SDP's party congress in Jyväskylä in the summer of 1975. According to the *Declaration of Domestic Policy*, their long-term goal was a 'socialist society' and 'equality between people', which would be achieved by seeking the support of the majority of citizens. Social Democrats declared that 'the central means of democratic economic planning' were 'the effective regulation of capital movements, strong expansion of the production of state companies and co-operatives, the directing of private firms, active employment and regional policy and the regulation of foreign trade'. They also favoured industrial democracy, endorsed 'the societal control of commercial banks and insurance companies' and wanted to increase public services.²⁸

Lasse Lehtinen argues that the above-mentioned programmes were meant to win the support of the post-war baby boom generation, which had become partly radicalized in the late 1960s.²⁹ Paavo Lipponen, one of the architects of SDP's *Declaration of Domestic Policy* in the party office, writes in his memoirs that the writers of the declaration wanted to stabilize the party's identity around the ideological fervour of the adherents of the party leader Rafael Paasio. Paasio had unified the divided party in the 1960s but resigned from his post in 1975.³⁰ However, some of the most radical Social Democrats, such as Liisa Jaakonsaari from Oulu, understood the implementing of the content of the new programmes in practice as a precondition of co-operating with bourgeoisie parties in future coalition governments.³¹ This means that, ideologically, Finland's Social Democrats connected with Kautskyian social democracy, i.e. short-term reformism and a long-term maturing of the socialist revolution. This was in line with their existing Principal Programme, which was accepted back in 1952.³²

Furthermore, SDP's programmatic goal to promote state-driven rational economic planning dates back to the original ideas of Rudolf Hilferding and Otto Bauer in Germany and Austria in the 1920s.³³ In Finland these ideas were developed, for example, in the discussion of the so-called 'O-group' in 1955–1962. This group, which included later influential Social Democratic politicians and economists such as Mauno Koivisto, based its ideas on the logical empiricism of the Finnish philosopher Eino Kaila.³⁴

The rapid rise of unemployment led to the establishment of the so-called emergency government in November 1975.³⁵ The Centre-Left coalition government argued strongly over the means to reduce unemployment. This meant that the Social Democrats distanced themselves from both the Centre Party and the Communists and found an agreement with business circles. In January 1976, the newly-elected SDP leader Kalevi Sorsa and party secretary Ulf Sundqvist, together with a couple of

ministers, decided to support the strategy formulated by the former director of the Bank of Finland, Klaus Waris. This meant stabilizing the value of the currency (the Finnish markka) with a strict budget and incomes policy. The aim was to curb inflation and high unemployment had to be tolerated until the economy recovered.³⁶

A central observation is that the SDP, now in opposition as a result of the dissolution of the emergency government in September 1976,³⁷ decided to transform its *practical* short-term policy in early 1977. Party leader Sorsa argued that the SDP had gathered 'at Bad Sillanpää' to transform its policy towards the favouring of export-sector profitability and to distance itself from its socialist image due to seeking support from the rising middle-class. This happened at the meeting of SDP's Directorate on 25–26 January 1977.³⁸ 'Bad Sillanpää' refers to West Germany's Social Democrats' Bad Godesberg programme in 1959. The meeting of the SDP's Party Directorate was arranged at Siuntio Spa, which was owned by the Miina Sillanpää Foundation. Thus, Sorsa compared the meeting at 'Bad Sillanpää' to SPD's Bad Godesberg Programme, which was accepted at Bad ['spa' in English] Godesberg. Through that programme, Germany's Social Democrats disconnected themselves *in principle* from Kautskyan and Marxian principles and transformed themselves into a party for all people in order to improve their support.³⁹

Sorsa and SAK's chairman Pekka Oivio were committed to the 'Bad Sillanpää strategy', which was created by the SDP's Economic Expert Group. This group was led by the former Social Democratic Finance Minister Paul Paavela and it consisted of Social Democratic economists and civil servants of the Ministry of Finance.⁴⁰ Paavela's group suggested decreasing company taxation, increasing productivity, improving the export sector's cost-competitiveness and practising strict financial and monetary policy. This was meant to stabilize the economy and to concentrate on an anti-inflation policy by keeping wage rises moderate and reducing income tax. The group justified this by stating that Finland suffered from weak productivity, and a weak ability to both introduce export products to markets and adapt to market conditions compared to Sweden. According to Paavela's group, the only means to increase employment during the following year was to decrease production costs, even if it also suggested increasing the loans from the State Investment Fund (a state-run institution which financed investments in companies).⁴¹

