Trade unions during the crisis – the case of Finland

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In this presentation

● Finnish economy during the crisis
  - problems related to industrial structure:
    - large decline in exports and recovery delayed
    - structural problems intermixed with cyclical factors
    - labour market relatively resilient

● Wage agreements in crisis years – back to centralized agreements

● Social partners have strong interest in pension policy and they are negotiating over a pension reform

● Final remarks
Exports and imports in Finland
goods, volume index, 2005:01–2014:03

Source: Customs
GDP in some euro area countries
2000 =100, 1999:1–2014:1

Source: Eurostat
Unemployment rate in Euro area and Finland

Source: Eurostat
On export sector in Finland

- A sharp contraction of important industries:
  - electronics (because of Nokia) in big troubles
  - paper industry is facing declining global demand

- Investment goods and intermediate goods dominate and expose exports to the most cyclical components of global demand

- Slack investment demand in Europe has hurt Finnish exports (now also the Ukraine crisis hurts exports to Russia)

- Two problems at the same time
  - cyclical: weak demand for investment goods especially in Europe due to euro crisis
  - structural: electronics and paper industry

- In the middle of the crisis it is difficult to separate the effects from each other

- Pressures towards wage bargaining: wage restraint as a big bazooka
Demand for Investment Goods and Finnish Exports
2008:1–2014:1

Source: Eurostat
Collective wage agreements in Finland

- The Finnish bargaining system has been fairly centralised

- Centralised wage bargaining rounds:
  - national federations agree on recommendations for average wage increases
  - great majority of industry-level unions follow them in their own wage agreements
  - the government often involved: e.g. changes in labour taxation

- Now and then also rounds of union-level bargaining without any central-level recommendations

- About ten years ago the employer side became reluctant to negotiate over centralised wage agreements – negotiations should be at industry level

- Union-level agreements with relatively high wage increases were followed when the financial crisis hit severely to Finnish exports
Collective wage agreements in Finland

- The crisis made the employer side to change their minds with respect to the role of centralised wage agreements

- Return to more centralised wage bargaining: two national framework agreements have been signed with very moderate wage increases

- The latest wage agreement: Pact for employment and growth 8/2013
  - wage increases: first year 20 euros per month, second year 0,4 % !

- Motivations:
  - crisis awareness: declining export sector, no own currency
  - the agreements manifest the important role of the labour market organisations in shaping the economic and social policies
  - possibility to avoid other deteriorations in working life
Bargaining on pensions: social partners are negotiating over a new pension reform

- The social partners have had a very active role throughout the history of the Finnish pension system and in its numerous reforms.

- The current reform target is to raise the expected effective retirement age to 62.4 years by the year 2025 (from 60.9 in 2013).

- The negotiations are between the central organisations of both sides.

- There are some divergent views:
  - no uniform view on the effects of the life-expectancy coefficient introduced recently (= the pension level is indexed to the increasing life-expectancy)
  - changing age limits vs. changing incentives to retire
  - the role of labour demand and wellbeing at work
  - the role of early exit – pathways
  - trade unions: commitments to sustainable pension financing also needed

- Both employees and employers share an interest in reforming together the Finnish pension system.
Statutory pensions in Finland 2010 -2060
Long-term projections

Source: Finnish Centre for Pensions
Some final remarks

- The crisis is likely to last longer in Finland than in many other countries.
- Both structural and cyclical problems are involved.
- Structural problems are mainly related to narrow industrial structure and sector-specific problems in electronics and paper industry.
- Unfortunately there are no easy and quick solutions to these types of structural problems.
- This implies that there are increasing pressures towards wage formation.
- It is interesting to see if there is a future for the centralised wage agreements after the crisis in Finland.