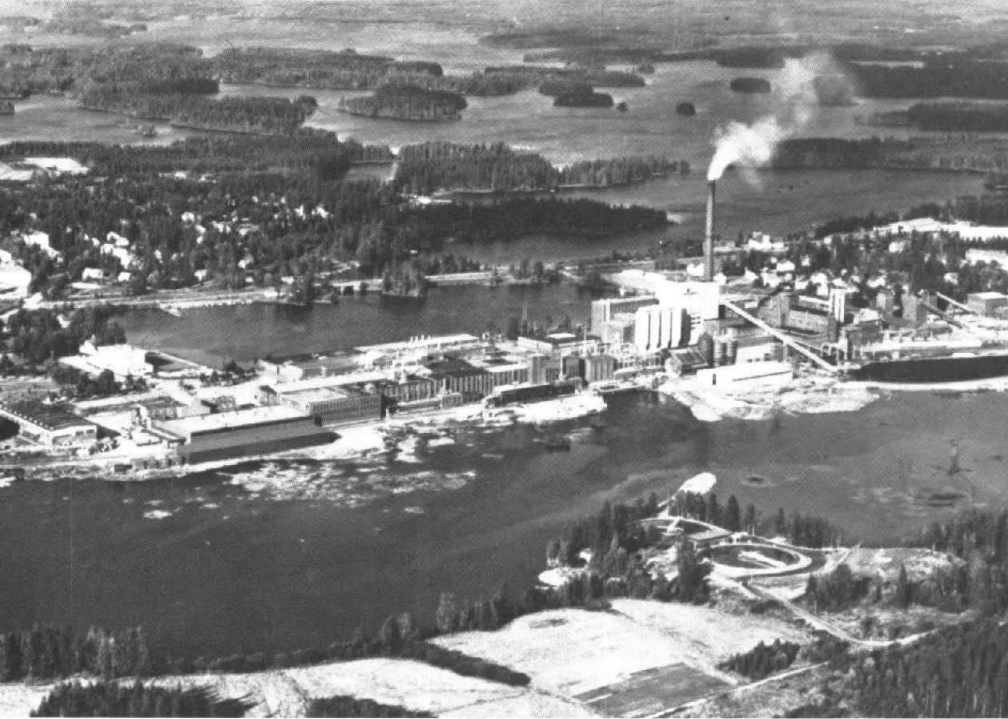


## **Industrial Policy**

The state had played an important role in Finland's industrial development, but it did not intervene directly so much as many other European governments. Intervention in industry began in the mid-nineteenth century, and it increased over time. Tariff policy and government procurement, the latter being especially important during the two world wars, furthered the development of manufacturing. The government's influence was probably most important in the years after 1944, when Finland struggled to make reparations payments to the Soviet Union. Partially as a legacy of this period, the state controlled companies that owned about 15 percent of manufacturing capacity, employed about 14 percent of the work force, and contributed about 25 percent of industrial value added. The state was especially active in sectors requiring heavy investments, such as basic metals and shipbuilding. These state-owned firms, however, did not receive government subsidies; if unprofitable, they failed. Thus, while the state controlled most prices and implemented long-term sectoral plans in agriculture, forestry, energy, and minerals, state-owned firms in manufacturing remained largely free to manage their own affairs.

In the late 1980s, Finnish industrial policy continued to be considerably less interventionist than the policies of most West European countries. The government's strategy for industries that were having difficulty favored rationalization and restructuring instead of subsidies. Industry was encouraged to step up investments to increase productivity and to arrange mergers with domestic and foreign interests to increase efficiency. Policy makers argued that industry, as a small sector (compared with that of many other countries) open to private investment but dependent on exports, must adjust to international conditions.

Despite this hands-off approach, the government did subsidize the research and development of new industrial technologies. Research and development expenditures had remained low until the 1980s, reaching only slightly more than 1 percent of GNP in 1980. After that time, however, the government increased such spending, which exceeded 2 percent of GNP by the late 1980s. The State Technical Research Institute in Otaniemi, founded in 1942, played an important role in providing industry with up-to-date information on new technologies; its maritime engineering laboratory was one of the largest and best equipped in the world. In 1984 the Ministry of Trade and Industry initiated a four-year program of research on target technologies, including applications of laser technology to machine engineering, advanced measurement techniques, and offshore



*Pulp mill and paper factory at Mänttä in the province of Häme  
Courtesy Embassy of Finland, Washington*

construction techniques for arctic conditions. The government also sponsored technology parks, such as the one at Oulu, that provided facilities for cooperative research projects involving industry and local universities. In addition, investments in technical training promised a continuing supply of workers able to maintain the quality, durability, and dependability of Finnish industrial goods.

### **Wood-Processing Industries**

Wood processing has long been the mainstay of the Finnish economy. Facilitated by extensive timber supplies, convenient transportation, and abundant water power, lumbering and papermaking developed rapidly after 1860 to meet growing European demand for paper products and lumber. Production and export patterns established before 1900 lasted until the second half of the twentieth century; in the 1950s, wood and paper products accounted for some 80 percent of total exports. By the 1980s, however, although the sector had continued to expand in absolute terms, its share of exports had fallen to about 40 percent as a result of the rapid growth of the metalworking sector, which had surpassed woodworking in both value added and employment in 1969.

Despite this relative decline, forest products were still the country's most important earner of foreign exchange in the late 1980s.

Roughly four-fifths of wood and paper production was sold abroad, while most raw materials—including energy—were produced at home; and, although the sector contributed only about one-fifth of industrial value added, it still accounted for about one-quarter of industrial employment.

Analysts conventionally divided the woodworking industries into two branches, mechanical and chemical, depending on the primary means of processing in each branch. The mechanical branch comprised milling, manufacturing of plywood and particle board, and fabrication of furniture and building components. In 1986 the branch included some 200 large sawmills that produced most exports and some 6,000 small mills that met local needs. Products of the chemical branch included pulp and paper, cardboard, and packaging materials. In 1986 the chemical branch encompassed twenty-four pulp mills, thirty paper plants, and sixteen cardboard factories. The division between the two branches was somewhat artificial, however, as many leading firms operated integrated plants in which sawdust, waste wood, and chemical byproducts of mechanical processes served as raw materials for such chemical products as pulp and turpentine. Industrial waste also supplied a large share of the industry's needed energy, making the chemical branch self-sufficient and reducing the energy demands of the mechanical branch.

Finnish manufacturers had long been leaders in developing new wood-processing technologies. Several firms had developed their own shops for machine building, and their highly efficient paper-making equipment had captured an important share of world markets.

In the 1980s, Finland's wood industries experienced increasing difficulties in exporting, largely as a result of rising input costs. Wages and stumpage (value of standing timber) rates were traditionally higher in Finland than they were in many competitor countries. Moreover, by the early 1990s analysts believed that the mechanical branch, which consumed about one-third of Finland's electricity, might face an energy shortage because of the 1986 decision not to build a fifth nuclear plant (see *Energy*, this ch.). In response, firms modernized their plants and shifted to higher-value-added products.

In the mid-1980s, interfirm cooperation and a wave of mergers resulted in concentration of production at a smaller number of centers, and observers expected that industry restructuring would continue into the 1990s. An increasing tendency to build plants overseas, which improved access to Finland's main markets, complemented the merger drive. The government had stepped in with

the Forest 2000 program and with a system of tax incentives for logging, both of which were designed to allow wood harvests to increase by about 3 percent per year until the end of the century (see Forestry, this ch.). By 1986, moreover, representatives for workers and landowners, apparently recognizing some of the difficulties faced by the industry, had negotiated decreases in both wages and stumpage prices.

### **Metal Industries**

The metal industries led Finland's postwar economic development, and they were crucial to the country's economic health. Until World War II, Finland generally produced relatively unsophisticated goods for domestic consumption. The country's shortages of energy, basic metals, and capital accounted for the sector's slow development. Although Finland had produced ships and other capital goods for the Russian market since the late nineteenth century, the real breakthrough came after 1944. Then the metalworking industry, goaded by Soviet reparations demands, overcame its handicaps, sharply increasing both the quantity and quality of output. Reparations deliveries ended in 1952, but the Soviet Union continued to absorb Finnish metal goods. By the late 1950s, Finland had built an efficient and innovative metalworking sector.

In the 1960s, the metalworking sector, stimulated by the effects of trade liberalization, embarked on an export drive in Western markets. Domestic demand rose as a result of both the expansion of the forest and the chemical industries and major infrastructure projects. Throughout the 1960s and the 1970s, the sector prospered, growing at an average annual rate of over 6 percent, higher than the rates of other industrial sectors. The strategy of specializing in a small number of products in which the country already possessed a comparative advantage paid off in export markets. Finnish design, which integrated ergonomics, durability, and attractive appearance, also helped maintain sales. Thus, the sector was relatively well prepared to respond in the 1970s, when rapid increases in energy prices, competition from newly industrialized countries, and worldwide improvements in capital-goods technologies threatened profitability.

Beginning in the mid-1970s, metalworking, like the forest industries, underwent a period of intense rationalization and restructuring—with only limited state help. By the late 1980s, it appeared that the sector was well on the way to transforming itself to meet the conditions of high energy costs. Indeed, metalworking grew faster in Finland than it did in most industrialized countries, and it remained Finland's leading industrial sector.

Finnish analysts divided the sector into four branches: basic metals, machine building, transport equipment, and electrical equipment. Although many companies were active in more than one branch, the categories provide a useful framework for reviewing industrial developments.

### ***Basic Metals***

Domestic ore could not meet industrial demand, but the efficient metal-processing branch, which had developed some of the world's most advanced technologies, provided a firm foundation for the production of more advanced goods (see Minerals, this ch.). State-owned firms (and firms in which the state owned a majority interest) led the development of metals production. The Rautaruukki works at Raahe in northern Finland, for example, was the main producer of iron and steel. The state and major engineering firms jointly owned the enterprise, an arrangement that ensured that the works responded well to the needs of industries using their products. The works remained profitable during the late 1970s and the early 1980s, a period marked by the decline of the European steel industries. This success was due not only to adept management but also to good labor relations. Likewise, the state-owned Outokumpu Group, which possessed flash-smelting technology that gave it a major advantage during the mid-1980s, controlled much nonferrous metals production. While most of Finland's iron and steel were used at home, most of its copper, zinc, and nickel were exported.

### ***Machine Building***

Based on sophisticated technologies and on careful specialization, machine building was an essential complement to other industries, but it was growing slowly by the late 1980s. Employing about one-third of the metalworkers, the sector concentrated on such product lines as sawmill and papermill machinery and mining equipment. By the late 1980s, Finland had captured about one-fifth of the world market for papermaking equipment, and it led in selected metal-processing technologies. The branch also had increased its capability to produce cranes, lifts, hoists, forklifts, and cargo-handling vehicles. Another strong point was agricultural and forestry machinery, including tractors, combines, and logging machines, of which Finland was the largest producer in Nordic Europe. As Finland's economy matured, however, investment in capital goods declined, forcing the sector to search for markets abroad. Although Finnish equipment enjoyed a strong reputation abroad, demand for the country's specialties was limited.

### ***Transport Equipment***

Shipbuilding, which had led the development of heavy industry, continued to be the most important branch of the transport sector, and it determined the sector's health. The land transportation branch, however, led by exports of railroad locomotives and rolling stock to the Soviet Union, provided a valuable supplement to shipbuilding. Finland first began to produce automobiles in 1969, and it had developed a full range of vehicles.

By the late 1980s, Finland's shipbuilding industry ranked fifteenth worldwide. The country boasted eight major shipyards, which employed about 14,000 highly skilled workers. Unlike many other countries (including nearby Norway), Finland had avoided large investments in petroleum tankers, a choice that proved to be a blessing when the world tanker market slumped in the late 1970s. Instead, Finland had specialized in high-priced vessels such as icebreakers, luxury liners, car ferries, ocean exploration vessels, and container ships. Starting in the 1970s, shipbuilders also had branched out into offshore oil-drilling platforms and equipment. Finnish icebreakers were world-famous—the country had produced about 60 percent of all icebreakers in service by the late 1980s. Finland also specialized in vessels designed to operate in arctic conditions. Such projects were well suited to Finnish expertise, and they yielded higher-value-added products that compensated for high input costs.

Shipyards exported up to 80 percent of their production, which made them heavily dependent on world market developments. The shipbuilding industry had survived the difficult years following the 1973 and the 1979 oil shocks without subsidies from the government (except for occasional favorable financial packages); these years had seen a wave of mergers and large-scale investments that had improved competitiveness. Above all, the industry owed its success to continued orders from the Soviet Union in a period when demand lagged in Western markets. Finland was thus the one European country in which the number of shipyard workers had increased after 1975. During the same period, the Finns built two new shipyards for oceangoing vessels, established a heavy engineering works for oil-drilling rigs, and modernized older yards.

By the late 1980s, however, it appeared that shipbuilding was entering a crisis. The decline in the price of oil in the middle of the decade caused a reduction in Soviet purchasing power, limiting new orders for ships (see *Regional Economic Integration*, this ch.). Moreover, Soviet buyers, who had long preferred Finnish ships, had started to place orders with other countries, including

East European firms that enjoyed lower labor costs. At the same time, certain Finnish specialties, such as icebreakers, were attracting competition from more advanced shipbuilding countries such as Japan.

The crisis in shipbuilding led to a decline in employment and to further restructuring. In July 1986, two of Finland's four major shipbuilding companies, Wärtsilä and the Valmet Group, merged their shipbuilding divisions and planned to eliminate about 40 percent of their 10,000 jobs. Another several thousand workers were out of work, and the increased competition from the new firm threatened the two remaining firms, Rauma-Repola and Hollming. Indeed, competition had already undermined an arrangement under which each firm specialized in a particular field: Wärtsilä in icebreakers and luxury liners, the Valmet Group in cargo ships, Rauma-Repola in offshore oil equipment, and Hollming in high-technology research vessels. As the crisis continued, industry analysts began to question whether the industry could survive without government bailouts.

### *Electrical Equipment and High Technology*

Production of electrical equipment had started somewhat slowly, but during the 1970s and the 1980s the branch grew rapidly. The branch produced both heavy goods—such as power plant generators, heavy-duty electric motors, and equipment for icebreakers—and lighter goods—such as household appliances, lightbulbs, and building components. By the mid-1980s, however, the heavy electrical engineering producers were experiencing stagnant markets and fierce competition. Electronics, however, grew rapidly, expanding its product range from consumer electronics to include computers; communications equipment; and monitoring, control, and measuring equipment. The Finns developed particular competence in control systems for the mining, metallurgical, and forestry industries; computers for hospitals and laboratories; patient-monitoring machines; meteorological installations; and telephone equipment. Finland, which included many areas that were too sparsely populated to allow the construction of a comprehensive telephone network, also was one of the world's leaders in the production of mobile telephones.

Although electronics was still small compared with other industries, many Finns believed that it had good prospects and that it might eventually make up for the impending decline of shipbuilding and other traditional industries. Thus, in the mid-1980s, both industry and government began to pay increasing attention to the development of high technology, especially in the electronics



*Finnish-built oil-drilling rig Dyvi Delta in the North Sea  
Courtesy Embassy of Finland, Washington*

industry. The Finns seemed intent on specializing in high-value-added products in which the country had a comparative advantage, an approach similar to that which had proved so successful in other sectors.

The leaders of the electronics industry, aware that the small sizes of their firms made it difficult to compete, banded together to share research and development expenses. The government facilitated cooperation among firms through the Technology Development Center (Teknologian Kehittämiskeskus—TEKES) established in 1983. Electronics firms were also willing to join international research and development consortia that offered access to foreign technologies. However, despite the rapid development of high-technology electronics in Finland, by the late 1980s it was still too early to predict how well Finnish producers would be able to compete in world markets.

### **Other Industries**

Several smaller sectors contributed significantly to industrial output. Food processing—concentrating on dairy products, baked goods, and preserved meats—grew during the postwar period, as rapid urbanization heightened reliance on processed foods. Indeed, as late as 1970 food processing was the largest sector in terms of gross value of production (but in terms of value added, food



processing ranked only third that year, behind wood and metal processing). Nevertheless, during the 1970s and the 1980s, food processing suffered a relative decline.

In the 1980s, the food industry undertook an ambitious research program aimed at foreign markets. Finnish firms hoped to develop special foods for the cafeterias of hospitals, mines, and oil rigs as well as to develop delicacies, such as fresh berries and fresh-water fish. New technologies, such as plant and animal genetics, freeze-drying, irradiation, aseptic production, and methods to limit food oxidation, promised to improve the attractiveness of Finnish products. Another export was highly automated equipment for bakeries, dairies, and slaughterhouses. Although Finland's high production costs limited exports of staple foodstuffs, observers believed that the industry could expect to sell special products in Europe and in North America.

Finland's chemical industry, established at the time of independence, had come a long way by its seventieth anniversary in 1987. By the late 1980s, the sector ranked fourth after wood, metal, and food processing. Oil refining accounted for about half the gross value of chemical production, followed by fertilizers, plastics, fibers, rubber products, and other chemicals. Two large, state-owned firms controlled more than half of chemical production. Neste, established in 1948, was the only oil-refining enterprise. Its chemical operations had grown out of refining, while its rival, the Kemira Group, had developed interests in many products, including fertilizers, paints, fibers, and industrial chemicals. During the 1980s, both companies had purchased production facilities abroad in an attempt to remain on top in an international market that suffered from overcapacity in many basic product lines.

Construction, which accounted for almost 10 percent of GDP in 1950, declined to less than 8 percent of GDP during the post-war period, as the country completed its transportation and energy infrastructure and established heavy industry. In the short term, construction activities depended on the overall health of the economy. Thus, new building slumped from 1984 to late 1986 because of a recession and because many industries invested more in new machines than in new buildings. Residential construction was also slow in the mid-1980s, but it responded to financial stimuli after 1985. By late 1986, both commercial and domestic building were on the rise, increasing by an estimated 3 percent in 1987. Finland also exported construction services, especially to the Third World and to the Soviet Union, usually to complement exports of machine goods. The industry was able to offer clients all types of planning, engineering, and building services for turnkey factories.

Textiles and ready-made clothing, two of the country's oldest industries, concentrated on cotton, wool, and knitted goods. During the postwar period, this sector had declined in relation to other industries; however, in the 1980s, Finland still produced high-quality fabrics and fashions for export, especially to Europe. Likewise, Finnish fur and leather designs had carved out export markets in the developed countries.

## **Services**

Although the Finns continued to place a high value on agricultural and industrial employment, by the 1980s the economy had already entered an era characterized by the development of services. While in 1950 services accounted for only 35 percent of total domestic output, the sector provided over 55 percent in 1985. The postwar development of a welfare state stimulated growth in the state sector, and other activities, such as financial and engineering services, expanded as the economy industrialized (see Welfare System, ch. 2). Services traditionally remained insulated from international markets, but during the 1980s the government encouraged the development of service exports and even allowed foreign enterprises to enter such previously protected markets as those in financial services. In line with this liberalization, the government repealed regulations that hampered the working of markets in services, causing the important branches of the sector to become efficient enough to compete in world markets.

## **Banking and Finance**

Under the regulatory structures that had developed since the mid-nineteenth century, banks had dominated the financial scene, leaving the stock market and insurance companies to play secondary roles. Control over investment capital gave a few large banks great power. Distinct laws for each type of bank contributed to the development of a fragmented banking structure in which separate types of institutions served different purposes. Closely regulated by the central bank, the operations of which depended less on market mechanisms than on capital rationing, the traditional financial system served Finland's postwar reconstruction and industrialization well. This same system, however, appeared outdated in the dynamic international markets of the 1970s and the 1980s. As a consequence, a process of deregulation and internationalization was begun, which led to rapid changes in the financial sector. Observers expected further changes during the late 1980s and the early 1990s. In mid-1988 the process of liberalization was still incomplete, however, and many institutions retained their

customary roles, making Finland's financial system a peculiar mixture of new and old.

Founded in 1811, the Bank of Finland (BOF) first provided the services of a true central bank in the 1890s. Formally independent, the BOF's management comprised bodies responsible to both the executive and the legislative branches of government. The governor and a board of directors, who were appointed by the president of Finland, controlled day-to-day operations. A nine-member supervisory council, named by and responsible to the Eduskunta, reviewed bank policy and made most fundamental decisions, especially those regarding monetary policy. The BOF served as the lender of last resort, and it regulated the currency and the financial markets. It also determined monetary policy and participated in the formulation of government economic strategies (see *Role of Government*, this ch.).