The SDP's Party Council accepted the main features of the Bad Sillanpää programme of 9 March 1977;⁴² however, a minority of the members of the SDP's Directorate (Pentti Sahi from Jyväskylä and Pekka Sarkkinen from the party's youth organization) would still have preferred to revive the economy by increasing the public debt. Sarkkinen and Jacob Söderman from the Finnish-Swedish Social Democrats also argued for increased public sector jobs. This kind of Keynesian-oriented counter-cyclical economic policy did not win enough support inside the SDP's Council or Directorate.⁴³ Furthermore, Sahi and several Social Democrats in the SAK did not like the fact that the Bad Sillanpää programme meant giving up policies that would see a return to full employment immediately.⁴⁴

The Bad Sillanpää programme became a political reality in Finland from the summer of 1977 onwards. A new Centre-Left coalition government headed by the Social Democratic party leader Kalevi Sorsa started to resuscitate the economy by supporting private industry, promoting lower inflation, restricting the yearly increase in the state budget and reducing the current balance of payments. Its

goal was to lower the unemployment rate gradually to 2.5% by 1982, end the increase of the state debt and, remarkably, keep the tax ceiling no higher than 40% of the GDP.⁴⁵

The new Finance Minister, Paul Paavela, managed to include the previously mentioned main propositions of his Economic Expert Group into the government's programme. The only exception was that a tax ceiling was introduced by the Sorsa's government. However, tax reliefs for both workers and companies had been the central object of Paavela's group.

In the Korpilampi Congress on 5 September 1977, finance Minister Paul Paavela presented the idea of the new politics by stressing the importance of guaranteeing productive investments in order to stabilize the economy. Increasing income transfers had not, according to Paavela, helped attain the goals of economic policy. Thus, there were no good reasons to fund such transfers by taking on foreign debt, diminishing public services or increasing taxes. According to Paavela, the tax ceiling was not the problem, because of the 'rather high level of welfare' in Finland. Paavela framed the future in such a way that ensuring a decent rate of growth (and thus the ability to fund the welfare state) in the future meant that one had to guarantee the competitiveness of the export sector. This, in turn, was only possible by keeping inflation below the level of other countries. All these changes were connected to a more effective research and innovation policy. He rejected the idea of 'escaping to protectionism' because it would mean the lowering of the overall standard of living in Finland. Paavela thought that it was too expensive and even futile to try to resuscitate the economy by increasing public consumption. Private-sector production itself was the most effective vehicle to maintain employment.⁴⁶

Pirkko Työläjärvi (Minister of Social Affairs and Health), for her part, wanted to invest in public services to avoid work-related migration to Sweden. She referred to the Swedish model of higher wages, better social security and the implementing of industrial democracy in her speech at Korpilampi. These ideas, however, remained in the shadow of the Bad Sillanpää policy, even though Sulo Penttilä (Chair of the Finnish Metalworkers' Union) would have raised wages to the Swedish and Norwegian level to increase productivity.⁴⁷

All in all, the 'Consensus of Korpilampi' marketed the ideas of Bad Sillanpää to a wider public. Paul Paavela compared the policies of Korpilampi to the decisions of the SDP-led government in early 1975.⁴⁸ The Centre-Left government maintained these principles up to the end of its period in office in the spring of 1979.⁴⁹ The connection between Bad Sillanpää and the Consensus of Korpilampi has not been noticed in the previous research, even if SDP's business-friendly turn has been noted by Antti Kujala⁵⁰ and Jukka Tarkka.⁵¹ Pauli Kettunen⁵² and Juho Saari⁵³ rightly connect the Korpilampi conference to the government's marketing of the company-driven resuscitation to the general public.

Thus, the transformation of Social Democratic policy in 1975–1978 could be labelled the Bad Sillanpää policy. It meant, according to SDP's leader Kalevi Sorsa, the practising of a brand new Social Democratic policy in Finland. The SDP stressed more than it had before the advantages of private production and wanted to curb unemployment by improving the export sector's competitiveness over the long term. Employment policy became more market-oriented than before in Finland, even if a cyclical policy had always been weak in national⁵⁴ and Social Democratic policy.⁵⁵

Controlled restructuring (1979–1990)

The concept of ‘controlled restructuring’ emerged for the first time in Social Democratic discourse in the SDP’s parliamentary election programme in 1979.⁵⁶ In the following century, it became the means through which the SDP controlled industrial restructuring. The Bad Sillanpää programme became, in a series of steps, the main Social Democratic strategy for handling employment questions.

