Finnish government slashes social spending

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Since the start of the year Finland's governing coalition (made up of the National Coalition party, Centre Party, the Greens and the Swedish Peoples' Party) has cut spending in the face of the country's worst recession since the Second World War.

Confronted with popular opposition, the coalition was compelled to abandon a plan that would have seen the retirement age increase by two years from 63 to 65. The government maintained the measure was necessary to combat the growing indebtedness of the state, brought on by the economic crisis.

The proposed rise had been criticised by all the opposition parties in parliament, the Social Democrats (SDP), Left Alliance and True Finns. The three main trade union organisations also opposed the measures in the face of polls showing that nearly 80 percent of the population were against the increase. In parliament a vote of no confidence was tabled against the government, while threats were made that a general strike could be called over the issue.

Agreement was reached prior to the vote of no confidence between the government, trade unions and employers groups, with the coalition apparently backtracking on its original proposal. The primary concern of those opposing the measure was the fear that Finland's system of "social partnership" is under threat.

Union representatives condemned the government for taking the initial decision unilaterally without consultation. In reaching a new agreement on March 12, the unions pledged to work together with government to find ways to increase the average age of retirement in Finland by three years by 2020. Thus, the unions have been charged with finding the political means to achieve the government's original goal.

The government argues that state finances are under strain from falling tax revenues and rising unemployment costs. More pertinent are the large sums made available to financial institutions. In November parliament agreed to make available 40 billion euros by means of guarantees and the extension of loans. The government also spent nearly 1 billion euros in August to cut taxes.

More recently, Minister of Finance Jyrki Katainen, leader of the conservative National Coalition Party, presented new legislation, which reduced employer contributions to the Social Insurance Institution. Portrayed as a means to stimulate business activity in the current downturn, it leaves the state with a deficit of 1 billion euros, which will be filled by spending cuts in other vital areas.

The cuts in social insurance contributions came as part of a package of measures presented in January, including "stimulus" programmes such as job creation schemes and additional investment in infrastructure worth a combined 1.2 billion euros. Although Prime Minister Matti Vanhanen claimed that the measures would halve the growth in unemployment by creating 25,000 new jobs, events have proved this to be overly optimistic.

In the first months of 2009 there has been a dramatic drop in production across all industries. In part this is due to Finland's reliance on exports, which have collapsed with the onset of recession across the world. The forestry sector has been hit particularly hard, with production down over one-third from the same period in 2008. The slide has taken place rapidly over the past six months since November and has surpassed the decline recorded in the recession of the early 1990s.

Overall industrial production declined by 22 percent in February from a year earlier and the outlook was even worse since companies saw orders drop by over 40 percent for their products. In the metals and engineering industries, orders were down by over 50 percent. In figures published by the World Steel Association, Finland's production of crude steel was down by 52 percent in the first quarter from a year earlier.

This decline has led to a sharp fall in profits for business, with metal firms Rautaruukki and Outokumpu announcing at the end of April that turnover was down by 46 percent and 60 percent respectively from a year earlier. Paper company Stora Enso also announced first quarter losses, followed immediately by plans to cut 2,000 from its workforce. Whilst stating that it may become profitable towards the end of the year, it noted that this would be on the basis of cost-cutting measures rather than an upturn in production.

The economic decline has brought about growing concern in the government, particularly with regard to the future of the forestry industry. Employing nearly 200,000 people in Finland, both directly and indirectly, the forestry sector has called for government aid.

Government ministers have indicated a willingness to support the industry. However, this has been presented as an opportunity to increase "competitiveness", which will come at the expense of workers' jobs. Defence Minister Jyri Häkämies, who is responsible for issues affecting government-owned companies, suggested that without government intervention there was a danger of the collapse of the industry. "Now it is important to ponder what all of us together—companies, wood sellers, and employees—can do to get through this so that the forest industry does not shut down in Finland", he said. "It affects everything, manufacture of machinery and harbours. For instance, the result of [the rail freight service] VR Cargo plummeted when imports of wood from Russia stopped".

The government is also confronting a mounting trade deficit, which in January reached its highest level since June 1991. The value of imports was 79 million euros greater than exports, down from a surplus of 100 million euros in December 2008.

Unemployment has begun to rise, up to 8.3 percent in March from 7.6 percent a month earlier. While unemployment in Finland remains slightly below the European Union average, Statistics Finland is predicting a large increase over the next year, topping 10 percent in 2010. Many factories and plants, such as the car plant in Uusikaupunki, which currently produces Porsches, are preparing to implement temporary layoffs of staff. The layoffs will affect the jobs of 600 workers and are set to continue until August.

A report released by the Labour Institute of Economic research (PT) predicts that those out of work will increase by 100,000 during the next year, adding that the government's stimulus proposals will at most create 10,000 to 13,000 new jobs.

Nokia also announced a further 700 layoffs in March, following on from plans to dismiss 1,000 employees globally from its marketing division. These cutbacks, coming as mobile telephone sales slump, are part of a programme to save 700 million euros by the end of 2009.