Although BOF policy originally had concentrated on maintaining the value of the currency, during the Great Depression of the 1930s the influence of Keynesian theories began to modify bank policies. After World War II, the BOF developed regulations designed to favor reconstruction and the development of manufacturing, and these remained in force almost unchanged throughout the 1960s. The regulations were part of a comprehensive government scheme for financial markets that included foreign-exchange restrictions, regulation of bank lending rates, a quota system for bank borrowing from the BOF, and an interbank agreement on deposit rates. At the heart of the system were tax rules that made interest earnings on bank deposits tax-free and interest charges paid by companies on loans fully deductible. These two measures combined to favor bank deposits and to facilitate debt financing for industry. The BOF used this panoply of regulations to hold borrowing rates artificially low—generally at negative real rates—to favor investment. As money markets were not in operation, the BOF resorted to distributing specific quotas of credits to commercial banks. Strict limits on the foreign-exchange market protected the system from international competition.

Besides the central bank, the banking system included a small number of commercial banks based in Helsinki, many local branches of cooperative and savings banks, and a small number of state-owned banks. The commercial banks differed from the others because they could borrow directly from the BOF, and they controlled most corporate banking. The networks of savings and cooperative banks primarily served households, which provided a solid deposit base. The split between the two banking networks was not absolute, however, as the savings banks and the cooperative

banks had formed their own so-called central banks, which enjoyed commercial bank status.

Finland's commercial banks were the real leaders of the financial industry, and they controlled most lending to Finnish corporations. Although about ten banks were considered to be commercial banks, only two—the Suomen Yhdyspankki (Union Bank of Finland—UBF) and the Kansallis-Osake-Pankki (KOP)—were national banks with extensive branch networks. The four foreign-owned banks active in Finland also operated as commercial banks.

The cooperative and savings banks served a wide range of regional and local customers, but usually exercised relatively little economic power. They tended to specialize in providing home and farm banking services in rural areas. The savings banks were non-profit banks designed to promote saving, and they served small-scale trade and industry as well as households.

Although private banks formed the backbone of Finland's financial structure, state-owned banks still accounted for about one-quarter of bank assets in the mid-1980s. The most important of these, the Postipankki, had about 40 branches of its own and made its services available at windows in more than 3,000 post offices throughout the country. Other state banks included the Industrialization Fund of Finland, Finnish Export Credit (partially owned by commercial banks and private industry), and the State Investment Fund and Regional Development Bank, both of which invested in underdeveloped regions and in industries with capital requirements that were too large for private firms. Finland's commercial banks traditionally were allowed to hold as much as 20 percent of the total assets of Finnish corporations, and the leading banks had substantial holdings in the largest corporations. A 1987 law reduced the cap on bank ownership of corporate assets, but the banks' real power derived from their control over capital supplies. During the long postwar period of negative real interest rates, banks controlled the supply of capital—much of which was imported from abroad by the BOF. The two largest banks, KOP and UBF, built up rival spheres of influence that extended to many of Finland's largest industrial firms.

The crises and the restructuring of the late 1970s and the early 1980s provided the leading banks with further opportunities to strengthen their hold on Finnish industry. Starting in the late 1970s, KOP and UBF arranged many mergers among the wood-processing companies; by the mid-1980s, they had turned their attention to rationalization in the metal-processing industry. Several banks also engaged in takeover battles through the Helsinki Stock Exchange.

In the 1970s, several developments combined to reshape the operations of the postwar financial system. First, many corporations began to search for investment opportunities that offered both liquidity and higher rates of return than those offered for bank deposits. Second, as Finland shifted from importing capital to investing abroad, the old restrictions on foreign-exchange transactions became burdensome. Finally, a number of major Finnish corporations, having large shares of the domestic market, sought to expand abroad. Some, intent on foreign acquisitions, wanted to sell stocks on world exchanges in order to build assets sufficient for world-scale operations.

By the late 1970s, in response to the increasing internationalization of corporate life, the BOF management became convinced of the need to liberalize the regulatory system. The bank relaxed controls on borrowing abroad, and it allowed the establishment of an interbank money market; at the same time, the banks began to compete on interest rates for large deposits. These two developments caused Finnish interest rates in the corporate market to float up toward world levels, while the rates for most small depositors remained controlled. In 1982 the BOF allowed foreign-owned banks to open branches in Finland. In 1984 the BOF permitted Finnish banks to establish branches abroad, abolished bank-specific credit allocation, and began to levy identical reserve requirements on all banks. In 1987 legislation on bank deposits eliminated their traditional tax-free status. And in early 1988, the government proposed new banking laws that would put all major banks on the same legal footing.

The BOF had thus been willing to deregulate corporate banking partially, but important aspects of the regulatory system remained unchanged. The BOF continued to watch closely both foreign long-term borrowing and investments abroad by Finnish corporations. Retail banking continued much as before: small deposits placed at the regulated rates were tax-free, and the banks maintained their interest-rate cartel. The Finns had become accustomed to low and stable interest rates; proposals regarding interest were politically sensitive and might influence incomes agreements. Most observers thus expected that the BOF, ever cautious, would not rush toward further deregulation.

One effect of the liberalization of financial regulations and the internationalization of Finnish commercial life was the revival of the Helsinki Stock Exchange. Turning away from debt financing, more and more corporations issued stocks and bonds in the 1980s. Starting in 1982, the stock exchange attracted foreign investors, who accounted for about one-third of turnover in 1985. Younger,

more prosperous Finns showed increased interest in stocks. As a result, although the market suffered a major slump in the second half of 1984, by late 1986 the stock index had increased tenfold compared with its 1980 level.

Incorporated in 1984, and almost immediately shaken by allegations of insider trading, the stock exchange in 1985 issued new regulations that were intended to increase the openness of its operations, thereby increasing its attractiveness for small investors. In 1987 the government reduced restrictions on foreign investors and passed a law allowing banks and insurance companies to set up mutual funds. In the fall of 1987, options exchanges opened, offering new instruments to stock traders. Also likely to enliven the market was legislation of the same year that eliminated the tax-free status of bank deposits. As Finnish equities continued to offer better rates of return than those on many markets, stock brokers had good reason to be optimistic.

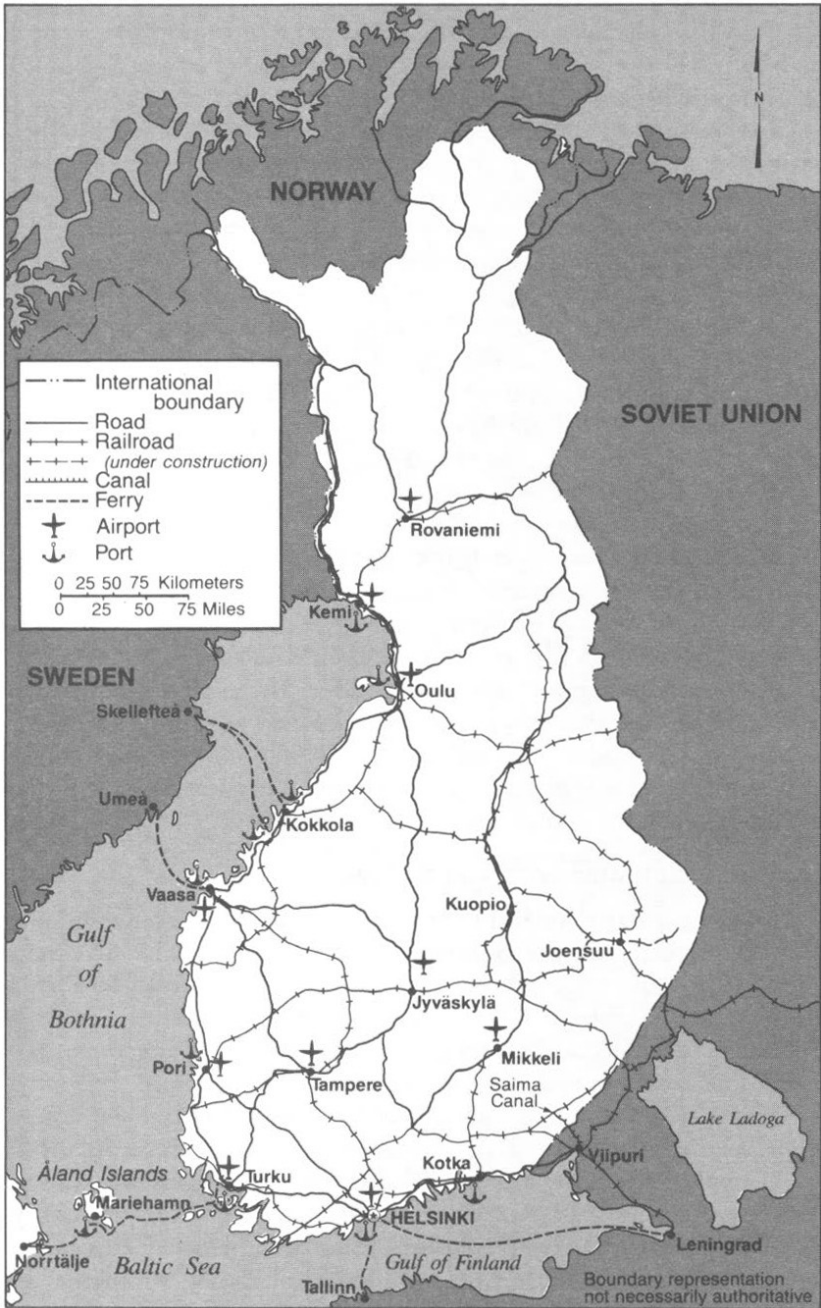
Insurance companies, once marginal actors in capital markets, became Finland's largest institutional investors, after the establishment of compulsory insurance schemes in the early 1960s. After that time, insurance grew faster than the economy as a whole, and it contributed some 5 percent of GNP in the mid-1980s. As the result of restructuring in the early 1980s, there were about fifty insurance companies, associated in five large groups. The insurance companies placed about two-fifths of their investments in industry and an additional fifth in commerce. Other investments included other insurance firms and real estate.

### **Transportation and Communications**

Finland's geography and climate make transportation and communications difficult. For centuries, coastal ports, which were closed by ice each winter for at least one month in the south and for as long as five months in the north, provided the only links with Europe. Internal communications, hampered by long distances interrupted by swamps and bogs, were likewise paralyzed each spring by slowly melting snows. As in most industrialized countries, during the postwar period newer technologies supplanted traditional means of transport. Thus, in the early postwar years, truck traffic grew at the expense of rail and water transport, only to be displaced later by airplanes. Traditional mail gave way to telecommunications. External commerce still depended primarily on oceangoing ships, but air freight services provided an increasingly important supplement.

The natural environment compensated somewhat for the difficulties of climate and geography in the form of a network of lakes

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*Figure 18. Transportation System, 1986*

and rivers that provided an economical means of moving forest products downstream to processing centers and on to ports for export. Although trucks handled more than half of Finland's forest products in the late 1980s, the wood industries still operated some 9,200 kilometers of floatways. Internal waterways for general use covered another 6,100 kilometers, of which about 70 kilometers were canals. The most important artificial waterway, the Saimaa Canal, runs from Lake Saimaa to the Baltic port of Viipuri (see fig. 18). In 1962 the Soviet Union, which had annexed the waterway and the port after World War II, granted a long-term lease to Finland that allowed the Finns to renovate and to operate them.

Finland lagged behind the other Nordic countries in developing railroads—as late as the early 1970s, Finland continued to lay tracks. Yet by the early 1980s, the railroads had begun to decline in importance, and of the more than 9,000 kilometers of track, less than 6,000 kilometers of track were in operation (25 percent of which was electrified). The rail network served southern and central Finland better than the north, and it specialized in carrying bulk products to processing centers and to export ports. The railroads, almost all of which were state-owned, had lost business and were running operating deficits by the mid-1980s. Finnish railroads used the same gauge as Russian lines (1.524 meters), which allowed easy exchanges with Soviet railroads but blocked shipments to Finland's Western neighbors.

By 1987 Finland maintained about 76,000 kilometers of roadways, of which 43,000 kilometers were paved roads and 200 kilometers were divided highways. During the first half of the 1980s, local routes accounted for most new road construction, as the national highways were largely complete. Although the highways covered most of the country, specialists reported that Finland would need to improve its major routes to meet European standards and to allow increased trade with Western Europe during the 1990s.

By 1987 the Finns operated about 1.7 million automobiles, 9,000 buses, 52,000 freight trucks, 135,000 vans and delivery trucks, and 50,000 motorcycles. During the early 1980s, the number of vehicles had risen by almost 20 percent as more and more Finns purchased cars and motorcycles and many companies shifted from rail to road transport.

Finland's position on the northern shore of the Baltic, far from the commercial centers of Western Europe, placed a premium on shipping. Because harbors freeze up each winter, the Finns have employed a fleet of icebreakers and have equipped many ships with strengthened hulls, the construction of which has become a specialty of the metal-working industry (see *Industry*, this ch.). The national



oceangoing fleet expanded tenfold to about 2.5 million gross registered tons (GRT) between the end of World War II and about 1980, but it shrank thereafter to about 1.6 million GRT. The Finnish merchant marine carried most of the country's trade and provided a significant source of foreign exchange; however, merchant shipping declined somewhat in the 1980s because of competition from air freight services and from foreign shipping. In the 1980s, Finland's ports handled about 50 million net registered tons each year, of which 60 percent were exports. Ships also carried a significant number of passengers, 2 million of whom traveled by way of Helsinki.

Air transport grew rapidly in the 1970s and the 1980s. For passengers, domestic traffic was growing faster than international travel, but for freight, the reverse was true. Affordable air fares—the lowest in Europe—contributed to the rapid expansion of domestic air travel. Almost 3 million passengers and more than 50,000 tons of freight and mail passed through the main airport, Helsinki-Vantaa, each year. Finland also operated about forty smaller airports.

Two state-controlled firms, Finnair and Karair, dominated Finnish airways. The state owned a majority of shares in Finnair (founded in 1923), which maintained regular international and domestic service. Karair, established in 1957, was linked to Finnair (which owned a majority interest) and specialized in charter flights:

Finland's postal and telecommunications services maintained efficient links among the country's thinly settled population. In the late 1980s, the government operated about 3,600 post offices and 581 telegraph bureaus. Nevertheless, many rural areas were so sparsely inhabited that the postal carriers made deliveries to groups of mailboxes located at crossroads. The relatively great distances among settlements made telecommunications popular; by the late 1980s, telecommunications had become more important than traditional postal services. Among European states, Finland was unusual in maintaining a combination of public and private telephone systems. Some fifty-eight companies provided services in local communities, while the Public Telecommunications Agency (PTA) enjoyed a monopoly on long-distance services. Starting in the mid-1980s, local companies began to compete in the lucrative data transmission field, a move that put them in competition with the PTA's long-distance services. Observers expected that pending legislation would effectively deregulate the telecommunications market.

## **Tourism**

Tourism was a small industry in Finland, accounting for only 4 percent of total exports in 1987. Since 1982, however, Finns had spent more abroad than foreigners had spent in Finland, and economic policy makers sought to foster tourism to reduce this deficit. Tourists found many attractions, both natural and cultural, in Finland; moreover, facilities for vacationers were well developed. Public transport—including tourist buses and ships plying scenic interior waterways—offered easy access to the country's main tourist areas. In the mid-1980s, Finland had about 550 hotels and 230 boarding houses. During the 1980s, the number of rooms in hotels rose, as did the number of places in youth hostels. Campers found plentiful sites, including some with firewood and even shelters, along an extensive network of trails. Information offices in major cities in Finland and abroad offered information and orientation for visitors.

Despite manifold attractions and excellent facilities, the tourist industry lagged during the 1980s. Tourist earnings declined by about one-third during the early 1980s, perhaps as a result of Finland's relatively high cost of living, which made the country somewhat expensive for tourists.

## **Foreign Economic Relations**

International economic relations—especially foreign trade—have been vital for Finland throughout the twentieth century, but never have they been more so than during the 1980s. The country was self-sufficient in staple foods, and domestic supplies covered about 70 percent of the value of the raw materials used by industry. However, imports of petroleum, minerals, and other products were crucial for both the agricultural and the industrial sectors. From the end of World War II until the late 1970s, the development of modern infrastructure and new industries required substantial capital imports. Sound foreign economic relations made it possible to exchange exports for needed imports and to service the large foreign debt. A policy of removing obstacles to the mobility of commodities, services, and factors of production facilitated economic modernization.

Business leaders and government policy makers devised innovative strategies to manage economic relations. Close economic ties to the Soviet Union grew out of the postwar settlement under which Finland agreed to pay reparations and to maintain a form of neutrality that would preclude threats to Soviet security (see *The Effects of the War*, ch. 1; *Foreign Relations*, ch. 4). Except for

agriculture, which remained strictly protected, postwar commercial policy sought to link Finland's economy with the economies of the Nordic area and of Western Europe as closely as possible without aggravating Soviet fears that such economic ties would undermine loyalty to the East. Thus, since 1957 Finland had pursued trade liberalization and had established industrial free-trade agreements with both West European and East European countries. Spurred by these liberal policies, exports and imports had each grown to account for roughly one-quarter of GDP by the mid-1980s. By the late 1980s, Finnish industrial and service firms were going beyond trade to internationalize production by attracting foreign partners for their domestic operations and by acquiring foreign firms. Most observers believed that Finnish firms needed to follow an international tack not only to protect export shares but also to maintain their positions in domestic markets.

### **Foreign Trade**

Trade in agricultural commodities, consumer products, and services had been relatively limited, but exchanges with the outside world were crucial for industry. Not only had the forest industries grown largely in response to foreign demand for wood and paper, but the metal-working industry had also taken off only under the goad of postwar reparations deliveries to the Soviet Union. By the mid-1980s, exports accounted for half of all industrial output and for as much as 80 percent of the output of the crucial forest industries. Similarly, imports of energy, raw materials, and investment goods remained essential for industrial production. The development of export-oriented industries had driven Finland's postwar structural transformation, indirectly affecting the rest of the economy. Industrial competitiveness would largely determine the economy's overall health into the 1990s.

During the postwar period, Finnish exports shifted from lumber and other raw materials to increasingly sophisticated products, a change which reflected the increasing diversification of the country's economic structure. The forest industries continued to dominate exports, but, while they had accounted for about 85 percent of total exports in 1950, they accounted for only 40 percent by the mid-1980s. The relative shares of different forest exports also shifted. Sawn timber and various board products accounted for more than one-third of total exports in 1950, but by 1985 they had fallen to only 8 percent. Exports of pulp and paper fell more gradually during the same period, from 43 percent of exports to about 30 percent. Pulp and cardboard, the main exports of the chemical wood-processing branch, declined in importance, while

specialized paper products incorporating higher value added, such as packing material, printed paper, and coated paper, grew in importance.

Taking the place of forest products, exports of metal products grew rapidly during the postwar period from a little over 4 percent of exports to about 28 percent. Here, too, exports of more sophisticated manufactured goods grew faster than those of basic products. By the late 1980s, basic metals accounted for about 20 percent of metal exports, ships for about 25 percent, and machinery and equipment for about 20 percent. Advanced products such as electronics and process-control equipment were gaining on conventionally engineered products. The chemical industry had exported relatively little until the 1970s, but by 1985 it had grown to account for about 12 percent of exports. By contrast, the textile, confectionery, and leather goods industries had peaked at over 10 percent in the late 1970s and early 1980s, and then they had fallen to about 6 percent of exports by the mid-1980s. Minor export sectors included processed foods, building materials, agricultural products, and furs.

Up to the 1970s, Finland tended to export wood-based products to the West, and metal and engineering products to the East. By the mid-1980s, however, Finnish machines and high-technology products were also becoming competitive in Western markets.

Finland's imports had consisted primarily of raw materials, energy, and capital goods for industrial production, and in the late 1980s these categories still accounted for roughly two-thirds of all imports. The commodity structure of imports responded both to structural changes in domestic production and to shifts in world markets. Thus, the heavy purchases of raw materials, energy, and capital goods up until the mid-1970s reflected Finland's postwar industrial development, while the subsequent period showed the influences of unstable world energy prices and Finland's shifts toward high-technology production. Imports of investment goods climbed from about 15 percent in 1950 to almost 30 percent in the late 1960s and early 1970s, only to fall again by the 1980s to about 15 percent. Foodstuffs and raw materials for the textile industry accounted for about half of all raw material imports during the 1950s, but by the 1980s inputs for the chemical and metal-processing industries took some 75 percent of raw material imports. World energy prices had strongly influenced Finnish trade because the country needed to import about 70 percent of its energy. After rising slowly until the early 1970s, the value of oil imports had jumped to almost one-third of that of total imports in the mid-1970s, then had fallen with world oil prices to about 13 percent by the late 1980s.