In May 1979, the new Social Democratic Prime Minister, Mauno Koivisto, committed himself to the idea that taming inflation and increased competitiveness was the primary way to improve employment,⁵⁷ (SDPdd, CA 80, TA). This also required a tight fiscal policy. The SDP managed to prevent the suggestions of its coalition government partners, the Centre Party and the People’s Democrats (Communists), during the negotiations of the government’s programme, which would have meant a substantial rise in the state’s expenditures. Its negotiators, Koivisto, his assistant Seppo Lindblom, party leader Kalevi Sorsa, party secretary Ulf Sundqvist and the Head of Planning at the SDP’s party office Paavo Lipponen, also favoured the maintaining of a tax ceiling.⁵⁸ This contributed to stopping an increase in the relative size of the public sector.

Guaranteeing the export sector’s competitiveness by taming the costs of companies and the public sector was followed in the 1980s by SDP’s disengaging from the spiral of inflation–devaluation.⁵⁹ This idea became the core of the economic policy of the following Centre-Left governments (1982–1983 and 1983–1987), which were led by Sorsa after Koivisto was elected President in January 1982.⁶⁰ The SDP-led government’s controlled restructuring policy also meant a commitment to the continuation of the rationalization and automation of production along with shortening working hours and easing retirement entry.⁶¹ Furthermore, the SDP actively urged increasing public research and development (R&D) expenditures, which were meant to reach ‘the Nordic level’.⁶² In 1982, Sorsa’s government committed itself to raising the share of public R&D investments from 1.2% to 2.2% of the GDP over the following 10 years.⁶³

The above-mentioned primary employment policy tools were supplemented by the SDP’s active labour market policy. It meant public investments in occupational education, temporary works and rehabilitation measures for the unemployed, as well as promoting workers’ mobility in Finland in the early 1980s. Ulf Sundqvist presented the Swedish active labour market policy as an example for Finland, while negotiating the government’s programme in 1979.⁶⁴ These Swedish ideas were adopted for the first time in Finland after the mid-1960s.⁶⁵ Part of the active labour market policy, namely an employment subsidy for young people, called ‘youth societal guarantee’ (*‘nuorten yhteiskuntatakuu’*), was implemented in Finland in 1981.⁶⁶ This followed the Norwegian example, which was presented in Finland by the Central League of Social Democratic Youth in 1976.⁶⁷

The idea that salaried work was a basic component of Social Democratic thought was partly challenged in the 1980s. André Gorz was a social philosopher whose concept of ‘liberation’ from work, instead of just easing or abolishing capitalist labour relations, was supported by some of Finland’s Social Democrats. This happened when party members reassessed the SDP’s Principal Programme in the 1980s.⁶⁸ Gorz’s analysis was that the Marxian theory that the proletariat would inevitably become a majority in society had not

come true. This was because the working class had been transformed into a privileged minority who could not govern the means of production. Thus, favouring the rationalization of production was no longer in the interests of the working class.⁶⁹

The majority of Finland's Social Democrats felt, during the preparatory phase of the party's new Principal Programme, that the emerging 'post-industrialism' had to be regulated by shortening working hours and regulating industrial development. This would guarantee that in the future every worker could earn his/her living by working. Only a minority of Social Democrats wanted to introduce a so-called citizen's wage in order to liberate people from the burden of salaried work;⁷⁰ however, the SDP made concessions to the post-material and individual values of the New Left and the 1960s generation.⁷¹ It stressed in its renewed Principal Programme in 1987 that the SDP represented not only waged workers but everyone who shared the party's principles. Accordingly, the SDP stated in the same spirit that ecological limits had to be taken into account while improving the welfare of the people.⁷²

The SDP's Committee of Principal Programme, which sketched the party's new Principal Programme, separated the concepts of a 'capitalist market economy' and the 'market'. The former was still opposed by the committee, whereas the latter was conditionally accepted. The committee coined the notion of 'market socialism';⁷³ this implied the discontinuation of Social Democratic identity. The idea that the market directed the economy was acknowledged in the new Principal Programme at the SDP's Party Conference in 1987. Furthermore, it urged that everyone's right to work would be guaranteed in the new programme.⁷⁴

