# Finland targeted for EU/IMF austerity demands

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Last month, Finland was issued with a warning by the European Union commission over the size of its budget deficit, which is expected to rise above 4 percent of GDP this year. Finland, Cyprus and Denmark were censured for breaching the limit for budget deficits of 3 percent of GDP which the EU stability pact imposes on member states.

The commission urged Helsinki to take action to return state finances below the 3 percent limit by 2011. In a statement to the European Parliament, Economic and Monetary Affairs commissioner Olli Rehn made clear that much more was expected of Finland in the long term. “The task for the coming governments is to reorganise the public economy with a sustained programme that spans several years,” he declared.

The EU’s warning came as Prime Minister Matti Vanhanen was forced to resign, June 18, over a long-running party funding scandal. He was also forced to relinquish his position as chairperson of the Centre Party, currently the largest parliamentary group, after revelations that leading members had accepted donations from business interests and companies during the 2007 election in exchange for political favours.

Vanhanen has been replaced by Mari Kiviniemi, who won election at the party congress on June 12. Her new government will see the Centre Party remaining in coalition with the conservative National Coalition Party, the Greens and the Swedish Peoples Party. But facing national elections in April next year, Kiviniemi has been reluctant to outline in full her government’s programme. The Centre Party has been doing poorly in recent polls, as a result of Finland’s worst economic recession since World War II.

Finland suffered the worst contraction in the 16-member eurozone in 2009, as GDP fell by around 8 percent. The decline continued in to the first quarter of 2010, falling a further 0.8 percent. Unemployment has been consistently above 10 percent for over a year, standing at 10.5 percent in May. Across the eurozone as a whole, unemployment is estimated to be 10 percent.

Pressure is growing for the government to take action. In a recent report, the IMF urged the government to remove the tax breaks it currently offers for interest payments on home loans, claiming that this could save the state between 500-900 million euros. The IMF report went on to recommend a programme of spending cuts rather than tax hikes, a recipe for the destruction of jobs and social services.

The need for such measures stems from the massive sums of money set aside to support the ailing financial system in the wake of the crisis which began in 2008. Like governments across the globe, Vanhanen’s administration rushed to support the banks in November 2008 with a 40 billion euro package of loan guarantees.

Although no major banks collapsed, concerns remain about the stability of the financial sector—with the financial supervisory authority advising banks to exercise more caution in extending loans to customers. The warning in June came after similar guidance was issued in March.

Finland felt sufficiently threatened by the events in Iceland, where the entire financial system collapsed in October 2008, to extend 500 million euros of support, a move replicated by neighbouring states Sweden, Norway and Denmark.

In talks with her coalition partners after taking office, Kiviniemi indicated that tax reform would not be undertaken by her administration, but would be postponed until after next April’s vote. Under-Secretary of State for Finance Martti Hetemäki made clear that the government would prioritise reducing the deficit, commenting, “The message of the government programme is a credible one, as there will be no new policies brought in with it that add spending or reduce tax revenue.”

Hetemäki was involved in chairing a working group which recommended earlier in June that income taxes be cut by 2 billion euros, with those at the top receiving the largest reductions. His group also supported a 400 million euro cut in capital gains and corporate tax rates. To pay for this, it was suggested that VAT could rise by 2 percent on products and services that would target working people. But even this would leave a budget gap of 1.2 billion euros and would have to be found through cuts in public spending.

The working group refused to outline what would be cut, stating that its final report would appear in December, just months before the election. Fearful of the response which such measures would provoke within the Finnish population, ruling circles are determined to avoid any public discussion of their impact until after the election is out of the way.

Another area being targeted for reform is the pension system. Finland’s aging population is being used as a justification to increase the retirement age and reduce pension entitlements. In 2009, Vanhaanen reached an agreement with the trade unions which pledged to find ways to increase the length of time which employees spent in work. Despite this, the IMF in its report on Finland called for further steps to be taken to prevent early retirement.

The opposition Social Democrats (SDP) have avoided taking up any criticism of the coming cuts, focusing its fire on the delaying tactics of the coalition. Reacting to the brief statement released after the talks between the coalition partners last month, the SDP’s vice chair Miapetra Kumpula-Matri complained, “Finland cannot afford to wait for eight months.”

The main trade union organisation (SAK) was similarly in agreement with the broad aim of the government, with daily paper Helsingen Sanomat reporting that SAK “still felt that the policy lines of the new government were mostly justified”.

The SAK has consistently sought to work with the right-wing coalition. Towards the end of last year, it was engaged in government-sponsored “social partnership” negotiations with the major employers’ organisations in a bid to reach a comprehensive agreement on pay. But the talks broke down after the main employers’ body cited strike threats as a justification to pull out.

In spite of the support of the opposition and unions for the coming cuts, protests against cost-cutting and the general economic situation have begun to emerge. At the beginning of 2010, a sustained campaign was launched by residents in Helsinki against proposals by the local authority to shut down a large number of public services. There have also been significant strikes in recent months, including a dock strike in March which paralysed the country’s ports for several days.