*Helsinki's South Harbor closed by ice: on the right, the President's Palace; in the background, the dome of Helsinki Cathedral  
Courtesy Embassy of Finland, Washington*

Like its export markets, Finland's import sources were concentrated in Western Europe and the Soviet Union (see table 19, Appendix A). The country usually obtained raw materials, especially petroleum, from the East and purchased capital goods from the West.

Finnish service exports had exceeded service imports until the early 1980s. Up until this time, shipping and tourism earnings had generally exceeded interest payments to service the national debt. In the mid-1980s, however, the balance was reversed as the earnings of the merchant marine declined and Finns began to spend more on tourism abroad. Although Finnish businesses tried to compete in these labor-intensive sectors, the country's high wage levels made shipping and tourism difficult to export.

Like other Nordic countries, Finland's trade was concentrated in the Nordic area and in Europe. Unlike the others, however, Finland had, as its most important trading partner, the Soviet Union. During the postwar years, trade with the Soviets had expanded and contracted in response to political developments and market forces. During the immediate postwar period, the Soviet share of Finland's trade, spurred by reparations payments, rose to over 30 percent. However, the following two decades saw this share gradually decline as Finland expanded exports to Western Europe. A second cycle began after the 1973 oil crisis, when recession in Western markets cut demand for Finnish products while the increased value of Soviet oil deliveries to Finland allowed expanded exports to the East. Finnish exports to the Soviet Union rose sharply during the years after 1973, only to fall—along with world petroleum prices—by 1986.

By the late 1980s, the geographical distribution of Finland's trade was moving back to the pre-1973 pattern. In 1986, for example, although the Soviet Union continued to be Finland's single largest trade partner, trade with West European countries, which together accounted for about 61 percent of Finnish trade, was much more important than trade with the Soviet Union. Finland's main trade partners in Western Europe were Sweden, which took the biggest share of Finnish exports, and the Federal Republic of Germany (West Germany), which supplied the largest slice of Finnish imports. East European countries other than the Soviet Union accounted for only slightly over 2 percent of trade. Non-European countries were responsible for some 19 percent of trade. The United States, Finland's main non-European trade partner, accounted for over 5 percent of Finnish exports and imports in 1987.

As in many small European countries, the postwar trade policy of Finland had been to pursue free trade in industrial products

while protecting agriculture and services. During the 1980s, strict quotas still blocked imports of most agricultural commodities (except for tropical products that could not be produced domestically), but liberalized regulations allowed increased imports of services, especially financial services. Most industrial imports and exports were free of surcharges, tariffs, and quotas under multilateral and bilateral agreements between Finland and its major trading partners (see Regional Economic Integration, this ch.). Health and security concerns, however, inspired restrictions on imports of products such as radioactive materials, pharmaceuticals, arms and ammunition, live animals, meat, seeds, and plants. With a few exceptions, Finland discontinued export licensing in the early 1960s. The State Granary, however, controlled all trade in grains, while the Roundwood Export Commission reviewed all lumber exports.

### **Finnish Direct Investment Abroad**

From the end of World War II until the 1970s, Finland imported large amounts of capital to finance infrastructure investment and industrial development; however, by 1987 Finnish capital exports exceeded capital imports by about six to one. During the earlier period, foreign firms had set up subsidiaries in Finland, but few Finnish enterprises had established branches abroad. In the 1970s, the forest industry led a shift toward capital exports by founding sales outlets in the most important foreign markets, especially in Western Europe. The metalworking and chemical industries did not begin to expand overseas until the late 1970s, but they made up for lost time during the following decade. These industries first invested in Sweden, Norway, and Denmark, important markets sharing Nordic culture. Next came subsidiaries in the United States, which by the mid-1980s became the second-largest recipient of Finnish investments after Sweden and which hosted more than 300 Finnish manufacturing and sales firms. In the late 1980s, some firms targeted markets in the rapidly expanding economies of the Pacific basin. Beginning in the late 1980s, the service sector began to follow industry abroad. Banks, insurance companies, and engineering and architectural firms established branches in major business centers worldwide. By the late 1980s, Finnish firms owned more than 1,600 foreign concerns, of which some 250 were engaged in manufacturing; more than 900 in sales and marketing; and 450 in other functions.

Businessmen had many motives for setting up overseas operations. In general, the Finns wanted to deepen ties with industrialized countries where consumers and businesses could afford high-quality Finnish goods. Maintaining access to important



markets in an era of increasing protectionism and keeping up with new technologies had become crucial. Finnish enterprises, generally small by international standards, needed additional sources of capital and know-how to develop new technologies. Analysts believed that, despite their small size, Finnish firms could succeed abroad if they followed a comprehensive strategy, not only selling finished products but also offering their services in the management of raw materials and energy, development of new technologies, and design of attractive products.

Government policies helped achieve greater international integration of productive facilities. During the 1980s, legislation relaxed limits on foreign investment in Finnish firms, allowing foreigners to hold up to 40 percent of corporate equities; likewise, the BOF loosened restrictions on capital exports. The Technology Development Center (TEKES), under the Ministry of Trade and Industry, sponsored international cooperation in research and development. The government also arranged for Finnish participation in joint projects sponsored by the European Space Agency (ESA) and the European Community (EC—see Glossary), including the EC's Eureka technology development program. Although it was still too early to predict how Finland would perform in international joint ventures, many observers felt that such enterprises were the best way for the country to achieve industrial progress.

### **Balance of Payments**

Finland's external balance reflected the country's status as a late-industrializing economy needing large infusions of foreign capital as recently as the 1970s. The resulting foreign debt peaked at the end of 1977 at about 20 percent of GDP. Over the following decade, the Finns reduced their debt, which stood at about 16 percent of GDP in 1987. Even at this lower level, however, debt service required payments amounting to over 2 percent of GDP, a permanent drag on the balance of payments.

Although the country ran trade deficits up until the 1970s, Finland's trade performance was generally satisfactory during the 1980s, despite developments in world markets that posed special challenges, such as the need to shift exports rapidly from Eastern to Western markets after the collapse of oil prices in the mid-1980s. The balance of trade showed a surplus after 1980, which rose to about US\$1.6 billion by 1986 as a result of strong foreign demand for Finnish goods (see table 20, Appendix A). The services account, however, showed growing deficits during the decade, which reached more than US\$2.2 billion in 1986. The deficit on services grew

out of increased Finnish tourist expenditures abroad, the decline in shipping earnings, and the continued service payments on the national debt. The transfers account likewise showed a deficit, mainly the result of Finland's growing official foreign aid to the Third World. Thus, despite the strong performance of Finland's export sector, the country had generated a deficit on the current account that reached almost US\$900 million in 1986.

Over the long term, Finland's ability to continue to finance current account deficits and to service the national debt was limited primarily by the country's ability to maintain export earnings. Some analysts pointed out that after 1984, Finland's surpluses were in fact earned in exchanges with the Soviet Union (producing a surplus on a blocked account), while hard-currency trade was in deficit. Many observers noted, however, that Finland's debt was low by OECD standards, and they suggested that the country's external imbalances could be sustained for many years.

### **Regional Economic Integration**

Until 1917 the Grand Duchy of Finland enjoyed a privileged position as a relatively advanced part of the Russian Empire, supplying metal products and ships in exchange for agricultural goods. These ties collapsed, however, when political tensions between the Bolshevik regime and the Finnish Republic precluded commercial agreements. The interwar pattern was reversed in the years following World War II, as reparations payments and barter trade grew into a close trading relationship in which Finland exported industrial goods, especially capital goods, in exchange for raw materials and fuels—an arrangement roughly parallel to that which had existed before 1917.

Starting in the late 1950s, however, Finland broke away from its dependence on the Soviet market, successfully opening its economy to the two West European trading blocks, the European Economic Community (EEC—see Glossary) and the European Free Trade Association (EFTA—see Glossary). Expanded trade with the West did not imply renunciation of profitable exchanges with the East, however, because Finnish commercial ties with the Soviet Union and with the other members of the Council for Mutual Economic Assistance (CMEA, CEMA, or Comecon—see Glossary) deepened after 1960. By the late 1980s, Finland provided a unique example of a neutral country with a free-market economy that had developed increasing economic interdependence with both the market economies of Western Europe and the planned economies of Eastern Europe.

Although many Western observers saw in Finnish foreign economic policy the dominance of security concerns over economic interests, close inspection revealed a mixture of motives. The guiding principles of postwar foreign policy—Finland's need to assure the Soviet Union that it did not have to fear threats from (or through) Finnish territory as well as Finland's practice of active neutrality—influenced trade policies toward the East, especially in the immediate postwar years. Such concerns blocked Finnish participation in the Marshall Plan and in the Organisation for European Economic Co-operation (OEEC), which was established to coordinate the use of Marshall Plan aid (see Foreign Relations, ch. 4). Trade with the East also served important economic interests, however, driving the rapid development of the metalworking industries during the 1950s and helping to absorb labor released from the modernizing farm sector. In the years after the 1973 oil crisis, Finnish exports to the Soviet Union also provided an essential market at a time of recession in Western markets. Commentators suggested that by the 1980s, the Finns, less concerned with security than they had been in the early postwar years, based policy decisions almost exclusively on market considerations.

### *Ties to West European Markets*

Although trade with Western Europe developed slowly in the early postwar years, by the 1980s it was more important than trade with the East. During the early and mid-1950s, when the West European countries liberalized trade and exchange regulations under the OEEC, Finland maintained import and export controls inherited from World War II and the reparations years. Conducting almost all trade under bilateral agreements (except for occasional trilateral deals worked out with the Soviet Union and another East European country), Finland saw its trade grow only slowly. Thus, although the forest industries were competitive, the economy as a whole remained isolated. The Finns did participate to a limited extent in international economic organizations, joining the International Monetary Fund (IMF—see Glossary), the World Bank (see Glossary), and the General Agreement on Tariffs and Trade (GATT—see Glossary) in the late 1940s. The country also became a member of the Nordic Council and agreed to a Nordic labor market, but did not favor a Nordic common market because of Soviet opposition. Faced by the growing movement toward West European economic integration after 1955, Finland ran the risk of remaining on the sidelines, not only because of Soviet pressures but also as a result of domestic protectionism.

It was not until 1957 that the Finns first shifted their policy toward Western Europe in a move designed to protect access to traditional export markets, especially in Britain, and to shift economic activity to branches in which the country had a comparative advantage at a time when extensive economic growth was reaching its limits. The new policy package combined an austerity program, a sharp currency devaluation, and multilateral tariff reductions for trade in industrial goods arranged through the Helsinki Club, which was a model for further trade agreements. In effect, Soviet opposition had blocked Finnish membership in the OEEC, leading the Finns to set up the Helsinki Club, which the OEEC countries, agreeing to apply their liberalized import lists to Finnish goods, then joined. In 1958 Finnish authorities further liberalized trading conditions by making the Finnish mark convertible in European markets.

Since the late 1950s, Finland has consistently pursued freer trade in industrial products with the members of EFTA and the EEC, while protecting domestic agriculture to maintain food supplies and while controlling oil imports to safeguard trade with the Soviet Union. Under the FINEFTA agreement, signed in March 1961, Britain and other EFTA states extended associate membership and free-trade arrangements to Finland. In 1969 Finland joined the Organisation for Economic Co-operation and Development (OECD—see Glossary), the successor to the OEEC. Although the OECD played a minor role in commodity trade, its recommendations regarding cooperation among industrialized free-market economies touched on issues such as freer trade in services and liberalized capital transfers. When two important trading partners, Britain and Denmark, switched from EFTA to the EEC, Finland (like the other EFTA states) negotiated with the EEC an industrial free-trade agreement that came into effect in 1974. In 1986 Finland became a regular member of EFTA, the Soviet Union finally having recognized that the organization posed no threat to its security or its trade interests. Under these free-trade agreements, virtually all Finnish industrial goods entered West European markets duty-free (but they sometimes faced troublesome nontariff barriers). These arrangements led to rapid increases in trade with Western Europe, stimulating specialization and improving economic efficiency in Finland.

Finnish business intensified its interest in Western Europe during the mid-1980s and the late 1980s, as falling oil prices led to a curtailment in trade with the Soviet Union. In 1986 and 1987, the Finns managed to shift trade smoothly from Eastern to Western markets, a development that soothed trade worries. Despite this

success, in early 1987 prominent Finns voiced fears that the EC's plan to unify its markets by 1992, a plan approved in June 1985, might harm Finnish trade interests. According to this line of thought, the elimination of the remaining hindrances to trade in commodities, the establishment of free markets in services and capital, and the further harmonization of European macroeconomic policies would favor EC products, reducing Finnish access to EC markets. Commentary became especially heated after reports that other EFTA states, including Norway and Austria, were considering joining the EC, as Portugal had done in 1986. Moreover, the tendency for EC countries to expand cooperation from economic matters to security questions made Finnish membership in the EC politically impossible.

Informed analysts noted that, as it had in the years after 1957, Finland could maintain access to European markets without undermining its independent foreign policy. Although deepened integration among the EC countries would tend to reduce EC-EFTA trade, Finland and the other EFTA countries were not defenseless. As a group, the EFTA countries formed the EC's largest trading partner and could exert considerable pressure on EC harmonization decisions. Indeed, the EC had demonstrated some willingness to cooperate with the EFTA countries in April 1984, when representatives of the two trading groups issued the Luxembourg Declaration, which called for reduced technical barriers to trade, for common norms in information technology and telecommunications, and for greater cooperation in multilateral research and development programs. Even if EFTA efforts lagged, Finland could maintain trade ties with the EC by aligning national technical norms, commercial practices, and economic policies with those chosen by the EC. Other arrangements were also possible. For example, in 1986 Finland joined the ESA (which included other non-EC countries), participating in the group's earth observation satellite program as well as in basic research efforts. In effect, expanded technical cooperation offered the prospect that, while integration with the EC countries would extend far beyond commercial agreements during the 1990s, Finland could participate without sacrificing political neutrality.

### ***Finnish-Soviet Cooperation***

Originally established in the chaos of the postwar years, Finnish-Soviet economic ties developed apace during the entire postwar period as the two countries experimented with new forms of interaction between seemingly incompatible economic systems. During the Cold War, the two countries found this trade especially

important. The Soviet Union was Finland's largest trade partner, while Finland was the Soviet Union's largest Western client until the 1970s; in 1987 Finland still placed third in Soviet trade with the West. Although the relative importance of Finnish-Soviet trade had declined in the 1980s, the two countries still needed each other's business, and they sought to compensate for the setbacks in trade by expanding other forms of cooperation.

Finnish-Soviet trade developed out of interim agreements negotiated in the immediate postwar years, especially the 1947 Treaty of Commerce, in which the Finns and the Soviets agreed to expand bilateral trade and to extend to each other most favored nation status. During the late 1940s, annual agreements set trade targets, but in 1950, with the end of reparations deliveries in sight, the two partners agreed on the first of the five-year trade plans that continued to regulate trade in the late 1980s. These plans, which contained commodity quotas for both imports and exports, allowed both sides to anticipate deliveries—a plus for Finland's shipbuilding and other heavy industries. Annual trade protocols, negotiated in accordance with the five-year plans, provided a detailed list of expected exchanges. Although in the Soviet Union the government traditionally monopolized foreign deal making, in Finland private firms were free to negotiate with minimal government interference. The parties to individual transactions set the terms of exchange—including delivery dates and prices—which generally reflected world market conditions. A licensing system, covering both imports and exports, enforced the planned trade balance.

The barter arrangements of the early postwar years soon gave way to a ruble clearing account jointly administered by the BOF and the Soviet Foreign Trade Bank. Under this scheme, individual transactions did not need to balance, provided that total trade balanced in each five-year period and that payment imbalances did not exceed a ceiling of about 5 percent of the annual value of trade. Other payment arrangements were developed when needed. Between 1956 and 1965, for example, the Soviets made hard-currency payments to cover the costs of imported materials in Finnish shipments to the Soviet Union. In addition, barter still played a role in border trade, which was regulated by a special section of the annual trade protocol.

During the 1960s and 1970s, the two countries further institutionalized their economic relationship, often as a result of negotiations initiated from the Finnish side. In 1960 the Finns, invoking the most favored nation clause of the 1947 Treaty of Commerce, negotiated a free-trade agreement to compensate the Soviet Union for the FINEFTA agreement. In 1967 the two states established

the Finnish-Soviet Intergovernmental Commission for Economic Cooperation, which set the five-year and the annual trade projections and studied other forms of cooperation. In 1973, after signing a free-trade agreement with the EEC, Finland became the first Western nation to reach an agreement with Comecon; Finland complemented this agreement with bilateral free-trade treaties with most East European Comecon members. Another important step toward improved ties came in 1977, when Finland and the Soviet Union decided on a fifteen-year Long-term Economic Plan meant to smooth out trade fluctuations between the five-year plans.

Despite these elaborate institutional arrangements, prospects for expanding Finnish-Soviet trade dimmed after 1986, when falling oil prices sharply reduced the Soviet Union's ability to finance imports from Finland. Soviet consumer goods sold poorly on the Finnish market, and the Soviets reportedly preferred selling their few competitive industrial products in hard-currency markets, making it hard to find substitutes for oil imports. The Finns, long unchallenged in Eastern markets, found increased competition from other Western exporters. The reform movement initiated by Soviet party leader Mikhail S. Gorbachev had both advantages and disadvantages for the Finns. In the long run, increased flexibility and new emphasis on consumer goods were likely to improve prospects for trade. Finns experienced immediate difficulties, however, when Moscow decided to decentralize foreign-trade decision making, reducing the importance of long-standing Finnish contacts in the Soviet Ministry of Foreign Trade. As a result of these developments, analysts predicted that Finnish-Soviet trade might decline by as much as 10 percent per year in 1988 and 1989, unless world oil prices rose again.

In the late 1980s, concerns about falling exports to the East filled the business press with reports of the difficulties faced by Finnish agriculture, textiles, leather goods, and shipbuilding, sectors particularly dependent on the Soviet market. Many analysts believed, however, that the Finns would find ways to preserve their exchanges with Soviet enterprises. Aware of their common interests, policy makers in the two countries addressed immediate problems and invented new forms of East-West cooperation. At the end of 1986, the Soviets agreed to convert the Finnish surplus on the clearing account to a loan paying interest at world rates, with guarantees on the ruble's exchange rate. In early 1987, Finland's state petroleum company, Neste, arranged to import increased amounts of Soviet oil, which it reexported, sometimes after refining operations.

In the spring of 1987, a Finnish firm became the first Western enterprise to establish a joint venture with Soviet partners by

investing in an Estonian paint factory. Later, Finnair agreed to form a joint venture to renovate and operate a luxury hotel in Moscow. The two sides were also exploring compensation projects, in which Finnish enterprises would help to build industrial facilities in the Soviet Union and would accept a share of the resulting output as full or partial payment. In March 1988, Moscow announced plans to list several Soviet companies on the Helsinki Stock Exchange. Thus, although Finnish-Soviet trade might well decline in the late 1980s and early 1990s, it appeared likely that the Finns would find ways to maintain and to improve the long-standing economic relationships with their neighbors in the Soviet Union and Eastern Europe.

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The OECD's annual economic survey, *Finland*, most recently published in April 1988, is an authoritative and readily available summary of the Finnish economy that includes up-to-date statistical tables. The *Financial Times* (published in London) provides regular coverage and occasional surveys of Finnish economic and business developments. The Economist Intelligence Unit's quarterly *Country Report: Finland* and annual *Country Profile: Finland* outline economic and political trends and include up-to-date statistical material. The *Yearbook of Nordic Statistics*, published by the Nordic Council of Ministers, provides official economic statistics in a format that allows comparison with other Nordic states; the *Statistical Yearbook of Finland*, issued by the Central Statistical Office of Finland, supplies more detailed statistics, although it is less widely distributed.

No comprehensive survey of the Finnish economy exists in English, but a number of publications offer partial views. *Finland and Its Geography*, edited by Raye R. Platt, although now rather dated, offers a geographical introduction to economic affairs. Fred Singleton's *The Economy of Finland in the Twentieth Century* sketches the historical background. Dieter Senghass's *The European Experience* and essays by Risto Alapuro, Matti Alestalo, Stein Kuhnle, and Kimmo Kiljunen analyze the country's economic development in comparative frameworks. David Arter's *Politics and Policy-making in Finland* and Lars Mjølset's "Nordic Economic Policies in the 1970s and 1980s" explain the institutional and international influences on economic policy making. *The Bank of Finland Bulletin* offers in-depth analytical articles on topics of current interest, and the varied publications of Finland's government and of Finnish producer groups, generally available from the Embassy of Finland



*Finland: A Country Study*

in Washington, give information about particular sectors. (For further information and complete citations, see Bibliography.)