'Controlled restructuring', promoted by the Organization for Economic Co-operation and Development,⁷⁵ became a core concept of the so-called Blue-Red Coalition government (its main parties were the conservative-liberal National Coalition Party and the SDP). This meant promoting new, flexible and innovative production and re-educating as well as relocating unemployed. This was intended to increase the competitiveness of export-orientated companies. The government also urged a reduction of income taxation, and committed itself to not increasing public expenditure more than the rise of growth and productivity, and to increasing private funding of state companies;⁷⁶ the Social Democrats had already committed themselves to supporting the profitability of state companies in 1983.⁷⁷ The guaranteeing of the continuity of a stable (anti-inflationist and non-devaluation) economic policy was one of the reasons behind the shifting of the SDP's main government partner from the Centre Party to the National Coalition Party in 1987.⁷⁸

The commitment to controlled restructuring did not manage to reduce the number of unemployed to below 100,000 (Figure 1), despite the strong economic growth of the late 1980s (Figure 2). Even though the social expenditure to GDP ratio rose between 1982 and 1986 from 22.5% to 25.5%, the public expenditure to GDP ratio was still 42% in Finland in 1989.⁷⁹ Finnish public services expanded in the 1980s;⁸⁰ however, this was more a consequence of high economic growth in European comparison and the building of national primary school, health centre and day care networks (this was agreed before the mid-1970s)⁸¹ than from strongly social democratic-oriented economic policy of Finnish governments from Bad Sillanpää onwards.

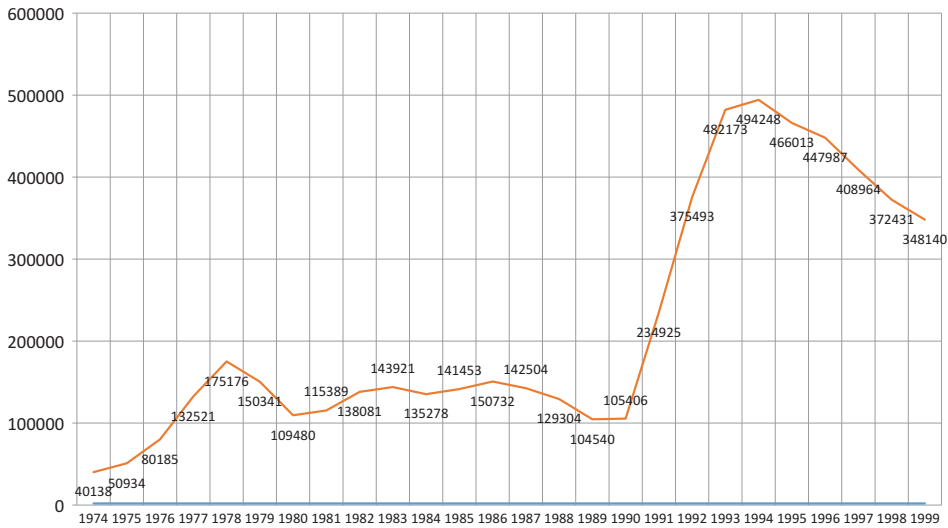


FIGURE 1 Average yearly number of job seekers in employment offices in Finland, 1973–1999.⁸²

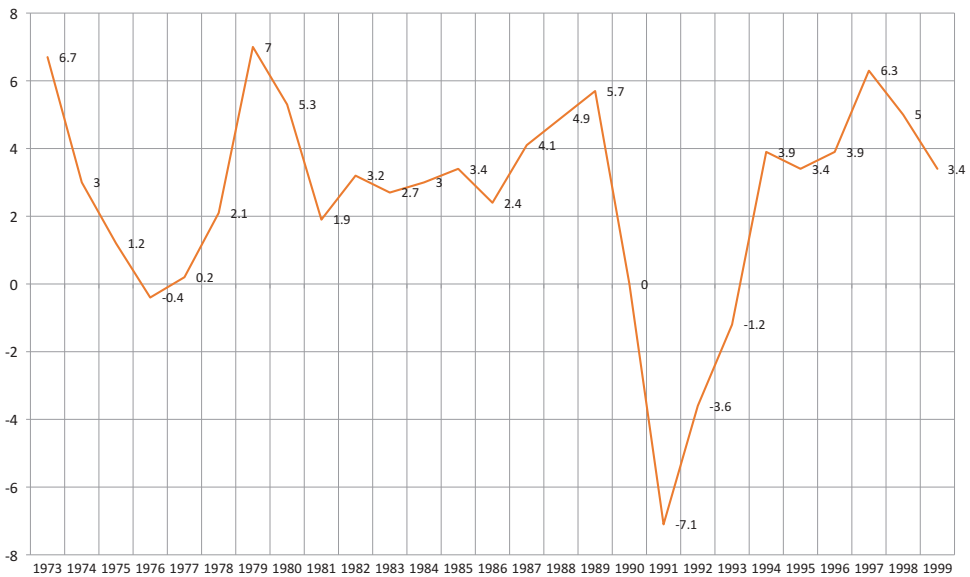


FIGURE 2 Yearly change of gross national product in Finland, 1975–1999 (%).⁸³

Seeking market acceptance (1991–1998)

Social Democratic ideas about employment were heavily influenced by the liberalization of financial markets. The power of capital increased in Finland, especially after the Bank of Finland decided to dissolve the regulation of interest rates in August 1986. The immediate reason for this decision was to avoid a devaluation of the

Finnish markka. The representatives of large commercial banks promised to transfer capital back to Finland after this decision.⁸⁴ This guaranteed the continuation of the Social Democratic anti-deflationary monetary policy; however, the price to be paid for limiting the state's regulation of the economy was enormous.

In the 1980s, Social Democrats argued over whether the liberalization of capitalist regulation was favourable or not. Some of them (such as members of the Party Directorate Matti Puhakka and Jarmo Rantanen and a participant of the Party Conference Jukka Gustafsson from Tampere) feared that freeing capital flows meant weakening productive investments and thus the basic condition for employment. The increase of speculative investments was seen to weaken opportunities to direct the economy and practise economic planning. Trade and Industry Minister Seppo Lindblom, on the other hand, believed that 'the grey monetary market' only had a favourable impact on the real economy and investment decisions.⁸⁵ Furthermore, the SDP's Working Group for Employment Policy stressed that the removal of capital controls required counter measures such as increasing public R&D investments, risk capital and investment in education.⁸⁶

Leading Social Democrats understood the heavy impact of the dissolution of the interest rate cartel on Finnish economic policy. This decision was agreed upon in the private meeting between the Chairman of the Central Bank, Rolf Kullberg, Prime Minister Kalevi Sorsa and Finance Minister Esko Ollila (Centre Party) in the summer of 1986.⁸⁷ Sorsa stated in the SDP's Party Directorate that this measure was seen to be necessary and Social Democrats should adapt themselves to its consequences.⁸⁸

It was clear to Social Democratic decision-makers that the dissolution of the interest rate cartel would mean higher interest rates during economic downturns (Governor of the Central Bank Erkki Liikanen),⁸⁹ a more moderate labour market policy (Seppo Lindblom), unwelcome surprises (Sorsa), a company-friendly budgetary policy (Social Democratic economist and a civil servant in the Ministry of Finance, Raimo Sailas) and the need to give the impression that budgetary measures supported financial stability (Sailas).⁹⁰ Social Democratic members of parliament Jukka Gustafsson and Liisa Jaakonsaari wanted to add a sentence about the increasing monitoring and directing of finance capital to the programme of the Blue-Red Government in the spring of 1987. They did not, however, get enough support for this measure in the meeting of the party's Directorate.⁹¹

Thus, leading Social Democrats were not active proponents of the liberation of capital flows, but they adapted to the substantial increase in the power of the market and the reduction in the ability to engage in economic planning. This meant that Social Democrats accepted that the market's reactions should be taken into account before making important economic and employment policy decisions and that those decisions should be justified in a way that satisfied market forces.

This process was part of the transformation of Western economic regulation from its post-war mixed economy, low interest rate policy and the promotion of productive investments to ensure low inflation, positive real interest rates and stable currencies. This meant weakening the premises of a counter-cyclical economic policy and harsh capital competition between different geographical entities.⁹²

According to Ashley Lavelle, the acceptance of the hegemony of capital was the price that reformist social democracy paid to guarantee steady economic growth after this growth was weakened in the 1970s.⁹³ From this point of view, it is interesting that

Finland's Social Democrats were also committed to the liberalization of financial markets despite decent economic growth in the 1980s. Thus, the increasing power of capital is a better explanation of the reasons behind positive Social Democratic attitudes towards capital from the 1970s onwards.