## Chapter 4. Government and Politics



*Parliament building, Helsinki*

SINCE THE ESTABLISHMENT of its present system of government in 1919, Finland has been one of the more fortunate members of the Western community of democratic nations. Compared with other European states, the country was only moderately affected by the political turmoil of the interwar period; it passed through World War II relatively unscathed; and, although right on the line that divided Europe into two hostile blocs after the second half of the 1940s, it survived as an independent nation with its democratic institutions intact.

This enviable record was achieved against formidable odds. Although the constitutional basis of their government grew out of long-established institutions, Finns had never been fully free to govern themselves until late 1917 when they achieved national independence. Swedish and Russian rulers had always ultimately determined their affairs. Finnish society was also marked by deep fissures that became deeper after the brief civil war (1918), which left scars that needed several generations to heal. In addition to class and political divisions, the country also had to contend with regional and linguistic differences. These problems were eventually surmounted, and by the 1980s the watchword in Finnish politics was consensus.

A skillfully constructed system of government allowed Finns to manage their affairs with the participation of all social groups (although there were some serious lapses in the interwar period). Checks and balances, built into a system of modified separation of powers, enabled the government to function democratically and protected the basic rights of all citizens. The 200-member parliament, the Eduskunta, elected by popular vote, was sovereign by virtue of its representing the Finnish people. An elected president wielded supreme executive power and determined foreign policy. Although not responsible politically to the Eduskunta, the president could carry out many of his functions only through a cabinet government, the Council of State, which was dependent upon the support of the Eduskunta. An independent judiciary, assisted by two legal officials with broad independent powers—the chancellor of justice and the parliamentary ombudsman—ensured that government institutions adhered to the law.

Working within this system during the 1980s were a variety of political parties, an average of about a dozen, ranging from sect-like groups to large, well-established parties, the counterparts of

which were to be found all over Western Europe. The socialist wing consisted of a deeply split communist movement and a moderate Finnish Social Democratic Party that by the late 1980s was a pre-eminent governing party. The center was occupied by an agrarian party, the Center Party, which had been in government almost continuously until 1987; the Swedish People's Party; and a formerly right-wing protest party, the Finnish Rural Party. The right was dominated by the National Coalition Party, which was fairly moderate in its conservatism. In the 1970s and the 1980s, the mainstream parties, and even a good part of the Communist Party of Finland, had moved toward the center, and the political spectrum as a whole was slightly more to the right than it had been in previous decades.

A constitutional system that was conservative in nature had allowed these parties to work together, yet within constraints that permitted no single group to usurp the rights of another. Nevertheless, the variety of parties had made it very difficult to put together coalitions that could attain the strict qualified majorities needed to effect fundamental changes. Only since the second half of the 1960s had it been possible, though at times difficult, to find a broad multiparty consensus.

Powerful interest groups were also involved in Finnish politics, most noticeably in the negotiation and the realization of biannual income policy settlements that, since the late 1960s, had affected most Finnish wage-earners. Interest groups initially negotiated the terms of a new wage agreement; then it was, in effect, ratified by coalitions of parties in government; and finally the Eduskunta passed the social and economic legislation that underlay it. Some observers complained that government's role had become overly passive in this process and that the preeminence of consensus actually meant that Finnish politics offered the populace no real alternatives. Yet most Finns, remembering earlier years of industrial strife and poverty, preferred the new means of managing public affairs.

There was also broad agreement about Finnish foreign policy. The country was threatened with extinction as an independent nation after World War II, but presidents Juho Paasikivi and Urho Kekkonen, both masters of realpolitik, led their countrymen to a new relationship with the Soviet Union. The core of this relationship was Finland's guarantee to the Soviet Union that its northwestern border region was militarily secure. Controversial as the so-called Paasikivi-Kekkonen Line was initially, by the 1980s the vast majority of Finns approved of the way Finland dealt with its

large neighbor and were well aware, too, of the trade advantages the special relationship had brought to their country.

Working in tandem with good Finnish-Soviet relations was the policy of active and peaceful neutrality, the backbone of Finnish foreign policy. Advocating, as a neutral state, the settlement of disputes through peaceful, legal means was a role Finns adopted willingly. A high point of this policy was the part the country played in planning and in hosting the 1975 Conference on Security and Cooperation in Europe. Another facet of active neutrality was a committed membership in the United Nations, most notably in the organization's peacekeeping forces.

## **Constitutional Framework**

Finland's government structure has remained largely unchanged since it was established in 1919 with the passage of the Constitution Act (see *The Establishment of Finnish Democracy*, ch. 1). Building on a combination of old institutions from both the Swedish and the Russian periods, this law, together with three others also of constitutional status, has given Finland a system that has been remarkably successful in allowing a once deeply divided nation to govern itself.

## **Constitutional Development**

Finland, although independent of foreign rule only since 1917, has traditions of self-government extending back into the Middle Ages. Because their country belonged to the dual kingdom of Sweden-Finland for more than 600 years, Finns had long enjoyed the common Nordic right to manage local affairs by themselves. Beginning in 1362, Finns took part in the election of the Swedish king, and they thus became involved in the government of the realm as a whole. This role was increased after 1435, when they began sending representatives to the kingdom's governing body, the Diet of the Four Estates (*Riksdag*).

The Swedish Diet Act of 1617 and the Form of Government Act of 1634 formalized the Finnish tradition of estates, whereby leading members of the country, representatives not only of regions but of social classes as well, met to decide matters of common concern. Although the acts restricted local government somewhat, they brought Finns more than ever into the management of the kingdom's affairs. At regular intervals a Finn presided over the nobility, the most important of the four estates of the Diet; consisting also of the estates of the clergy, burghers, and peasantry, the Diet continued to be Finland's representative governing body until early in the twentieth century.

Royal power was strengthened by the constitution of 1772, forced on the Diet by King Gustav III. This constitution, in effect in Finland until 1919, long after it had been abrogated in Sweden, gave the king final say about the decisions of the Diet. The king's power was further augmented by the Act of Union and Security of 1789, which gave him exclusive initiative in legislative matters.

Ceded by Sweden to Russia in 1809, Finland was not incorporated fully into the empire by Tsar Alexander I, but retained its own legal system (see *The Russian Grand Duchy of Finland, 1809-1917*, ch. 1). A small body, the Senate, was established to administer the country. Its two sections, finance and justice, later became the basis of independent Finland's cabinet and supreme courts. The Senate's head, the governor general, the highest official in Finland, was a Russian appointed by the tsar. An indication of the country's relative autonomy, however, was that all other officials of the Grand Duchy of Finland were native Finns.

The tsar, who had the right to determine when the Diet met, dissolved the assembly in 1809, and it did not meet again until 1863 when recalled by Alexander II, the Tsar Liberator. Thereafter the Diet met regularly, and in the late 1860s it ushered in the "Golden Age" of Finnish legislation, a period of several decades during which the country's laws were modernized and were brought into harmony with the legal codes of Western Europe. It was during this period, too, that political parties appeared, emerging first from the campaign to give the Finnish language its rightful place in the country, then from the growing resistance to Russian rule, and finally from the question of how to contend with the coming of industrialization and labor strife.

The aggressive Russification campaign that began in the 1890s sought to end the relative autonomy Finland had enjoyed under tsarist rule (see *The Era of Russification*, ch. 1). A military defeat in East Asia weakened the Russian empire and gave Finns a chance for greater freedom. The Diet unanimously dissolved itself in 1906, and a parliament, the Eduskunta, a unicameral body elected by universal suffrage, was created. Finland became in one step a modern representative democracy and the first European nation to grant women the right to vote.

The tsarist regime allowed the assembly few of its rights, however, and only after the collapse of the Russian Empire and the Bolshevik Revolution of 1917 were the Finns able to secure their independence. A civil war and bitter political debates about whether the country should be a monarchy or a republic preceded the passage of the Constitution Act of 1919, which established the present system of government in Finland.

## **The Constitution**

Finland's Constitution is not a single law, but rather a collection of four laws that have constitutional status. The most important is the Constitution Act of 1919, which lays out the functions and relationships of the most important government entities, lists the basic rights of Finnish citizens and the legal institutions charged with their protection, and makes provisions for managing state finances and for organizing the defense forces and public offices. The second of the basic laws is the Parliament Act of 1928, a slightly modernized version of the Parliament Act of 1906, which established the country's democratically elected parliament, the Eduskunta, and spelled out its procedures. Two other basic laws date from 1922 and involve supervision of the cabinet or government: the Responsibility of Ministers Act, which details the legal responsibilities of the members of the cabinet and the chancellor of justice; and the High Court of Impeachment Act, which explains how they are to be made accountable for infractions of the law.

Two acts dealing with the self-determination of the Åland Islands also have constitutional status (see fig. 1). The Autonomy Act of 1951 protects the Swedish character of the archipelago, and a law of 1975 restricts the purchase and ownership of land on the islands.

The Constitution Act of 1919, building on existing Finnish institutions, established a parliamentary system of government based on a division of powers among the legislative, the executive, and the judicial branches of government. But the separation of powers is not complete, and the branches' powers and functions are overlapping and interlocking. Sovereign power rests with the Finnish people, who govern themselves through the Eduskunta. Sharing legislative power with the parliament, however, is a president, who also wields supreme executive power. He exercises this power through the Council of State, a cabinet of ministers. In accordance with parliamentary norms, this cabinet must resign if it loses the support of the Eduskunta. The judiciary is independent, yet it is bound by the laws passed by the Eduskunta, which, in turn, follows constitutional norms in drafting them.

Like other Nordic countries, Finland has no constitutional court. The Eduskunta, acting through its Constitutional Committee, serves as the ultimate arbiter of the constitutionality of a law or legislative proposal. Composed of seventeen members, chosen to represent the party composition of the full chamber, the committee seeks expert opinion and lets itself be bound by legal precedents.

The Constitution may be amended if proposals to this end meet qualified or set majority requirements. The requirements are such



that as few as one-sixth of the Eduskunta's members can prevent the passage of amendments. The large number of Finnish political parties makes attaining qualified majorities nearly impossible, unless an amendment has widespread support. This protects the rights of minorities.

The individual rights of Finnish citizens are delineated in Section II of the Constitution Act, Article 5 through Article 16, and, with a single addition, they have remained unchanged since their adoption in 1919. The additional amendment, enacted in 1972, promises all Finns the opportunity for gainful employment, to be provided by the state if necessary. The list of rights is, of necessity, rather general. How they are exercised, protected, and limited is set out in ordinary laws. The state reserves for itself the right to limit them "in time of war or rebellion."

First and foremost, all citizens are equal under the law, with a constitutional guarantee of their rights to life, honor, personal freedom, and property. The reference to honor provides for protection against false and slanderous charges and reflects the importance of reputation in Finnish tradition. The protection of property and the requirement for full compensation if it is expropriated for public needs indicate the conservative nature of the Finnish Constitution. The right of freedom of movement encompasses residence, protection from deportation, and guaranteed readmittance into Finland. Only in special cases, such as convictions for criminal activity, are these freedoms abridged. Complete freedom of religious worship and association is guaranteed, as is freedom from religion.

Finnish citizens are guaranteed free speech and the right of assembly, as well as the right to publish uncensored texts or pictures. The inviolability of the home is promised, and a domicile can be searched only according to conditions set by law. Privacy of communications by mail, telegraph, or telephone is likewise provided for. A Finn may be tried only in a court having prescribed jurisdiction over him. The safeguarding of the cultural affinities of the country's citizens is regarded as a fundamental right, and, as a consequence, the two languages spoken by native-born Finns, Finnish and Swedish, both enjoy the status of official language. The act stipulates that a Finn may use either of these two languages in a court of law and may obtain in that language all pertinent legal or official documents. Finally, in accordance with its nature as a republic, Finland grants no noble or hereditary titles.

## **Governmental Institutions**

The four acts that make up the Finnish Constitution provide for

a central government divided into three overlapping branches—legislative, executive, and judicial (see fig. 19). Their mutual control by an elaborate system of checks and balances has permitted Finnish democracy to flourish. Decisions of the central government are implemented by ministries, semiautonomous national boards, and governments at the provincial and the local levels. Finnish local government is comparatively extensive, has broader powers than that of many other countries, and, in accordance with the Constitution, is self-governing. An efficient, but somewhat politicized, civil service staffs these governmental structures. Underpinning the system is an electoral system that permits the Finnish people to determine their own affairs in a democratic way. One region of the country, the Åland Islands, is to a degree autonomous, a reflection both of its unique linguistic heritage and the respect for individual freedom embedded in the Finnish system of government.

### **Legislature**

The Eduskunta is the country's highest governing body by virtue of its representing the people, who possess sovereign power. Its main power is legislative, a power it shares with the country's president. It also has extensive financial powers, and its approval is required for the government's annual budget and for any loans the government wants to contract. Although the president is dominant in the area of foreign policy, treaties must be ratified by the Eduskunta, and only with its consent can the country go to war or make peace. This chamber also has supervisory powers, and it is charged with seeing that the country is governed in accordance with the laws it has passed. To enforce its will, the Eduskunta has the power to hold the government to account, and to call for the impeachment of the president.

The Eduskunta is closely tied to the president and to the Council of State. Neither the president nor the cabinet is able to carry out many executive functions without the support of the Eduskunta, and the cabinet must resign if it is shown that it has lost the chamber's confidence. Strong links between the Eduskunta and the Council of State result, too, from the circumstance that most cabinet ministers are members of parliament. On the other hand, the Eduskunta is subordinate to the president in that he may dissolve it and call for new elections. Despite its legislative powers, it actually initiates little legislation, limiting itself mainly to examining the government bills submitted to it by the president and the council. In addition, all legislation passed by the Eduskunta must bear the president's signature and that of a responsible minister in order to go into effect. The Eduskunta need not approve the legislative

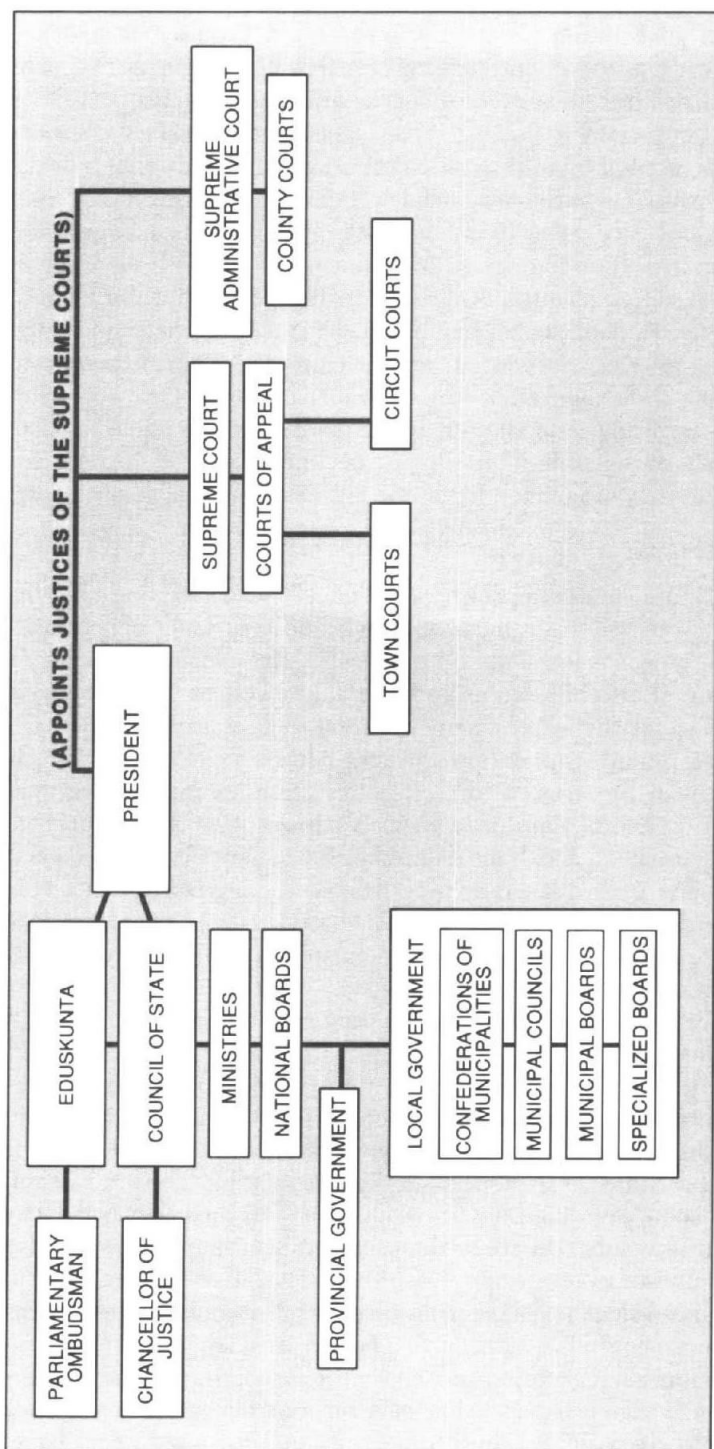


Figure 19. System of Government, 1988

proposals submitted to it, however, and can alter or reject them.

As stipulated by the Parliament Act of 1928, the Eduskunta's 200 members are elected by universal suffrage for four-year terms. All citizens twenty years of age and older, who are able to vote, and who are not professional military personnel or holders of certain high offices, have the right to serve in the Eduskunta. A wide variety of the country's population has served in this body, and its membership has changed often. Sometimes as many as one-third of the representatives have been first-term members, as occurred in the 1987 national elections.

Finnish election laws emphasize individual candidates, which sometimes has meant the election of celebrities to the body. Most members, however, have begun their political careers at the local level. In the late 1980s, about one-third of the representatives were career politicians. The professions were overly represented at the expense of blue-collar workers; about 40 percent of the members, compared with only 3 percent of the population as a whole, had university degrees. By the 1980s, farmers and businessmen were no longer so prevalent as they once had been, while there were more journalists and managers. The number of female representatives had also increased, and by the 1980s they made up one-third of the chamber. In the 1987 election, women won 63 of the 200 seats.

Article 11 of the 1928 Parliament Act states that members are to vote as their consciences dictate. A delegate is not legally bound to vote as he or she promised, in a campaign for example. In the late 1980s, however, party discipline was strict, and delegates usually voted as directed by their party.

The four-year term, or legislative period, of the Eduskunta is divided into annual sessions beginning in early February, with vacation breaks in the summer and at Christmas. The first business of a yearly session is the election of a speaker, two deputy speakers, and committee chairmen. Those elected make up the speaker's council, which is representative of the party composition of the Eduskunta and arranges its work schedule. The speaker, by tradition of a different party from the prime minister, presides over the chamber, but the speaker neither debates nor votes.

Also chosen in the first days of a new session are those, from either within or outside the parliament, who supervise the pension institute and television and radio broadcasting; and five auditors who monitor compliance with the government's budget and oversee the Bank of Finland (BOF). Among the most important posts to be filled by the Eduskunta for its four-year term are those of

the parliamentary ombudsman and the six members of the Eduskunta who make up half of the High Court of Impeachment.

Parliament approves legislation in plenary sittings, but it is in the committees that government bills are closely examined. In the late 1980s, there were thirteen committees in all: five permanent committees—constitutional, legal affairs, foreign affairs, finance, and bank—and eight regular ad hoc committees—economy, law and economy, cultural affairs, agriculture and forestry, social affairs, transportation, defense, and second legal affairs. Committee membership reflects the political composition of the Eduskunta. Members usually serve for the whole legislative period, and they commonly have seats on several committees, often of their own choosing. Members who have served on a given committee for a number of terms often develop considerable expertise in its area of responsibility.

Legislative proposals also pass through the forty-five-member Grand Committee. Only the budget, which is not a legislative proposal in Finland, escapes its review. The committee, adopted as a compromise in 1906 between those who advocated a bicameral legislature and those who preferred the unicameral body finally established, was conceived as a safeguard against the measures of a perhaps too radical parliament. It therefore examines proposals for their legal soundness and propriety. Yet, according to the British scholar David Arter, the Grand Committee has only occasionally altered the proposals sent to it, and, as a consequence, it has lost prestige within the Eduskunta. Its members are generally newly elected representatives.

The Eduskunta has an elaborate procedure for handling government bills sent to it by the president, after discussion and approval in the Council of State. This procedure was adopted with the idea of preventing the enactment of radical measures, and it is an indication of the Eduskunta's essentially conservative nature. Proposals are usually first discussed in a plenary session, then directed by the speaker to an appropriate committee, where they are carefully scrutinized in closed hearings. After committee review and report, proposals are returned to the plenary session for the first reading, where they are discussed but no vote is taken. The next step is the Grand Committee review. Working from the Grand Committee report, the second reading in plenary session is a detailed examination of the proposal. If the Grand Committee report is not accepted in its entirety, the proposal must be returned to the Grand Committee for further discussion. Once the proposal is back again at the plenary session, for the so-called continued second reading, the Eduskunta votes on the changes recommended by the Grand

Committee. There is no discussion in the final and third reading; the proposal is simply approved or rejected. Votes may be taken at least three days after the second reading or the continued second reading. Once approved by the Eduskunta, bills require the signature of the president within three months to go into effect. This requirement gives the president the power of suspensive veto. This veto, rarely used, can be overridden if the Eduskunta approves the bill with a simple majority following new national elections.

Only the government's budget proposal is exempted from the above parliamentary procedure, because the budget is not considered a legislative proposal in Finland. Instead, the budget proposal is handled in a single reading, after a close review by the largest and busiest parliamentary committee, the twenty-one-member Finance Committee. Government bills connected with the budget and involving taxation, however, must pass through the three plenary session readings and the Grand Committee review. This reinforces the Eduskunta's budgetary control.

The Eduskunta's elaborate legislative procedure can be traversed in a few days if there is broad agreement about the content of a bill. Qualified majority requirements for much legislation, most commonly that touching on financial matters and property rights, enable a small number of representatives to stop ratification in a plenary session and to oblige the government to ascertain a bill's probable parliamentary support before submitting it to the Eduskunta. Qualified majority requirements for legislation involving taxation for a period of more than one year require the approval of two-thirds of the body. Sixty-seven members can hold such legislation over until after a new election and can thus effectively brake government programs. Because there is no time limit on a member's right to speak, filibusters can also slow the progress of a bill through the Eduskunta, although this tactic has seldom been employed. Government care in the crafting of bills is reflected in the unimpeded passage through parliament of most of them.

Legislation altering the Constitution is subjected to more rigorous requirements. Constitutional changes may be approved by a simple majority, but before they go into effect, they must be approved again by a two-thirds majority in a newly elected Eduskunta. If the changes are to go into effect within the lifetime of a single Eduskunta, the legislation implementing them must be declared "urgent" by five-sixths of the body and, in a subsequent vote, approved by a two-thirds majority. This requirement means that a vote of one-sixth against a proposed economic measure regarded as being of a constitutional nature, such as some incomes policy legislation, can prevent its enactment during a single

parliamentary term. These same majorities are required for an unusual feature of Finnish parliamentary procedure that permits the passage of laws that are temporary suspensions of, or exceptions to, the Constitution, but that leave it intact. Since 1919 about 800 of these exceptional laws have been passed, most involving only trivial deviations from the Constitution.

Members of the Eduskunta may initiate legislation by submitting their own private members' bills and financial motions relating to the budget. Several thousand of these are submitted each year, but 95 percent are not even considered, and only a handful are accepted. Members also may submit proposals connected to government bills, or may petition for certain actions to be taken. The main point of these procedures is often a delegate's desire to win the approval of his constituents by bringing up an issue in the Eduskunta.

The Eduskunta has other means of exerting pressure on the government, in addition to refusing to approve its legislative proposals. Its members may address questions to ministers either orally or in writing, and in either case a quick response is required. Potentially much more serious is an interpellation, possible if twenty members desire it, in which case the government can fall if it fails to survive a vote of confidence. Few governments fall in this way, however, as they are allowed to remain in power as long as a lack of support is not shown. Interpellations have been used principally as a means of drawing attention to a particular question, and press coverage usually is intense.

An important instrument of Finnish parliamentary control is the right and duty of the Constitutional Committee to examine government bills with regard to their constitutionality. Finland has no constitutional court, and suggestions for its establishment have foundered because the Eduskunta has refused to cede this important review power to a court that would be outside parliamentary control. Although the committee's seventeen members come from parties with seats in the Eduskunta, the committee has strived for impartiality, has sought the opinions of legal specialists, and has let itself be bound by precedents. As evidence that it takes its responsibilities seriously, committee members representing both the far left and the far right have agreed with 80 percent of its judgements over a long period of time.

The Eduskunta also exercises control of the executive through the Responsibility of Ministers Act, which can be used against the government or an individual minister if a parliamentary committee, the parliamentary ombudsman, or five members of the Eduskunta so decide. The Eduskunta's ability to control the



*The Eduskunta, Finland's parliament, in session  
Courtesy Embassy of Finland, Washington*

government is also apparent in its duty to comment on the annual report of the government's actions submitted in May, and the Foreign Affairs Committee's review of the frequent Ministry of Foreign Affairs reports detailing the government's conduct in the field of foreign relations.

## **President**

Supreme executive power is held by the president, assisted by the Council of State. The president also has legislative power exercised in conjunction with the Eduskunta. As of 1988, the president is to be elected for a six-year term either directly by the Finnish people or, if an absolute majority is not reached, by a college of 301 electors selected in the same election. Previously the president was elected indirectly by the college of electors.

As of 1988, there was no limit on the number of terms a president might serve, but in the late 1980s legislation was being discussed that would permit no one to serve more than two consecutive terms. The president's only formal qualification is that he or she be a native-born citizen. Once elected, the president must renounce all other offices, and, with the aim of being a nonpartisan head of state, must cease being a member of any political party. His election, separate from that for the Eduskunta, gives him a distinct mandate that theoretically elevates him above routine



politics. Another advantage of his long term in office is that it brings to Finnish political life a continuity that it has often lacked.

The president is not politically responsible to anyone. He can be removed from office only if the Eduskunta decides by a three-quarters majority that he is guilty of treason. He would then be tried by the Supreme Court (see Legal System, this ch.). The risks that such freedom from political responsibility entails are lessened because most of his executive decisions can be carried out only by means of the Council of State, and his legislative powers are realized through the Eduskunta.

The president's power to dissolve parliament and to call for new elections gives him, in theory, considerable influence over parliament, but ultimately he must work with an Eduskunta elected by the people. If he cannot convince a majority of the voters or the members of the Eduskunta to support his policies, he cannot act. An indication of the importance of this central element in Finnish parliamentary practice is that the Eduskunta has been dissolved only once—in 1924—against its will. The other half dozen dissolutions were caused by the inability of the government to agree on a common course of action.

It is the president who decides what legislative proposals are sent to the Eduskunta, although in practice government bills are drafted by the Council of State and are sent to parliament after presidential approval. Failure to sign them within three months of their passage amounts to a suspensive veto on the part of the president, a veto which can be overridden by a simple majority of the Eduskunta after new parliamentary elections. Both the presidential veto and the Eduskunta override have been rare occurrences.

Another important presidential power involves the formation of new governments. The president has the formal power to nominate ministers, but his choices are bound by what the parties seated in the Eduskunta will accept. His choices must correspond to the chamber's political composition. Within these limits, though, the president's force of character and political will influence the formation of a government. The president also has the right to dismiss ministers, either individual ministers, or, if he wishes, the entire cabinet. The president may issue decrees about details of public administration, as long as these measures are not contrary to laws passed by the Eduskunta. The right to change laws is a parliamentary prerogative, although an emergency law may grant the president this power in times of crisis, as was done in World War II.

The president nominates all senior civil servants, high judges, provincial governors, diplomats, professors at the University of Helsinki, high churchmen, and the chancellor of justice. In making

these appointments, however, the president rarely departs from the names suggested to him by appropriate authorities. As commander in chief of the armed forces, a position he may delegate during wartime, as was done in World War II, the president also nominates military officers.

The president has the power to grant pardons and general amnesties, but the latter require the approval of the Eduskunta. Individual immunity may also be granted by the president, in accordance with certain provisions of the law. Moreover, the granting and the revocation of citizenship require the signature of the head of state.

The Constitution Act gives the president the responsibility for directing foreign affairs, and his authority in this area has grown markedly since World War II. The occasion for the decisive shift of presidential activity from principally domestic concerns to foreign relations was the threat a changing world order posed for Finland's survival; the crucial roles, played by President Paasikivi in formulating a new foreign policy and by President Kekkonen in consolidating it, restructured the office they held. Their success increased the prestige and the strength of the presidency beyond the formal powers already prescribed by the Constitution and enhanced the president's role as head of state.

By the late 1980s, however, a long period of stability both at home and abroad made the security and the direction provided by a strong and authoritative president seem less essential for the country's well-being, and there was serious discussion about limiting his power of intervention in the political process. Legislation was being prepared that would circumscribe his right to dissolve the Eduskunta and his role in the formation of governments; in the latter case, he would be required to take greater cognizance of the wishes of leading politicians. Other reforms likely to be realized in the next decade included curtailing the president's right to dismiss ministers, abolishing the 301-member college of electors, and limiting the president to two consecutive terms in office. Mauno Koivisto, first elected president in 1982 and reelected in 1988, supported reducing the traditional powers of the presidency (see *The Presidential Election of 1982 and Koivisto's Presidency*, this ch.). Observers held that these reforms would augment the governing roles of the prime minister, the cabinet, and the legislature and that they would mean that Finnish political practices came to resemble more closely those of other West European parliamentary democracies.

## **Council of State**

The Council of State shares executive power with the president, and it is responsible for the management of the governmental machinery. The Council of State prepares the government bills presented to the Eduskunta and authors most legislation. In the late 1980s, it consisted of the prime minister, the chancellor of justice, and up to seventeen ministers who directed twelve ministries: foreign affairs, justice, interior, defense, finance, education, agriculture and forestry, communications, trade and industry, social affairs and health, labor, and environment. Some of the ministries have second or deputy ministers, and occasionally a minister holds two portfolios. There have been no ministers without portfolio since the early 1950s. Ministers must be "native-born Finnish citizens known for their honesty and ability." The minister of justice and one other minister must be lawyers, but otherwise there are no formal qualifications for a cabinet post. Ministers generally enter the cabinet from the Eduskunta, but it has not been uncommon for them to be drawn from the outside, especially to serve in caretaker governments composed largely of leading private citizens and civil servants. Even prime ministers have on occasion come from outside parliament, as did Mauno Koivisto in 1979. Ministers from the Eduskunta may continue to be members of that body, but they may not serve on any committee.

The prime minister heads the Council of State, sets its agenda, nominates some members of the council's committees, settles tie votes, and, most important, dissolves it when he sees fit or if it can no longer govern. The prime minister also represents the president when he is out of the country. If the president can no longer carry out his duties, the prime minister replaces him until a new presidential election can be held. Other than these rights and duties, a prime minister in the 1980s had few formal powers and had only a very small staff to assist him in his work. His main responsibility was holding together cabinets composed of a number of political parties that frequently had opposing views on central issues. He could manage this through personal prestige or by force of character, through backstairs wrangling, or, ultimately, by threatening to dissolve the cabinet if it did not adhere to the government's program.

A key member of the Council of State, although he is not a minister, is the chancellor of justice. Appointed for life by the president, he is obliged to attend all meetings of the council and to review its proceedings for legality. He has no vote, but his decisions about the legality of council proposals and decisions are regarded as

binding. The chancellor of justice also reviews the president's actions, and he reports infractions to the Council of State, or, if necessary, to the Eduskunta. He is also empowered to initiate proceedings according to the Responsibility of Ministers Act. One of the formal qualifications for his position is that he be well versed in the law; and within the country's legal system he is the highest prosecutor (see Legal System, this ch.).

The Council of State must enjoy the confidence of the Eduskunta in order to govern. The party composition of a new cabinet has to be acceptable to the Eduskunta, and it must correspond, to some degree, to the relative political strength of the parties within the chamber. Formation of a cabinet has often been difficult because, in addition to the large number of parties that participate in them, Finnish elections usually give no clear indication of how political realities should be reflected by a governing coalition. Even the selection of individual ministers can be troublesome, because the parties themselves have much to say about who serves as minister, and even a prime minister may have to accept members of his own party not of his choosing. If a suitable constellation of parties cannot be formed to yield an effective majority government, a minority government, or even a caretaker government, may be put together if the Eduskunta agrees.

The Council of State is held legally responsible for the acts of its ministers, in accordance with the Responsibility of Ministers Act of 1922. In addition to making ministers accountable for their official actions, this law—which has constitutional status—is also a vital, if indirect, means of controlling the president's actions. Because many of his decisions can be carried out only through the Council of State, ministers who approve an illegal presidential action are liable under the terms of this law. Ministers wishing to avoid the law's sanctions must refuse to be party to a presidential decision that they view as illegal. If ministerial consent is lacking, the president cannot act. In such a case, the president must either abide by the decision of the council or dismiss it and attempt to form a new one amenable to his wishes. If this is not possible, he may dissolve the Eduskunta and call for new elections with the hope of having the voters endorse his decisions by returning an Eduskunta from which a compliant government can be formed. If the council refuses to approve a lawful presidential decision, it is obliged to resign. Ministers can always resign individually, but the resignation of the prime minister means the end of a government.

A principal task of the Council of State is the preparation of legislative proposals, or government bills, that the president presents

to the Eduskunta for ratification. Most of this work is done in an appropriate ministry, where, in addition to ministry personnel and civil servants, permanent and ad hoc commissions of experts and spokesmen for special interests can be consulted.

In the 1980s, the Council of State had three committees to handle important questions: the ministerial committees for finance, economic policy, and foreign affairs. The Finance Committee, meeting on Wednesdays, consisted of the prime minister, finance minister, and several other ministers. It prepared the government's budget and responded to the financial motions presented by individual members of the Eduskunta. The Economic Policy Committee met twice a week to discuss issues touching the country's economic life as a whole, broader questions about the government's budget, and other financial concerns suggested by the prime minister. The Foreign Affairs Committee, least important of the three, met when needed to discuss issues concerning foreign policy.

Plenary meetings of the Council of State, for which a quorum of five was required, had three forms. The so-called Evening School meeting, on Wednesday evenings, was a closed, informal session where ministers, top civil servants, politicians, and leading figures from outside government freely discussed decisions to be taken. It was thus a forum where the country's leaders met and exchanged opinions on important issues. Instituted in the late 1930s as a means of speeding the council's work, the Evening School had no formal decision-making power. Votes were taken at the Thursday meeting. The Council of State worked as a collegial body, and unanimous votes were not required. In case of a tie vote, the vote of the prime minister was decisive. Approved measures were presented to the president for signing at the Friday Presidential Meeting.

In accordance with its executive powers, the Council of State implemented its decisions and directed the ministries and the lower levels of the state administrative apparatus. This was done through presidential decrees and its own ordinances, neither of which could conflict with legislation passed by the Eduskunta. Ministers, aided by political secretaries drawn from their own parties, headed the country's twelve ministries. The ministries, which both formulated and administered policy, oversaw about eighty central boards that were wholly occupied with implementing policy. The central board system, inherited from the time of Swedish rule, had grown considerably, expanding by about one-third between 1966 and 1975 because of the increase in state social services. The boards, such as the National Board of General Education and the State Publishing Office, did much of the state's work. By tradition somewhat autonomous, they decided how legislation and ministerial decisions were to be carried out.



*Helsinki's neo-classical quarter includes the Government Palace, seen in the foreground. This building was constructed as the Senate House and was the seat of government during most of the tsarist period. After independence, it became the seat of the Council of State.  
Courtesy Embassy of Finland, Washington*

## **Legal System**

The legal system originated during the period of Swedish rule, and portions of the Swedish General Code of 1734 were extant in Finnish law even in the late 1980s. The country's first court of appeals was established at Turku in 1634. The modern division of the Finnish courts into two main branches—general courts, dealing with civil suits and criminal cases, and administrative courts, regulating the actions of the country's bureaucracy—also dates from this time. This division was formalized in 1918 when two sections of the Senate, the body that had governed Finland during the period of Russian rule, became the newly independent country's two highest courts. The Senate Department of Justice became the Supreme Court, and part of the Senate Finance Department was the basis of the Supreme Administrative Court. The two court systems are entirely separate, and they have no jurisdiction over one another. The establishment of the two courts was confirmed by the Constitution Act of 1919. Overseeing the system of justice are the chancellor of justice—the country's highest guardian of the law and its chief prosecutor—and the parliamentary ombudsman.

Although these two officials have largely parallel functions and each is required to submit an annual report of his activities to parliament, the former is appointed for life by the president and is a member of the Council of State, whereas the latter is chosen for a four-year term by the Eduskunta. Both officials receive complaints from citizens about the conduct of civil servants, and on their own may investigate all public officials and may order prosecutors to proceed against them. The chancellor of justice supervises public prosecutors, and he also has the unrestricted right to investigate private persons. Both officials may call on either of the high courts for assistance.

The High Court of Impeachment may be convened for cases dealing with illegal official acts by cabinet ministers, judges of the two supreme courts, or the chancellor of justice. Members of this court, used only three times since its formation in 1922, are the chief judges of the two supreme courts and the six courts of appeal, a professor of law from the University of Helsinki, and six representatives from the Eduskunta.

As in the other countries of Nordic Europe, there is no constitutional court. Issues dealt with by a court of this kind elsewhere are handled by the Eduskunta's Constitutional Committee (see *Legislation*, this ch.).

According to Article 5 of the Constitution Act, all Finns are equal before the law, and Article 13 of the same act stipulates that they may be tried only in a court of their own jurisdiction. No temporary courts are permitted. Legislation passed in 1973 provides for free legal assistance to those in need as well as for free court proceedings in a number of courts. Trials in lower courts are usually open to the public. Records of trials in higher courts are made public.

Judges are appointed for life, with retirement set at age seventy, and they may be removed only for serious cause. With the exception of some lay judges in circuit courts and in some town courts, all judges hold legal degrees from one of the country's three law schools. The judiciary in the late 1980s was a rather closed profession, and only judges for administrative courts were occasionally selected from outside its ranks.

Defendants have no obligation to employ an attorney for their defense in a Finnish court, and may represent themselves or be represented by another layman rather than by a lawyer. Nevertheless, in most cases heard in general courts and in many argued in administrative courts, trained legal specialists are employed.

The general court system handles criminal cases and civil suits and has three levels: lower courts, courts of appeal, and the

Supreme Court. There are two kinds of lower courts: town courts, numbering 30 in the entire country; and circuit courts, totaling 147 in 71 judicial districts. Town courts consist of three judges, all trained professionals except in some small towns. One of these judges is the chief judge chosen by the Supreme Court; the others are selected by local authorities. Decisions are made on a collegial basis. Circuit courts consist of a judge, chosen by the Supreme Court, and five to seven lay judges, i.e., persons without legal training, chosen by local authorities for a term of four years. Decisions on cases in courts of this type are made by the professional judge, unless he is overruled by the unanimous vote of the lay members of the court. Larger cities also have housing courts that deal with rent and accommodations.

Appeals from lower courts are addressed to the six courts of appeal located at Helsinki, Turku, Vaasa, Kouvola, Kuopio, and Rovaniemi. Most cases at these courts are heard by professional three-judge panels; more important cases are tried before a plenary session of judges if the chief judge so decides. In cases involving senior government officials, a court of appeals may serve as the court of first instance. Judges of the courts of appeal are appointed by the Supreme Court.

The Supreme Court, located in Helsinki, consists of a chief justice, or a president, and twenty-one judges usually working in five-judge panels. It hears cases involving appeals of decisions of appellate courts where serious errors are alleged to have occurred, or where important precedents might be involved. A sentence from a court of appeals may go into effect immediately, despite an appeal to the Supreme Court, but it may be postponed while the case is pending if the Supreme Court so decides. The chief justice of the Supreme Court is appointed by the nation's president, and the other judges of that court are appointed by the president on the recommendation of the Supreme Court.

The administrative courts system consists of twelve county courts, one in each of the country's twelve provinces, and the Supreme Administrative Court, located in Helsinki. All judges in administrative courts are professionals, appointed in the same manner as judges who sit in general courts. Judges work in three-judge panels at the provincial level and in five-judge panels in the Supreme Administrative Court. When appropriate, the latter meets in plenary sessions to hear especially important cases.

Administrative courts deal with appeals against administrative decisions by government agencies, although in some cases appeals are directed to higher administrative levels within the government. About 80 percent of the cases of the county courts involve appeals



of government tax decisions; the remainder deal with questions relating to construction, welfare, planning, and local government. The Supreme Administrative Court handles appeals of county court and central government board decisions that affect, or are affected by, administrative law. About 50 percent of the cases heard in the Supreme Administrative Court involve questions about taxes.

Finland also has special courts to handle civil cases; some of these courts render judgments from which there is no appeal. The four land courts settle disputes about the division of land, and their decisions may be appealed to the Supreme Court. Appeals from the insurance court, which handles social insurance cases, also may be appealed to the Supreme Court. Cases that involve water use are dealt with in the three water courts, and may be appealed first to the water court of appeals and from there to the Supreme Court. If the case involves water permits, appeals go to the Supreme Administrative Court. Decisions of the labor court and the marketing court may not be appealed. The former treats disputes about collective bargaining agreements in either the public or the private sector. Its president and vice president are lawyers; its remaining members come from groups representing labor and management. The marketing court regulates disagreements about consumer protection and unfair competition.