Finland followed the Swedish example of liberating capital markets.⁹⁴ Leading Swedish Social Democratic economists had thought, before the parliamentary elections of 1982, that the expansion of the public sector as a percentage of the GDP must be stopped and that the new reforms must be funded either by other budget cuts or by economic growth in the new era of globalization. Thus, the new Social Democratic government followed the new 'Third Road' policy, located between the Swedish interpretation of Keynesianism and the Neoliberal austerity policy after entering office in Sweden in 1982. It funded the new reforms by budget cuts, decided to deregulate the financial markets in 1985–1986, urged all state enterprises to make profits, partly privatized some state enterprises, devalued the crown by 16% to improve the competitiveness of the export sector and persuaded the unions to agree to wage restraint. This meant increasing capital profits relative to wages.⁹⁵

However, Finland's Social Democrat-led governments had already implemented many reforms that resembled the premises of the Swedish Social Democrats' Third Way Programme in the 1980s. This meant that Finland did not just follow the Swedish example after the mid-1970s. *Bad Sillanpää* and 'Controlled Restructuring' consisted of many features that were adopted in Sweden in the 1980s.

Furthermore, it initially seems that Finland belonged to the avant-garde of the Social Democratic 'third-way policy' compared to the Centre-Left policies of Bill Clinton's democrats, Tony Blair's New Labour, and Gerhard Schröder's SPD in the 1990s.⁹⁶ It is remarkable that this happened long before the collapse of the east European Communist bloc. Thus, the end of the Cold War and its consequences do not explain the market friendliness of Nordic Social Democrats, despite the euphoric pro-market statements of a few of Finland's leading Social Democrats (Finance Minister Erkki Liikanen and Member of the Party Directorate Paavo Lipponen) in the aftermath of the fall of the Berlin Wall in 1990.⁹⁷

Unlike Sweden, Finland also joined the European Monetary Union (EMU) in 1999. Finland's Social Democrats favoured the decision.⁹⁸ The trade unions had also accepted this, especially after guaranteeing the continuation of the Finnish labour market model. This meant that branch-level labour market agreements were usually generally binding, even though not all employers were organized in employers' associations. Another important mechanism in this respect was the creating of buffer funds in the unemployment security and pension systems in order to ease the worst cyclical problems in the asymmetric currency area.⁹⁹

Social Democrats initially wanted employment criteria added to the EMU's rules,¹⁰⁰ but this demand was 'forgotten' after the high unemployment rate in EMU-country comparison threatened to hinder Finland joining the EMU in the first phase in 1999. This was because it was estimated that Finland's unemployment rate would have been higher than the planned EMU criteria would have permitted.¹⁰¹

The SDP motivated its positive attitude to the EMU by, for example, guaranteeing the continuity of its own and the Finnish economic policy. This was based on according to the SDP's EMU declaration on a balanced and stable economy, a low inflation and

anti-devaluation policy which promoted low interest rates, private investments and increasing employment.¹⁰² Social Democratic EMU opponents did not believe that the European Union (EU) had enough resources to tame unemployment in the structurally asymmetric EMU area. This argument of the Vice-Chairman of SDP's Parliamentary Group, Erkki Tuomioja, was also used by members of the Party Directorate – Osku Pajamäki from Helsinki and Ulla Juurola from Lahti – in the Directorate's discussions.¹⁰³

Finland's Social Democrats, together with their Nordic colleagues, supported the idea that the EU should practise a more effective employment policy. Low inflation measures, an active labour market policy and coordinated demand management were the cornerstones of the declaration of the Joint Committee of the Nordic Social Democratic Labour Movement (SAMAK) in 1997.^{103,104} Nordic Social Democrats had supported a Keynesian economic policy in the SAMAK meeting in 1976.¹⁰⁵ Prime Minister Kalevi Sorsa had demanded European coordination of Neo-Keynesian economic policy in his proposition to European Social Democratic leaders in the spring of 1983. This idea was nullified after the French socialists made a U-turn in their policy, moving from socialism to neoliberalism.¹⁰⁶