### **Civil Service**

Article 84 of the Constitution Act stipulates that only Finnish citizens may be appointed to the civil service, although exceptions may be made for some technical and teaching positions. Article 85 states that educational requirements for the civil service will be set by law or statute, and that only on special grounds may the Council of State make an exception to the set requirements. Exceptions of this type seldom occur. No exceptions may be made for appointment to a judicial post. According to Article 86, successful applicants for civil service posts will be promoted on the basis of "skill, ability and proved civic virtue." State employees also often must have an appropriate mastery of the country's two official languages.

There is no general recruitment in Finland for civil service posts, nor does the country have a preferred school for training civil servants. The recruitment is done on an individual basis for a vacant or a newly created post.

Civil servants enjoy a fairly secure tenure in their posts, but they may be dismissed for poor performance or for disreputable behavior on or off the job. About 90 percent of civil servants were unionized in the late 1980s. Since the passage of the Act on Civil Service

Collective Agreements in 1970, civil servants have had the right to strike. If a strike of a category of civil servants threatens society's welfare, the dispute may be reviewed, but not settled in a binding way, by a special board. If required, the Eduskunta may settle the disagreement through legislation.

By the early 1980s, there were about 125,000 civil servants employed in the national government, which made it the country's largest employer. More than twice this number worked for local government and for related institutions. Government employment grew rapidly during the 1960s and the 1970s, and was accompanied by a marked increase in the politicization of the civil service, especially at higher levels. Even at lower levels, posts were often filled on the basis of party affiliation. Sometimes appointments were arranged by "package deals," through which the parties secured for their members a suitable portion of available posts. Care was taken, however, that appointees meet the stated requirements for state posts, and political parties even arranged for training so that their candidates would be qualified applicants for given posts.

Politicization of public jobs resulted partly from the desire that the civil service, traditionally conservative, reflect the new political dominance of the center-left governments formed after 1966. President Kekkonen also used the spoils system to cement the broad coalition governments he introduced in the second half of the 1960s (see Finland in the Era of Consensus, 1966-81, ch. 1). A study from the early 1980s found that by 1980 the number of senior civil service posts occupied by nominees of the Center Party (Keskustapuolue—Kesk) and the Finnish Social Democratic Party (Suomen Sosialidemokraattinen Puolue—SDP) had doubled for the former and tripled for the latter in just fifteen years, mostly at the expense of officials linked to the National Coalition Party (Kansallinen Kokoomuspuolue—KOK).

Widespread criticism of the politicization of the civil service and complaints that the practice was harmful to efficiency and to democratic values led to recommendations for stricter control of hiring and even for the prohibition of all political appointments. By the late 1980s, no such ban had been instituted, but in general a decline in partisan nomination for civil service posts seemed to have occurred since the election of President Koivisto in 1982. Appointments in provincial governments, however, continued to be booty for politicians. Despite these partisan practices, the civil service had a reputation for competence, and it enjoyed the support of most Finns.

## **Provincial Administration**

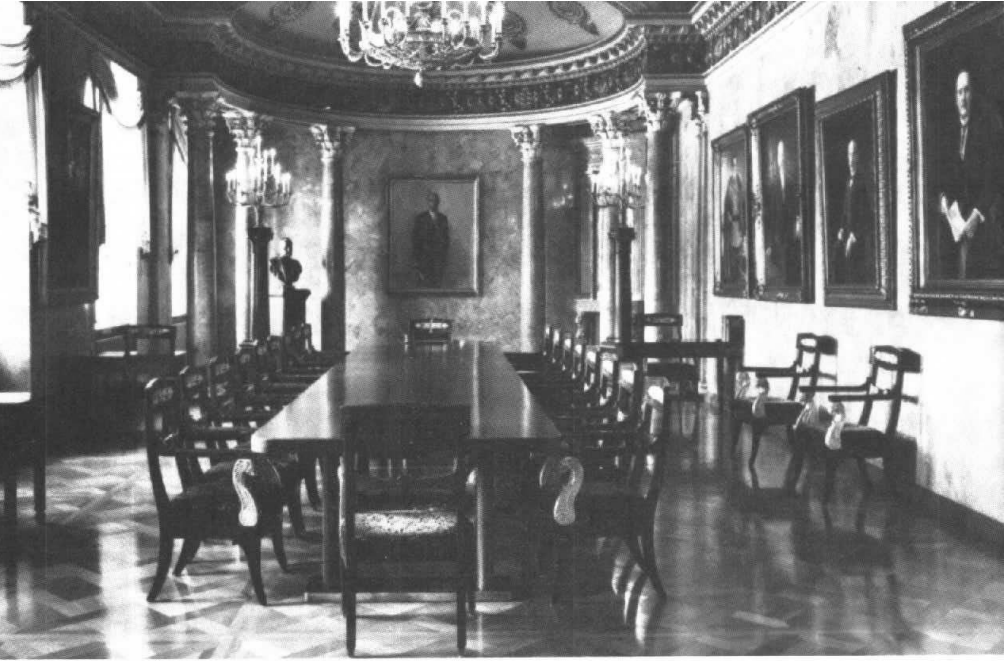
Finland is divided into twelve provinces: Lappi, Oulu, Kuopio, Pohjois-Karjala, Keski-Suomi, Vaasa, Mikkeli, Häme, Turku ja Pori, Kymi, Uusimaa, and the Åland Islands. A governor appointed by the president heads a provincial government made up of public officials. At this level of administration, regarded in Finland as an unimportant intermediate stage between national and local government, there are no elective offices. The country's provincial government is less extensive than that of many other countries because local government manages many tasks done elsewhere on the provincial level.

The responsibilities of provincial administration include police work, civil defense, regional planning, price and rent control, direction of social and health services, oversight of local governments' adherence to environmental and other state regulations, and collection of taxes, fees, and revenues owed to local and to national government. The provincial government is also involved in the functioning of the county administrative courts, and, with authority granted to it by the Ministry of Justice, supervises elections.

## **Local Administration**

Finland's tradition of local self-government, which predates the arrival of Christianity in the country, was placed on a more modern footing in the nineteenth century when local functions were taken from the church, and communities became responsible for education and health matters. Universal suffrage was introduced in local government in 1917, and the Constitution Act of 1919 states in Article 51 that "the administration of the municipalities shall be based on the principle of self-government by the citizens, as provided in specific laws." How local self-government is practiced in the country's urban and rural municipalities (numbering 94 and 367, respectively, in 1988) is specified by the Local Government Act of 1976.

The governing body in a municipality is the municipal council, the members of which, ranging in number from seventeen to eighty-five, are elected by universal suffrage for four-year terms. Elections are held in October, and the proportional representation list system is used. Any Finnish citizen legally resident in the municipality and at least eighteen years old by the year in which the election is held can vote. Since 1976, citizens of Sweden, Norway, Denmark, and Iceland who have been legal residents of Finland for at least two years may also vote. Voter turnout has generally been somewhat lower than in national elections. In the 1988 local



*Council of State Chamber, Government Palace  
Courtesy Embassy of Finland, Washington*

elections, for example, only 70 percent of those eligible—about five to ten percent less than in national elections—voted.

Finnish citizens have an obligation to serve in elective local government posts, which has meant that most elected officials are laymen. The 1976 law provides for financial compensation and pension rights for those citizens elected to local positions.

Candidates traditionally have campaigned for office through national party organizations, and local election results are regarded as an indication of the national parties' popularity. Local electoral results mirror those of national elections with regard to party dominance in particular regions. Members of the Eduskunta often have begun their careers on the local level, and they have been allowed to hold both local and national elective offices at the same time. Continued participation in politics at the grass-roots level has given Helsinki politicians close contact with their constituents.

The responsibilities of municipal government include managing the budget and financial affairs, approving plans submitted to it, delegating authority to committees, and making decisions on important issues. They also direct school, health, and social welfare systems; see to the construction and maintenance of local roads; provide for the management of waste and water; and supply energy. Many decisions relating to financial or budgetary questions require two-thirds majorities in council votes. This means that there is

much discussion behind the scenes before votes are taken and that there exists the same consensus politics at this level as is practiced on the national level. Because municipal governments have no legislative or judicial powers, decisions are carried out by means of ordinances.

Much of the routine work of governing is managed by the municipal board, which consists of at least seven people, one of whom is the chairman. Board members, who serve for two-year terms, come from the council, and they are chosen to reflect its party composition. The board prepares matters to be discussed by the council, and, if measures are approved, implements them. Aiding the board are a number of committees, some obligatory.

A staff of trained municipal employees assists the council, the board, and the committees. To meet their overall responsibilities, municipal governments employed a large number of persons, about 17 percent of the country's total work force in the 1980s. For duties too broad in scope for a single municipality, the managing of a large hospital for example, communities join together to form confederations of municipalities or joint authorities. By the 1980s, there were about 400 of these bodies. Local authorities are also obliged by the Local Government Act of 1976 to formulate, publish, and frequently revise a five-year plan covering administration, financial affairs, economic growth, and land use. Expert assistance from national government bodies, such as the Ministry of Interior, helps local bodies to fulfill this obligation.

The responsibilities of local government have grown in recent decades, and in the 1980s about two-thirds of public sector spending was in the hands of local authorities. Local involvement in planning also meant that 10 percent of the investment in the nation's economy came from municipal coffers. In order to meet their responsibilities, local governments have the right to tax, including the right to establish local tax rates, a power needed for their independence, but one that supplies them with only 40 percent of the monies they expend. The remainder is furnished by the national government (a little over 20 percent) or is derived from various fees and charges.

Finnish local self-government is subject to a variety of controls. The national government decides the municipalities' duties and areas of responsibility, and once they are established, only a law passed by the Eduskunta may alter them. The municipalities are obliged to submit many of their decisions to a regional body or to a national government agency for approval. This control, however, is often rather loose, and only when a local government has broken a law does the provincial or the national government

intervene. Except for minor changes, proposals to higher levels of government are not amended by them, but rather are returned to local authorities, who themselves modify measures or decisions to meet prescribed standards.

Meetings of municipal councils are generally open to the public, and though board and committee meetings are closed, records of their proceedings are subsequently published. Local governments or communes are also obliged to publicize their activities. Individuals who believe they have been wronged by a municipal policy may appeal to the courts or to officials at the provincial or national level.

### **Electoral System**

Universal suffrage for national elections was introduced to Finland in 1906, and it was extended to local elections in 1917. With the exception of some minor reforms, the original proportional representation system remains unchanged. This system enjoys full public support, for although it favors larger parties slightly, proportional representation allows political participation of small, and even marginal, groups as well.

All Finns over the age of eighteen by the year of an election are eligible to vote. Voting is not compulsory, and, in the 1980s, participation averaged around 80 percent, slightly below the average rate of the Nordic countries.

In the 1980s, the country was divided for national elections into fifteen electoral constituencies, fourteen of which sent between seven and twenty-seven representatives to the Eduskunta, according to their population. The constituency for the Åland Islands sent one. Constituencies corresponded to provinces except that Häme Province and Turku ja Pori Province were each divided into two, and Helsinki formed one electoral district itself. The five southernmost constituencies supplied nearly half of the Eduskunta's delegates. In the early 1980s, one delegate represented about 24,000 Finns.

Candidates for the Eduskunta are almost invariably nominated by a political party, although a 1975 amendment to the election law allows the candidacy of a person sponsored by a minimum of 100 Finns united in an electoral association. Party lists for a constituency contain at least fourteen names—and more for those constituencies with high populations. Since 1978 a secret primary among party members has been required if a party has more candidates than places on its party list. Parties may form electoral alliances with other parties to present their candidates, and they

often do so because of lack of resources. This practice partly explains the high number of small parties successfully active in Finnish politics.

Since the introduction of proportional representation in 1906, Finland has used the d'Hondt constituency list system with only slight modifications. Under this system, elections are based on proportionality rather than on plurality, and seats are allotted to parties commensurately with the number of votes polled. Votes go to individual candidates, however, and voters indicate their preferred politician by circling the number assigned to him or to her on their ballots.

The Finnish system is distributive in several ways. There is no electoral threshold, such as the Swedish requirement that a party receive at least 4 percent of the votes in order to sit in parliament. In Finland it was feared that a threshold requirement might deprive the Swedish-speaking minority of seats in the Eduskunta. The Finnish system also favors parties with a pronounced support in certain areas, rather than those with a thin nationwide presence. Parties are not obliged to contest Eduskunta elections in every constituency. The practice of voting for an individual candidate rather than for a party means that voters can register their dissatisfaction with a party's policy or leadership by voting for one of its junior candidates. This characteristic of the Finnish system means that no candidate, no matter how senior or renowned, is assured election.

Elections for the 200-seat Eduskunta are held every four years in March, except when the president has dissolved the body and has called for an early election. Municipal elections take place every four years in October.

The presidential election occurs every six years in the month of January. Beginning with the 1988 election, it is to be carried out on the basis of direct universal suffrage. If none of the candidates receives more than half of the votes, 301 electors, chosen in the same election, choose the next head of state. Although pledged in the campaign to particular presidential candidates, members of the electoral college have the right to vote in the body's secret ballots for any candidate who has won at least one elector. If no candidate secures a majority of the college in the first two ballots, one of the two candidates who has received the most support on the second ballot will be elected president in the third and final vote. By the late 1980s, there was serious discussion of doing away with the electoral college completely and making the president's election dependent on a direct vote with no majority required.

## **Åland Islands**

The province of the Åland Islands enjoys considerable autonomy by virtue of the Autonomy Act of 1951 that guarantees the way of life and the preservation of Swedish traditions on the islands. The 1951 law was supplemented by a 1975 law that restricts the acquisition of real estate on the islands. Both laws have constitutional status, and they may be altered only in accordance with the strict parliamentary provisions that protect the Constitution.

In addition to this protection against legislation prejudicial to its interests, the archipelago's provincial assembly, the Landsting, has the right to ratify laws affecting it. The Landsting consists of thirty members elected on the basis of proportional representation for four-year terms. Voters must be eighteen years of age by the year of the election and must have the right of domicile on the islands, a right acquired by living for at least five years in the province. Those with this right may also exercise certain professions and may acquire real estate, and they may not be conscripted if they have been residents of the islands since before their twelfth year. This last provision resulted from the demilitarized and neutral status of the islands established by a decision of the League of Nations in 1921 (see *Finnish Security Policy Between the Wars*, ch. 1).

The Landsting has the right to pass laws that touch on administration, provincial taxation, police matters, transportation, health care, and cultural matters. Issues relating to the Constitution, national defense, foreign affairs, the judiciary, family law, and civil law are outside its competence. All laws passed by the Landsting must be approved by the president of the republic, who may veto those laws judged to exceed the Landsting's competence or to damage the country's internal or external security.

The highest executive authority in the province is the Provincial Executive Council, consisting of seven members elected by, and from within, the Landsting. The council must enjoy the confidence of the Landsting to carry out its duties, and the president of the council can be forced to resign if this is not the case.

The governor of the province represents the national government. He is appointed by the president of the republic, but only after the approval of the Landsting, and is responsible for those administrative functions beyond the competence of provincial authorities. Another link between the islands and the national government is the Åland Delegation, usually headed by the provincial governor; its other four members are chosen by the Council of State and the Landsting. The delegation's chief duties are



supervising transfers of funds from the national government to the provincial government, to pay for the costs of self-government, and examining laws passed by the Landsting, before sending them to the president. In addition to these ties between the archipelago and the mainland, the province has one representative in the Eduskunta who usually has a seat on the Constitutional Committee in order to protect the islands' rights. Since 1970 the province has had one delegate at the annual meeting of the Nordic Council.

During the late 1980s, changes of a constitutional nature in the relations between the Åland Islands and the national government were under review in the Eduskunta. The projected legislation touched on increased provincial control of the taxes the archipelago pays or generates and on greater control over radio and television reception, with the aim of increasing access to programming from Sweden and to the Swedish-language programs of the Finnish broadcasting system. Having secured the right to issue their own stamps in 1984, the archipelago's inhabitants also wanted to have their own postal system, a right still reserved to the national government. Under discussion, too, were international guarantees for the islands' security.

## **Political Dynamics**

Consensus has been the dominant mode of Finnish politics since the formation of a broadly based coalition government in 1966 and the establishment of the comprehensive incomes policy system in the late 1960s. The government, made up of parties fundamentally opposed to each other, was formed at the insistence of President Kekkonen. He had long wished to heal the deep and bitter rifts that had marred Finnish public life since the country had gained independence in 1917.

The dozen or so political parties that made up the country's party system in 1966 reflected the divisions that ran through Finnish society. The socialist end of the spectrum was broken into two mutually hostile, roughly equal segments, communist and social democratic, often accompanied by leftist splinter groups. The political middle was filled, first, by the agrarian Center Party, the country's most important party, with a rural base in a society that was rapidly becoming urbanized; second, by the Swedish People's Party (Svenska Folkpartiet—SFP), representing a minority worried about its future and divided along class lines; and third, by a classic liberal party that was in decline. The right consisted of a highly conservative party tied to big business and to high officials, the KOK; and the radical Finnish Rural Party (Suomen Maaseudun Puolue—SMP), the populist impulses of which linked

it to the "forgotten" little man often also resident in urban areas. Kekkonen's presidential power and personal prestige enabled him to form in 1966 the popular front government that pulled together sizable social groups to realize important welfare legislation in the late 1960s.

The mending of rifts in the labor movement and a fortuitous agreement in 1968 by leading actors in the market sector led to the first of a number of comprehensive incomes agreements. These agreements, reached by organizations representing most economically active Finns, usually ran for several years and often required enabling legislation (see *Industrial Relations*, ch. 3).

Critics of the agreements, which have brought much prosperity to Finland and therefore enjoy widespread support, charge that their monolithic quality has meant not consensus but a "time of no alternatives." According to this view, the agreements have reduced state institutions to mere ratifying agents rather than governing bodies. It is claimed that labor and business negotiate while government approves after the fact.

Most of the country's political parties, so fractious and distinct until the 1960s, then drifted toward the political center; remaining disagreements among the principal parties focused less on what policies were to be than on how they were to be implemented. Because most economic legislation required the set majorities stipulated by laws of constitutional status, parties were obliged to work closely together. Even parties not in government have had their say about the content of economic legislation, for without their approval many government bills would have failed.

Another characteristic of Finnish politics and public life was the common practice of reaching agreements on key questions through informal backstairs elite consultation. Often disputes were settled through private discussions by the concerned parties before they were handled in the formal bargaining sites established for their public resolution. This was true for wage package settlements, as well as for legislative proposals scheduled for debate in the *Eduskunta*, and for other issues that required negotiation and compromise. An institutionalized version of behind-the-scenes negotiations was the Evening School of the Council of State, where leading figures of various groups could freely discuss issues on the government's agenda. The Finnish tradition of informal sauna discussions was an extreme example of informal inter-elite consultations. Some observers claimed that important national decisions were made there in an atmosphere where frank bargaining could be most easily practiced. Advocates of these informal means of uniting elite representatives of diverse interests held that they were quick and

to the point. Opponents countered that they encouraged secrecy, bypassed government institutions, and ultimately subverted democracy.

Since the second half of the 1960s, there has been an increasing formalization of the role played by political parties in the country's public life. In 1967 the government began paying subsidies to political parties, and the passage of the Act of Political Parties in 1969 gave the practice a legal basis. According to the law, parties were to receive subsidies according to the number of delegates they had in the Eduskunta. Several other eligibility requirements for state funds that also had to be met were nationwide—rather than local—activity for political purposes, determination of internal party affairs by democratic means, voting membership of at least 5,000, and a published general political program.

The Act of Political Parties provided the first mention of parties in Finnish legislation, despite their central position in the country's political life. State subsidies were a recognition of the role parties played, and the subsidies have further increased that role. Consequently, the number of party officials has increased, as has the number of parties, an effect opposite to that intended by the large parties that pressed for subsidies. The large parties funneled a good part of their funds to their local and their ancillary organizations, while the small parties, with their existence at stake, used their resources on the national level.

### **The Social Democratic Party**

Founded in 1899 as the Finnish Labor Party, the Finnish Social Democratic Party (Suomen Sosialidemokraattinen Puolue—SDP) took its present name in 1903 and adopted a program that envisioned the gradual realization of a socialist society, not by revolution but through parliamentary democracy. In the 1907 parliamentary election, the SDP won eighty seats, easily surpassing the results of its closest rival, the Old Finn Party. Then, in 1916, the last time any Finnish party has done so, the SDP won slightly more than an absolute majority.