The French government had failed to implement successfully a reflationary and counter-cyclical economic policy, which involved, for example, a reduction of working hours, increasing wages, improving social security, hiring more people in the public sector, increasing company taxation and nationalizing private banks and companies. Capital flight had taught nation-states, including those with Left-wing governments, that in an open world economy their freedom to act was restricted, capital-friendly politics was an economic necessity and capital was firmly in power.¹⁰⁷

Finland's Social Democrats supported Keynesian employment measures in the international context. Furthermore, the Social Democratic supporters of Finland's membership of the EU (Finland joined the EU on 1 January 1994) favoured the EU's free movement of goods, services, labour and capital. They stated that EU membership was in the interests of the all-important export sector and counter-balanced the power of free-flowing financial capital.¹⁰⁸

Thus, Social Democratic market-friendly third way policies seemed to be rational national answers to the challenges of the globalizing economy. They were framed in a way that the maintaining of the competitiveness of national companies also promoted employment nationally. At the same time, the European co-operation between Social Democrats in practising international counter-cyclical economic policies and regulating capital flows in the EU was not strong enough to overcome the primarily national focus in employment-related policies until the end of the 20th century.

The Social Democratic market-acceptance strategy was formulated during the party's period in opposition, which was an era of deep depression in Finland in 1991–1995. The SDP favoured selected measures to revive the economy under the leadership of Ulf Sundqvist in 1992. This meant prioritizing productive public sector investment and trusting in market forces and lower interest rates. These policies were supposed to endorse, for example, public sector productivity and economic competition, and to require the selling of state companies and public sector retrenchments in order to balance the public finances after the recovery of the economy.¹⁰⁹

Public sector retrenchments were accepted by the majority of Social Democrats after the Finnish economy began to recover in 1994. A new party leader, Paavo

Lipponen, stressed that the power of the market could only be tamed by decreasing high foreign indebtedness. He stated that the rising share of public expenditures compared to the GDP threatened the premises of economic growth and thus endangered the rise of employment. Other objectives behind Lipponen's SDP policy were lowering inflation, balancing the current balance of payments and cutting public expenditures.¹¹⁰ As Paavo Lipponen made clear in a public speech in September 1994, Kjell-Olof Feldt, Social Democratic Minister of Finance behind Sweden's third way policy in the 1980s, was one of his role models.¹¹¹

The so-called 'rainbow government' (SDP, National Coalition Party, the Left Alliance, the Greens and the Swedish People's Party) aimed at halving the number of those unemployed by adopting the previously mentioned major Social Democratic goals, which were accepted by the party's Council.¹¹²

Furthermore, the SAK underlined a new strategy which involved commitment to the low inflation goal of the Bank of Finland and allowing labour costs to rise no more than those found in countries that were Finland's closest economic competitors. This replaced the SAK's previous goal of keeping the relationship between wages and income from capital incomes intact. The SAK motivated its new strategy by interpreting that Finland's EU membership and market-bound interest rates were the reasons why it had to commit permanently to low inflation policy.¹¹³

Bob Jessop and Ngai-Ling Sum distinguish four different transition strategies from Keynesian national welfare states to Schumpeterian post-national workfare regimes. Those strategies can all be applied in part at the same time within one state and, indeed, have been used in the European Union. They were neoliberal, neocorporatist, neostatist and neocommunitarian strategies. In 1975–1998, Finnish Social Democrats seemed to adopt parts of at least three of these strategies.¹¹⁴ This meant adopting neoliberal-oriented measures such as financial market deregulation and public sector retrenchment. Neocorporatist innovativeness and restructuring strategies were also influential among the SDP as well as neostatist public R&D investments.

Gerassimos Moschonas stresses that the EMU was one reason behind the Social Democratic neoliberal turn in Europe in the 1990s. He argues that the Social Democratic neoliberal orientation stemmed back to the 1980s.¹¹⁵ This was, however, only partly true, as the Social Democratic commitment to free capital flows in, for example, Finland and Sweden dated back to the 1980s. This mainly explains the logic of the market-acceptance policy, which was consolidated by fulfilling the EMU criteria.