Seduced by the example of the Bolshevik Revolution in nearby Petrograd, many Social Democrats sought in early 1918 to realize long-term party goals quickly and by force (see *The Finnish Civil War*, ch. 1). After the defeat of the left in the civil war and the departure of radical elements from its ranks, however, the SDP was reconstituted in the same year under the leadership of the moderate Väinö Tanner, an opponent of the use of violence for political ends. Although still the country's largest political party, the SDP was in only one government—a short-lived minority

government formed by Tanner in 1926—until 1937. At that time, it joined the Agrarian Party (Maalaisliitto—ML) in forming the first of the so-called Red-Earth governments, the most common and important coalition pattern for the next fifty years. A tempering of SDP policy on the place of the small farmer in Finnish society permitted political cooperation with the Agrarians, although the party retained its program of a planned economy and the socialization of the means of production.

It was in 1937 that the SDP first began to demand the right to collective bargaining, and the party remained closely connected to organized labor. In 1930, for example, it had formed the Confederation of Finnish Trade Unions (Suomen Ammattiyhdistysten Keskusliitto—SAK) in an attempt to counter communist influence in the labor movement. During World War II, the SDP contributed significantly to national unity, and it resisted both rightist dreams of a Greater Finland and the desires of others for an early truce with the Soviet Union.

After the war, long-standing tensions within the party caused factional disputes, between those advocating closer relations with both the Soviets and the newly legalized Communist Party of Finland (Suomen Kommunistinen Puolue—SKP) and those critical of the Soviet Union and its undemocratic methods. Some SDP members left it for the newly formed popular front organization, the Finnish People's Democratic League (Suomen Kansan Demokraattinen Liitto—SKDL), which participated in the broad popular front government formed after the 1945 elections. After the defeat of the communists in the 1948 elections, the SDP held all cabinet posts in the minority government of 1948–1950; however, thereafter the party participated in cabinets on an irregular basis, and it was riven by internal struggles until the 1960s.

During the 1950s and early 1960s, the SDP as a whole became increasingly moderate. An early indication of this move toward moderation was the party program adopted in 1952 that played down the role of class conflict and was critical of communism. Still, bitter internal wrangles continued to plague the party into the 1960s. The conflicts had both political and personal origins, but their core was disagreement about the SDP's policy toward the Soviet Union. Tanner's implacable hostility to the undemocratic nature of Soviet society had led Moscow to insist on his imprisonment as a "war criminal" after the war. His reinstatement as party leader in 1957 has generally been regarded as a factor in the Night Frost Crisis of 1958 and in the SDP's subsequent exclusion from power until 1966 (see *Domestic Developments and Foreign Politics, 1948–66*, ch. 1).

Conflicts relating to domestic politics resulted in the departure in 1959 of members close to farming interests. They formed the Social Democratic Union of Workers and Small Farmers (Työväen ja Pienviljelijäin Sosialidemokraattinen Liitto—TPSL), a splinter group that contested elections and was included in several governments until the 1970s, when it expired and most of its remaining members returned to the SDP.

The election of Rafael Paasio to the party chairmanship in 1963 ended the reign of the old leadership and brought a gradual improvement in SDP relations with the Soviet Union; another result was a gradual healing of rifts within the labor movement. These changes, coupled with the election returns of 1966 that led to the first socialist majority in the Eduskunta since 1945, allowed the party to leave the political wilderness to which it had been consigned after the Note Crisis of 1961 (see table 5, Appendix A). It participated in a strong majority government together with the newly renamed Center Party (formerly the Agrarian Party), the SKDL, and the TPSL. The popular front government passed a good part of the legislation that transformed Finland into a modern welfare state of the Scandinavian type and helped to establish the system of collective wage agreements that still prevailed in the late 1980s.

During the 1970s, the SDP moved closer to the center in Finnish politics as a result of the departure of some of the party's members for groups farther to the left and the cautious pragmatic leadership of Kalevi Sorsa, who became party chairman in 1975. Sorsa, who held this position until 1987, served from the mid-1970s until the late 1980s as either prime minister or foreign minister in all governments, which helped to remove any doubts about the party's suitability for governing.

The SDP's success in the elections for the Eduskunta in 1983, coming after the triumph of SDP politician Mauno Koivisto in the presidential election a year earlier, may have marked a high point in the party's history, for in the second half of the 1980s the SDP had trouble attracting new voters from postindustrial Finland's growing service sector. The SDP's years as a governing party, which had tied it to many pragmatic compromises, lessened its appeal for some. At the same time, the number of blue-collar workers, its most important source of support, declined. The party could be seen as a victim of its own success in that it had participated in implementing policies that brought unprecedented prosperity to Finland, which served to transform Finnish society and dissolve old voting blocs.



*Upper left, Kalevi Sorsa, a leading Social Democrat and former prime minister and minister of foreign affairs; Upper right, Paavo Väyrynen, a prominent member of the Center Party and a former minister of foreign affairs; Lower right, Harri Holkeri, leader of the National Coalition Party and prime minister, 1987-  
Courtesy Embassy of Finland, Washington*



The party lost 100,000 votes and the office of prime minister in the 1987 parliamentary elections (see table 6, Appendix A). The SDP remained in the government formed by the conservative National Coalition Party, however. Observers believed that the new party chairman, Pertti Paasio, son of Rafael Paasio, and other younger members of the party would have to adapt to long-term trends in Finnish society that promised to make the party's future difficult. Although the SDP registered slight gains in the 1988 local elections, it still had to contend with the same economic and social problems that made the other social democratic parties of Western Europe seem to many to be parties of the past.

### **The Center Party**

The Center Party (Keskustapuolue—Kesk), which took this name in 1965 with the aim of widening its appeal and adapting to changing social conditions, was founded in 1906 as the Agrarian Party. It has been, as its present name indicates, the key party in Finnish politics since independence; until the formation of a conservative-socialist government in 1987, it had participated in virtually every majority government. Founded to represent the interests of small farmers in eastern and in northern Finland, Kesk also gradually came to claim central Finland as an area of support during the 1920s. As a consequence, it was the largest nonsocialist party until the national elections of 1979, when the National Coalition Party pulled ahead. As the party of small farmers, the Kesk was, from its birth, suspicious of the concentrated economic power of the south—labor, large farmers, and business. To counter these interests, the party advocated a firmly democratic and populist program that emphasized the primacy of the family farm, small-scale firms managed by their owners, decentralization of social organizations, and the traditional virtues and values of small towns and the countryside. The party's commitment to democracy was tested and proven in the 1930s when it rejected the aims of the radical right and perhaps saved Finland from fascism. In the second half of the decade, it began to govern with the assistance of the SDP, forming with that party the first of the so-called Red-Earth governments that became the country's dominant coalition pattern for the next half-century. Kesk's claim to represent the "real" Finland, however, caused it, at times, to seek to curtail the rights of the Swedish-speaking minority, and some Kesk leaders, Urho Kekkonen for example, were active in the Finnicization program.

Although opposed to fascist doctrines, Kesk had favored fighting on the side of Nazi Germany—as a cobelligerent—during the Continuation War of 1941–44, in the hope of regaining lost

national territory. During the course of the war, however, some of the party's leaders came to the conclusion that good relations with the Soviet Union were essential if Finland were to survive as an independent nation. Kekkonen, in particular, was a driving force in effecting this change of party policy in the postwar period (see *Domestic Developments and Foreign Politics, 1948-66*, ch. 1). This policy change was achieved, though, only after a bitter struggle during which segments of the party's leadership hoped for Kekkonen's political destruction; however, generational change and his domestic and foreign successes allowed Kekkonen gradually to gain nearly absolute control of the party, which he retained even after election in 1956 to the presidency, a post ideally above party politics.

Soviet desires for a dependable contact in Finland, and the unsuitability of other parties, soon made Keski-Moscow's preferred negotiating partner, despite the party's anticommunist program. The Soviets' natural ally, the SKP, was seen as being too much a political outsider to be an effective channel of communication. Keski's position in the center of the political spectrum made it the natural "hinge party" for coalition governments. After the Note Crisis, Kekkonen's mastery of foreign policy also served, and at times was cynically used, to preserve this role.

Postwar social changes, such as internal migration to the south and a growing service sector, have reduced support for Keski and have brought about a steady decline in its share of seats in the Eduskunta (see table 4, Appendix A). Attempts to bring the party's program into line with a changing society did not win Keski new support. In prosperous southern Finland, for example, Keski failed to make significant inroads, electing only once a member of the Eduskunta from Helsinki. Young voters in the south, or the coastal region as it is sometimes called, favored the National Coalition Party or the environmentalist Greens (Vihreät). Also damaging to Keski was the loss of a segment of its membership to the SMP, after its formation in 1959. Keski was not able to retain the presidency after Kekkonen's retirement in 1981; its candidate for the 1982 presidential election, Johannes Virolainen, was easily defeated, as was the 1988 Keski candidate for this post, Paavo Väyrynen.

Keski's failure, despite only slight losses, to participate in the government formed after the 1987 national elections was perhaps a watershed in Finnish domestic politics. Until that time, Keski had been an almost permanent governing party. Demographic and occupational trends continued to challenge Keski in the late 1980s, but the party's large and convinced membership, far greater than that of any other party, probably meant that any decline in its role in Finnish politics would be a slow one.



## **The National Coalition Party**

The National Coalition Party (Kansallinen Kokoomuspuolue—KOK) was founded in November 1918 by members of the Old Finn Party and, to a lesser extent, by followers of the Young Finn Party. It represented interests desiring a strong state government that would guarantee law and order and the furtherance of commerce. Defeated in its attempt to establish a monarchical government, the party formulated a program in 1922 that clearly set out its conservative aim of emphasizing stability over reform. The large farms and businesses in southern Finland were the basis of the party's support.

Throughout the interwar period, the party was hostile to the rights of the Swedish-speaking minority and sought to deprive the Swedish language of its status as one of the country's two official languages. During the 1930s, it had close contacts with the radical right-wing movements that mirrored trends elsewhere and for a time posed a threat to Finnish democracy. One of the party's leaders, Juho Paasikivi, elected party chairman in 1934, attempted with some success to move it away from these extreme positions. The KOK was opposed to the Red-Earth government formed in 1937, but was not strong enough to prevent it. During the war, the party was part of the national unity governments.

After the war, the KOK became the most right-wing party in Finland, as groups farther right were banned by the armistice agreement of 1944 and the SKP was legalized (see *The Cold War and the Treaty of 1948*, ch. 1). Despite Paasikivi's terms as prime minister in the first postwar years, his election to the presidency in 1946, and the role he played in the drafting of the Treaty of Friendship, Cooperation, and Mutual Assistance (FCMA—see Appendix B) as well as in the reorienting of Finnish foreign policy, his party was not regarded as an acceptable coalition partner for much of the postwar period. Soviet doubts about the sincerity of KOK's support for the new direction of Finnish foreign policy, the so-called Paasikivi Line, was sufficient to keep the KOK, for decades the country's second largest nonsocialist party, out of government for most of the postwar period.

The party also was excluded from governments because it was seen by many to be rigidly right-wing, despite party program changes in the 1950s that moved it closer to the conservatism practiced by its sister parties in larger West European countries. The party program of 1957 formalized its support for a "social market economy" and for the concept of employer responsibility to wage earners.

In the postwar years, the KOK often allied with the SDP to reduce agricultural subsidies, a joint effort that continued in the late 1980s. The division between city and country interests continued to be a key element in Finnish politics in the second half of the 1980s, and it was one reason why the two principal non-socialist parties, the KOK and Keski, were political rivals.

An action that increased the enmity between the KOK and the Keski leader, Kekkonen, and contributed to the Note Crisis was the formation of the so-called Honka League by the KOK and the SDP. The Honka League aimed to stop Kekkonen's reelection in 1962, but the attempt never had a chance, and it was soon abandoned. The KOK continued to be opposed to Kekkonen and to his foreign policy, however, and it was the only major party to oppose his reelection in 1968. Nevertheless, moderate elements in the party gradually gained control and softened its policies, both domestic and foreign. In the 1970 national elections, the KOK increased the number of its seats in the Eduskunta by one-third, and since 1979 it has been the largest nonsocialist party in the country.

Some right-wing members of the KOK, dissatisfied with the party's steady drift toward the political center, have left it. In 1973 some formed the Constitutional Party of the Right (Perustuslaillinen Oikeistopuolue—POP) to protest Kekkonen's special election to the presidency in 1974, but this only accelerated the KOK's move toward moderation. Under the leadership of Harri Holkeri—the party's candidate for the presidency in 1982 and in 1988, and Ilkka Suominen—longtime party chairman, the KOK has been able to attract many of those employed in Finland's rapidly growing service sector, and in the 1987 elections it nearly overtook the SDP. Kept out of power because of unexpected losses in the 1983 Eduskunta elections, Holkeri was able to form a government after the 1987 elections and to take the prime ministership for himself. He pledged his government to a program of preserving Finland's welfare state while maintaining a free market economy strong enough to be competitive abroad and to safeguard the country's prosperity.

### **The Communist Party of Finland**

The Communist Party of Finland (Suomen Kommunistinen Puolue—SKP) was founded in August 1918 in Moscow by exiled leftists after their defeat in the civil war. Its Marxist-Leninist program advocated the establishment of a socialist society by revolutionary means. Declared illegal the following year, the SKP was active in Finland during the 1920s through front groups, the most notable of which was the Finnish Socialist Workers' Party

(Suomen Sosialistinen Työväenpuolue—SSTP), which received more than 100,000 votes in the 1922 national election and won 27 seats in the Eduskunta. The rise of the radical right-wing Lapua movement was a factor in the banning of all communist organizations in 1930, and the SKP was forced underground (see *The Establishment of Finnish Democracy*, ch. 1).

The Stalinist purges of the 1930s thinned the ranks of the SKP leadership resident in the Soviet Union. A survivor of the purges and one of the founders of the party, Otto Kuusinen, was named to head a Finnish puppet government set up by the Soviets after their attack on Finland in 1939. It did not ever attract the support from the Finnish workers that the Soviets expected, nor did the SKP succeed, during the Continuation War, in mounting a resistance movement against Finnish forces fighting the Soviet Union. At the war's end, the SKP was able to resume open political activity within Finland; in the 1945 election it won forty-nine seats and was rewarded with several posts in the resulting cabinet (see *The Cold War and the Treaty of 1948*, ch. 1).

In this election, as in all elections since then, the SKP worked through an umbrella organization, the Finnish People's Democratic League (Suomen Kansan Demokraattinen Liitto—SKDL), established with the aim of uniting all left-wing elements into a common front. Although mainly composed of noncommunists, and usually led by a noncommunist socialist, the SKDL has generally been dominated by the SKP. Despite its initial electoral success, however, the SKDL has not been successful in attracting all Finnish leftists, and the bulk of the SDP has refused to work with it.

The SKDL was not able to retain its hold on the voters in the 1948 Eduskunta election, and it lost eleven seats. Rumors of a planned communist coup contributed to this defeat. During the 1950s and the early 1960s, the SKP/SKDL continued to participate in the electoral process, but with mixed results. The SKP/SKDL did not enter government again until 1966, when Kekkonen insisted that the group be given ministerial posts so that a broadly based coalition government could be formed. After this date, the party was in most governments until December 1982, when Prime Minister Sorsa forced it to resign for refusing to support a part of the government's program.

Tensions long present in the SKP became more pronounced in the second half of the 1960s, when social changes began putting pressure on the party to adapt itself to new conditions. Internal migration within Finland, from the northern and eastern areas where "backwoods communism" had always been a mainstay of party support, deprived the SKP of votes. The gradually increasing

service sector of the economy reduced the size of the blue-collar vote in the south that the SKP had traditionally split with the SDP. A more prosperous economy also softened social divisions and made the classic Marxist remedies expounded by the party seem less relevant. Failure to attract younger voters worsened election results in addition to leaving the party with an older and less educated membership. These threatening trends, combined with the SKP's participation in governing coalitions since 1966, brought to a head political disagreements between those in the party who supported the system of parliamentary democracy and those who were attached to a totalitarian Stalinist ideology. After 1969 the party was virtually split, although the formal break came only in 1986 following years of bitter dissension.

Through the 1970s and the first half of the 1980s, two factions, a majority reformist or revisionist wing, led first by Aarne Saari (1966-82) and then by Arvo Aalto (1982-88), and a minority Stalinist wing, under Taisto Sinisalo, fought for party dominance. Each group had its own local and regional organization and its own newspaper—the moderates, *Kansan Uutiset* and the doctrinaire faction, *Tiedonantaja*. Both groups remained in the SKP largely at the insistence of the Communist Party of the Soviet Union (CPSU). The revisionists, sometimes characterized as Eurocommunists, took posts in cabinets, but the Stalinists, or "Taistos" as they are often called after the first name of their leader, refused to do so, preferring to remain ordinary members of the Eduskunta instead. To heal the rift, a third faction appeared in the early 1980s, and for a time one of its leaders, Jouko Kajanoja, was party chairman.

The 1984 election of Aalto to the party chairmanship marked the end of the attempted reconciliation, and in 1985 the revisionists began to purge the Stalinists, who late in the year named their faction the Committee of SKP Organizations. The revisionists resisted pressure for unity from the CPSU, and for this they were punished in late 1985 when the Soviets cancelled the highly profitable contract with the SKP to print *Sputnik*, an international magazine. The CPSU gave the contract to a printing firm controlled by the minority. The resulting financial losses meant that *Kansan Uutiset* could appear only five days a week.

In 1986 the split was formalized. Early in the year, the reformist group published a new program that stressed the importance of an independent, yet friendly, relationship with the communist parties of other nations. In April the Stalinists set up an electoral organization distinct from the SKDL, the Democratic Alternative (Demokraattinen Vaihtoehto—DEVA). In June the SKDL party group in the Eduskunta expelled the DEVA representatives from

its ranks, and the latter then formed their own parliamentary group. Later in the year, the two factions set different party congress dates, further formalizing the split. In the 1987 election, the two groups competed with one another, and they had separate lists of candidates—the DEVA members led by the actress Kristiina Halkola and the SKP/SKDL led by Arvo Aalto. The Stalinists lost six of their ten seats in the Eduskunta, while the reformists lost one.

In the late 1980s, the two factions appeared more and more irrelevant as actors in Finnish politics. The reformists supported the democratic system, yet they attracted few new recruits. The Stalinists, opposed to the central values held by most Finns, split even further. In 1988 some of them formed a new party, the Finnish Communist Party-Unity (Suomen Kommunistinen Puolue-Yhtenäisyys—SKP-Y), and campaigned with DEVA in the local elections of the fall of that year. An even smaller number, claiming to represent the truest principles of communism, refused to join this new party and formed their own.

### **The Swedish People's Party**

The abolition of the four-estate Diet and the introduction of universal suffrage in 1906 made it clear to the Swedish-speaking elite that its traditional domination of Finnish politics was at an end. The only chance to protect the rights of Swedish-speaking Finns was seen to lie in the formation of a party with a broader base that would unite all classes of the minority. For this reason the Swedish People's Party (Svenska Folkpartiet—SFP) was created in 1906. Composed of members from all classes, the party passed over economic questions to concentrate on preserving the existence of Swedish-speaking Finns as a cultural group.

Desires for local autonomy in the southern and western coastal areas, where Swedish Finns had lived for centuries and from which the party still drew its support in the late 1980s, were not met by the Constitution Act of 1919 (see fig. 12). The Swedish language was guaranteed the status of an official language, however, and it was given special protection in those areas in which it traditionally had been spoken. During the interwar decades when Swedish-speaking Finns were under serious pressure from the Agrarian Party and the National Coalition Party, the SFP allied itself with the SDP to protect minority rights, for though conservative in economic matters, the SFP was liberal on social questions. SDP compromises with the Agrarians in order to come to power in the Red-Earth governments of 1937 brought the Swedish minority some reverses, but the Finnicization program was not fully realized.

After the war, the language question was considered to be settled in a way generally satisfactory to most Swedish-speaking Finns. The SFP saw to it that the settlement of 400,000 refugees from Karelia did not upset the existing language balance in the areas where Swedish-speaking Finns made up a significant segment of the population. Relations between the SFP and the ML remained strained, however, because of the Agrarians' role in attempts at Finnicization.

The steady decline in the number of Swedish-speaking Finns was reflected in the size of the party's delegation in the Eduskunta. The Finnish electoral system favored parties with strongly localized support, however, and because of its position in the center of the political spectrum the SFP has been in most cabinets formed since the war. The virtual collapse of the Liberal People's Party (*Liberaalinen Kansanpuolue—LKP*) in the latter half of the 1970s brought the SFP some new votes, and in the 1983 and the 1987 elections, the party increased the number of its seats in the Eduskunta. Like the larger parties, the SFP has been affected by the general drift toward the center, and some of its right-wing members have left it for parties such as the POP.