The deregulation of financial markets meant shifting the basis of Social Democratic employment policy from steering the capitalist economy to seeking market acceptance of the party's policies. The taming of inflation and wage increases were seen as necessary requirements for keeping interest rates low and markets stable. These, again, were seen as necessary measures in order to generate investments and improve employability. The market-acceptance strategy, however, did not succeed in reducing Finnish unemployment substantially in the 1990s (Figure 1), consequently weakening the position of the unemployed.

Conclusions

The mobilization of a political and occupational labour movement has been heavily linked with the birth and fortunes of social democracy. The interests of salaried

workers and a primary emphasis on providing and securing work have been core questions for the Social Democrats. Thus, the birth of mass unemployment, a globalizing economy, structural changes towards a service society and innovativeness-centred industrial restructuring have severely challenged the ideas and practices of social democracy after more favourable developments in the decades immediately after the Second World War.

Finnish Social Democrats moved towards emphasizing private sector-led employment, approached the middle classes, accepted the 'market economy' and favoured 'controlled restructuring' over counter-cyclical measures in a series of steps in 1975–1998. Export sector competitiveness in global markets, European integration and R&D investment were the cornerstones of Social Democratic employment policy in Finland at the time. This can be explained by a central role of export industries and thus global competitiveness, as well as technology policy in SDP's employment-related conceptions.

Finnish Social Democrats seemed initially to practise a 'third way' type of 'Bad Sillanpää' policy long before adherents such as Tony Blair in the UK. After the mid-1970s, Finnish Social Democrat-led governments no longer imitated Sweden and implemented many reforms, which were followed by the Swedish Social Democrats' Third Way Programme in the 1980s. However, the SDP tried to implement international Keynesianism on many occasions in international organizations in 1975–1998.

Stabilizing the economy, increasing competitiveness and moderating wage demands became positive measures for Finnish Social Democrats in 1975–1998. These ideas were based on the policies of 'Bad Sillanpää' after the mid-1970s, 'controlled restructuring' in the 1980s and 'seeking market acceptance' in the 1990s. Keynesian counter-cyclical economic policy also remained in the shadow of Social Democratic policy in the last decades of the 20th century. The Red-Green values of the New Left were rarely found among Finnish Social Democrats at this time.

The compromise between support by Social Democratic ministers for the idea of sound state finances and moderate but real wage increases for Social Democratic trade union members usually trumped the interests of the public sector in Social Democratic inner-party decision-making. Accordingly, a stable economic policy was favoured amongst Finnish Social Democrats. These ideas were also partly acceptable for the SDP's coalition partners and employers' organizations in Finland. Even if the SDP was the most powerful party in the coalition governments, at least in 1977–1987 and 1995–1998, the Left did not possess a parliamentary majority and employers' powers increased due to globalization and the flexibilization of production in a series of steps in 1975–1998.

The primary Social Democratic concept regarding employment in Finland in 1975–1998 was that economic growth should be carried forward by an economic and incomes policy that supported the competitiveness of the export sector. This meant stabilizing the economy by abolishing the deficit of the current balance of payments, fighting against an inflation–devaluation spiral and stopping the state from running into debt by lowering interest rates. It was expected that these policies would bring new private sector investment and increasing employment in the long term, especially after the liberalizing of the financial market from the 1980s onwards. This led to the transformation of the Social Democratic concept of employment from steering capitalism to seeking market acceptance.

The Social Democratic ideal of full employment had paradoxically required a stronger role for the state sector in providing employment at the very same time that

economic circumstances became more market-driven. Thus, the weakening of economic growth itself does not explain the crisis of social democracy. The same is true regarding the rise of the middle classes as a reason behind the crisis of social democracy.

On the contrary, the introduction of middle-class-oriented third way policies did not manage to hinder the marginalization of a substantial part of waged workers, which weakened SDP's popularity. Furthermore, leading Finnish Social Democrats did not openly refer to neoliberal ideologists even if their employment-related ideas and policies became partly neoliberal-oriented during the last decades of the 20th century.

The primacy of work remained the central concept of Social Democratic thought in Finland at the same time. However, the Social Democrats did not manage to drop the number of unemployed below 100,000 (around 4% of the workforce) in Finland after 1975. This is a significant reason for the crisis of social democracy. Thus, whether mass unemployment stemmed from heavily Social Democratic-driven national employment-sensitive policies, Social Democratic employment policy strategy, the power of other parties, the interests of employers or the functioning of globalizing capitalism is a secondary question when analysing the fortunes of social democracy.

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