### **Smaller Parties and the Greens**

In addition to the four large parties discussed above, which among them enjoyed the support of about 80 percent of Finland's voters, and the SFP, which despite its small size had an almost permanent place in coalition governments, there were several other political parties that had a role in governing the country. One, the LKP, was a vestige of its former self; others, such as the Greens or the SMP were responses to trends seen elsewhere in recent decades in Western Europe.

The LKP is directly descended from the Young Finn Party, which after independence took the name National Progressive Party (*Kansallinen Edistyspuolue—ED*) and played a major role in Finland during the interwar period (see *The Era of Russification*, ch. 1). After World War II, this party declined in strength and was dissolved in 1951. Liberals subsequently formed two other parties that joined together in 1965 under the present name. Liberals in one party organization or another continued to participate in most governments until 1979. These liberals were proponents of business interests and the protection of private property, but they spoke also of the need for government planning and for social welfare programs. The LKP has steadily lost support to the other non-socialist parties, however. In the 1983 and the 1987 national elections, it failed to win any seats in the Eduskunta, and in the local

elections of 1988 it lost more than a quarter of its representatives on municipal councils. In the late 1980s, the future of this once-important party was uncertain at best.

The SMP was founded in 1959 by the prominent and charismatic Kesk politician, Veikko Vennamo, who broke with Kekkonen for both political and personal reasons. The party, viewed for most of its life as rightist, has always campaigned as a protest party fighting for the interests of the "forgotten man," neglected or ignored by larger parties. This populist party first found support among small farmers, but it later received votes also from city dwellers who were keenly dissatisfied with mainstream politics. The SMP's support fluctuated wildly from election to election, and no safe estimate about its future was possible in the late 1980s. This was especially the case after its inclusion in governing coalitions. After considerable success in the 1983 election, it got two ministerial posts. It therefore competed in the 1987 election as a governing party, and it lost nearly half its seats in parliament. Equally bad results were obtained in the 1988 local elections. In addition, although led in recent years by the founder's son, Pekka Vennamo, the party was torn by dissension. With a single post in the government, even after the disastrous 1987 results, the SMP was in danger of losing its character as a protest party, the role which had brought it voter support.

The Finnish Christian League (Suomen Kristillinen Liitto—SKL) was founded in 1958 to bring Christian ideals into politics and to curb secularist trends. Its members generally belonged to the state church, yet they did not claim to act in its behalf but for Christian values in general. The party's support has fluctuated since it won its first seat in the Eduskunta in 1970. The SKL has never had a ministerial post, even in 1979 when it won ten parliamentary seats. Its share of votes declined sharply in the next national election, but rose again in 1987, and observers believed that a reliable base of support remained that was likely to ensure its continued existence.

An environmentalist group, the Greens was not an officially registered party during the first years of its existence, and it therefore received no government support for the 1983 and the 1987 national elections. It was organized in the early 1980s as an electoral association to work on a variety of quality-of-life issues and to contest elections on both the local and the national level. In 1983 the group won two seats in the Eduskunta, the first time an electoral association had managed such a feat. In the 1984 local elections, they doubled their support, and in the 1987 election they won four parliamentary seats.

The group's membership was heterogeneous with regard to both origins and aims. Activists were drawn from academia, the middle class, and the disabled, as well as from feminist and bohemian circles. This diversity was reflected in the multitude of members' goals, ranging from modest reforms to a utopian shutdown of industry and a return to subsistence farming. In mid-1988 part of the movement split off and formed a registered political party, the Green League (*Vihreä Liitto*). The Greens as a whole suffered a slight setback in the 1988 local elections. Given its internal dissension, the role the environmentalist movement was to play in governing Finland was likely to remain small.

### **Interest Groups**

Interest group politics in Finland was managed primarily by the large market-sector organizations that represented labor and management. By the mid-1980s, about 85 percent of the work force, both blue-collar and white-collar, belonged to four labor federations encompassing about 100 labor unions. The largest and oldest was SAK, which united the approximately 1 million members, mainly blue-collar, of twenty-eight unions. SAK dated from 1907 and was close to the SDP, but it had within it several unions dominated by communists. The Confederation of Salaried Employees and Civil Servants (*Toimihenkilö- ja Virkamiesjärjestöjen Keskusliitto—TVK*) consisted of 14 unions with about 370,000 members who voted for a variety of left-wing and right-wing parties. The Central Organization of Professional Associations in Finland (*Akava*) was made up of 45 unions, in which 210,000 members—white-collar professionals—voted mainly for conservative parties. The Confederation of Technical Employees' Organizations in Finland (*Suomen Teknisten Toimihenkilöjärjestöjen Keskusliitto—STTK*) united 15 unions, in which 130,000 members—lower-level white-collar employees—split their votes among all parties. Representing the interests of farmers and close to the Keski was the Confederation of Agricultural Producers (*Maataloustuottajain Keskusliitto—MTK*), with about 300,000 members. Representing industry and management were the Confederation of Finnish Employers (*Suomen Työnantajain Keskusliitto—STK*), made up of twenty-eight member organizations representing 6,000 firms, and the Confederation of Commerce Employers (*Liiketoimintajain Keskusliitto—LTK*) including nearly 7,000 firms; firms belonging to the STK and the LTK had some 800,000 employees in 1985.

These organizations could speak for the bulk of Finland's work



force and business firms, and, since the first of a series of comprehensive incomes policy agreements was concluded in 1968, they had come to rival the government in determining how the country's affairs were to be managed. The settlements, arranged generally at two-year intervals, frequently involved not only wages and working conditions but also social welfare programs that required legislation for their realization. This obliged the governing coalition and the other parties represented in the Eduskunta to be fully apprised of the terms of the settlement.

The government itself provided officials to assist in the negotiations between labor and management. In 1971 it made permanent the post of special negotiator for incomes policy, and a year later it created a board within the prime minister's office to assist this official. On occasion, when negotiations have gone poorly, the prime minister or the president has intervened. The government also has facilitated the incomes agreements by providing expert advice on probable future economic conditions and on what the contending parties could reasonably demand. At appropriate times, leading officials and politicians have issued statements so that by the winter, when formal negotiations began, there was a broadly accepted economic framework within which these negotiations could take place.

Outside the wage agreement system, social groups, or interests, generally worked through the established parties to further their objectives through meetings, lobbying, and other means of voicing their concerns. To secure the support of some segments of the population, most political parties organized student, youth, and sports groups. Parties often devoted as much as one-third of their financial resources to their auxiliary and local branches.

Finnish women, like other groups, sought to further their interests mainly through the country's political and economic organizations. The parties took care that a good number of their leaders were women, and by the 1980s women made up about one-third of the Eduskunta. Women were represented in market-sector organizations according to their occupations. The women's movement was small; it did not play a significant role in Finnish political life, even though it had existed since the 1880s, when the first organization involved in women's rights was founded. The two main women's organizations active in Finland in the 1980s were the Feminist Union (Naisasialiitto Unioni), dating from 1892, and the informal collective, Feminists (Feministit), founded in 1976. They were both apolitical, and their membership, though mainly from the educated middle class, contained some working-class women.

The Nordic committee system was a key forum in which Finnish interest groups, or concerned parties, made their views known

to the government. The system had long been used in the region to gather a range of opinions on public matters. It consisted of committees, both temporary ad hoc organs formed to deal with a single question and permanent statutory bodies created to handle broad issues, that were composed of experts and representatives of affected interests. Thus, advocates of labor and business, experts from local and national government, and, when appropriate, single-issue groups, could argue their cases. A committee report, if there was one, could be sent for review to concerned parties, and thereafter to a ministry, where its findings might figure in a government ordinance or in a legislative proposal.

### **The Presidential Election of 1982 and Koivisto's Presidency**

A major change occurred in Finnish domestic politics in January 1982, when the social democratic politician, Mauno Koivisto, was elected president. He was the first member of the SDP to be elevated to the country's highest post, and his election meant the full integration of social democrats into Finnish public life and an end to the postwar dominance of Kesk.

Koivisto had been a leading public figure since the late 1960s, when he had served as prime minister for two years. During the 1970s, as governor of the Bank of Finland and, for a short time, as minister of finance, he had won the public's respect for the accuracy of his economic forecasts. His personality and considerable media astuteness also won him a very considerable personal popularity across party lines. Born in 1923 in Turku, the son of a carpenter, he fought bravely during World War II. After the war he returned to his native city, and through years of part-time study, earned a doctorate in sociology in 1956. He was active within the moderate wing of the SDP, yet did not seek an elective office. He began his banking career by directing a large employees' savings bank in Helsinki.

Summoned again in 1979 to serve as prime minister, Koivisto retained the public's esteem and became a strong potential candidate for the presidential election scheduled for 1984. Seen by Kesk politicians as a threat to their party's hold on the presidency after Kekkonen's inevitable retirement, Koivisto was pressured to resign in the spring of 1981. He refused, telling Kekkonen that he would continue as prime minister until a lack of parliamentary support for his government was shown. Koivisto's survival despite Kekkonen's challenge was seen by some observers as the end of an era in which the president had dominated Finnish public life.

In the fall of 1981, failing health forced Kekkonen to resign the presidency, and Koivisto assumed the duties of the office until the

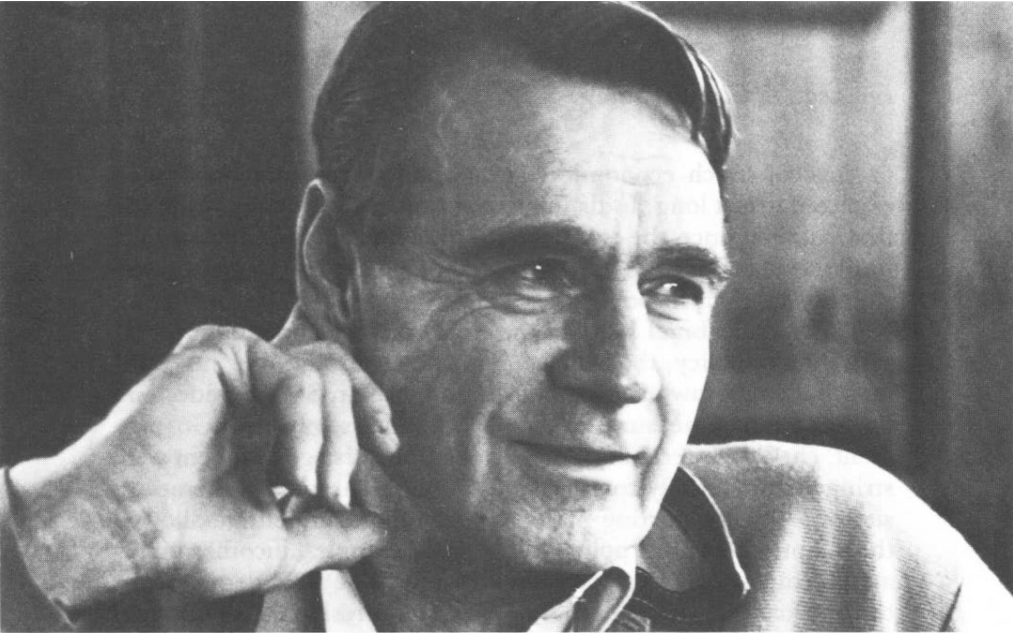
presidential election set for January 1982, two years ahead of schedule. He won handily, taking 43 percent of the votes—from the high turnout of 87 percent—and 145 of the electors. With the support of some electors pledged to the SKDL candidate, he won, with 167 ballots, in the first vote of the electoral college. His popularity remained high during his first term, and he easily won reelection in 1988.

In his years in office, Koivisto has adhered to the Paasikivi-Kekkonen Line, renewing in 1983 the FCMA treaty, for example. In addition, he has supported the traditional policy of neutrality, has spoken often of the danger of the arms race, and has encouraged international trade. One innovation he introduced was allowing greater policy roles to the Ministry of Foreign Affairs, the Eduskunta's Foreign Affairs Committee, and other institutions concerned with foreign policy.

On the domestic front, he has been more restrained than his predecessor. He has preferred to let day-to-day politics run its course, and he has tended to see the presidency as an office from which he could direct the nation's attention to long-term goals. At times, however, delphic presidential statements have confused the public about his intentions. On occasion, too, he has been harsh, berating the press for its irresponsible coverage of foreign policy issues, or striking down politicians he thought too meddling in international affairs. Overall, Koivisto's presidency has marked a coming of age for the Finnish polity, an emergence from the harsh tutelage of the Kekkonen years, and the increasing resemblance of Finnish political life to that of other successful Western democracies.

### **The Parliamentary Election of 1983**

As is customary in Finland after a presidential election, the government resigned after Koivisto's victory in January 1982. It was re-formed the next month with the same four-party coalition (the SDP, Kesk, the SKDL, and the SFP) and many of the same ministers, with veteran SDP politician Kalevi Sorsa as prime minister. Two devaluations in October 1982, amounting to a 10 percent fall in the value of the Finnish mark, caused complaints by the SKDL that low-income groups were the main victims of this measure designed to enhance Finnish competitiveness abroad. The cabinet fell at the end of the year, when Sorsa dissolved it after the SKDL ministers refused to support a government defense proposal. Immediately asked by the president to form a new government, Sorsa did so, but with LKP participation and without the SKDL. The government's slender majority of 103 votes in the



*Mauno Koivisto, elected president of Finland in 1982 and re-elected for a second six-year term in 1988  
Courtesy Embassy of Finland, Washington*

Eduskunta was not an important handicap, for new elections were scheduled for March 1983.

The election was widely regarded as a "protest election" because, contrary to expectations, the major parties, with the exception of the SDP, did not do well. The LKP lost all its seats in the Eduskunta, while the SMP more than doubled its seats, and for the first time the Greens had representatives in the chamber as well. The SMP's success was credited, at least in part, to voter distaste for some mainstream parties because of political scandals; no significant policy differences emerged in the election campaign. Another reason for the SMP gains was the increasing role of "floating votes" not bound to any one party. The SDP won fifty-seven parliamentary seats, the greatest number since before the war and a result of Koivisto's election to the presidency.

Seven weeks of negotiations led to the formation of a four-party coalition composed of the old standbys, the SDP, Keski, and the SFP, and, for the first time, because of its great success, the SMP. The protest party of the "forgotten man," the SMP was given the portfolios for taxation (second minister of finance) and for labor, with the aim of taming it through ministerial responsibility. Because the government, led by the SDP's Sorsa, had the support of only 122 votes out of 200, rather than the 134 needed to ensure the

passage of much economic legislation, it might not have been expected to last long. It distinguished itself, however, by being the first cabinet since the war to serve out a full term. Its survival until the elections of March 1987 was an indication of a newly won stability in Finnish politics.

The Sorsa cabinet stressed the continuation of traditional Finnish foreign policy, the expansion of trade with the West to counter what some saw as too great dependence on Soviet trade, and the adoption of measures to reduce inflation (see *Role of Government*, ch. 3). The economic measures of the Sorsa government were stringent and fiscally conservative. Public awareness of the necessity of a small exporting nation's remaining competitive allowed the adoption of frugal policies. The 1984 biannual incomes policy arrangement was also modest in its scope. The rival demands for the one for 1986 were less so, however, and President Koivisto had to intervene to ease hard negotiations. One segment of the work force, civil servants, won a large pay increase for itself after a seven-week strike in the spring of 1986. The government also brought inflation down from the double-digit levels of the early 1980s, but it was less successful in lowering unemployment, which remained steady at about 7 percent.

Although the government was to be long-lived, it was not free of tensions. In January 1984, trouble erupted when its three nonsocialist parties made public a list of nine points on which they disagreed with the SDP. The issues were domestic in character, and they centered on such questions as the methods of calculation and payment for child-care allowances, the advisability of nuclear power plant construction, wage package negotiation methods, and financial measures to aid farmers and small businessmen. The storm caused by the document was calmed by the political skills of the prime minister and through a lessened adamancy on the part of Keski.

Despite overall agreement on many major issues and the dominance of consensus politics in the governing of the country, the parties' struggle for power was nevertheless fierce. Attacks on the SDP by its coalition partner, Keski, during 1986 were seen by some to stem from Keski's desire for an opening to the right and for the eventual formation of a center-right government after the 1987 elections. The attacks, especially those of Foreign Minister Paavo Väyrynen, intensified in the late summer. The young Keski leader particularly denounced Sorsa's handling of trade with the Soviet Union. Sorsa successfully counterattacked in the fall, which forced Väyrynen to stop his campaign.

## **The Parliamentary Election of 1987**

The March 1987 elections moved the country somewhat to the right. It was uncertain how far, because the voter participation rate—at a comparatively low 75 percent, 5 percent lower than usual—hurt the left more than the right and had a varying impact. The KOK, for example, increased its percentage of the votes by only 1 percent and saw a tiny increase in absolute terms, yet it gained nine seats in the Eduskunta and almost caught up with the chamber's largest party, the SDP. The socialists' take dropped by 2.6 percent, with 100,000 fewer votes, yet they lost only one seat in the Eduskunta because of the way their votes were distributed across the country. Kesk garnered the same portion of the vote that it had in 1983, but it achieved a small increase in the actual number of votes and gained two new seats. The Greens, who had registered a significant gain in the communal elections of October 1984, got only two new representatives, far fewer than expected, for a total of four. The SKDL, electoral vehicle of the reformist SKP, lost a seat, while DEVA, controlled by the Stalinist Committee of SKP Organizations, lost six of the ten seats it had controlled since its representatives were expelled from the SKDL in June 1986. Weakened perhaps from its membership in the long-lived government, the SMP lost more than one-third of its support and almost half of its seats. Two of the small centrist parties did well: the SFP gained another seat, just as it had in 1983, and the SKL secured two more for a total of five.

Faced with these inconclusive results, negotiations about the shape of the new government got underway. After six weeks of talks and attempts to put together a completely nonsocialist government, a pathbreaking combination was formed that included conservatives and socialists in the Council of State, joined by the dependable and successful SFP and the battered and desperate SMP.

The new government, consisting of nine centrist and conservative and eight socialist ministers and headed by the KOK's Harri Holkeri, surprised some observers because a nonsocialist government was possible and seemed appropriate given the election results. The outcome angered others, who contended that Koivisto had misused presidential powers when he brokered a government that had his former party as a member despite its considerable electoral losses. Koivisto countered that he had behaved properly and had let the parties themselves argue out a workable combination.

One explanation for the unusual government was that animosity against the Kesk leader, Väyrynen, was so common in both the SDP and the KOK that neither party was willing to form a

government with him. Thus, Keski was deprived of its traditional "hinge" role. Another consideration was that the SDP and the KOK were not so much at odds with each other as socialist and conservative parties elsewhere might have been. Both parties had moved toward the center, and they were in agreement about most issues, especially about the need to reduce the agricultural subsidies that had always been defended by Keski. The resulting "red-blue" government had as program objectives the preservation of the social welfare system, the improvement of Finland's competitive position in international trade, a fundamental reform of the tax system, and adherence to the Paasikivi-Kekkonen Line in foreign affairs. The SFP fit in easily with this program. The formerly rightist, but now moderate, SMP was included because it strengthened the government slightly and because it was likely to be dependable, because it had no other place to go. Koivisto informed the new government that it would not have to resign after the presidential election of 1988, and observers expected the cabinet to serve its full term until the 1991 parliamentary elections.

### **The Presidential Election of 1988**

The presidential election held on January 31 and February 1, 1988, was the first to use the new procedures for choosing the nation's highest official (see Electoral System, this ch.). The contest's outcome, the re-election of Mauno Koivisto, surprised no one, yet he captured a smaller portion of the direct vote than expected—only 47.9 percent, rather than the 60 to 70 percent forecast by opinion polls during 1987. His failure to win more than half of the direct, or popular, vote of the 84 percent turnout meant that Koivisto could claim victory only after he had the support of a majority of the 301-member electoral college. This he achieved on the body's second ballot, when the votes of 45 of the 63 electors pledged to the KOK candidate, Prime Minister Harri Holkeri, were added to those of the 144 electors he had won on his own. Koivisto's inability to win the presidency directly was caused by an upsurge of support in the final weeks of the campaign for his stronger rivals, Keski's Paavo Väyrynen and the KOK's Holkeri—who got 20.1 and 18.1 percent of the vote respectively, and Kalevi Kivistö, the candidate of voters linked to the SKDL and the Greens, who got 10.4 percent. The strong finish of Väyrynen and Kivistö was regarded by some as a vote against the KOK-SDP coalition formed after the March 1987 parliamentary election. The 1.4 percent garnered by the DEVA candidate, Jouko Kajanoja, indicated the marginal role that the Stalinist wing of the communist movement played in the country's political life.

The presidential campaign did not center, to any significant degree, on issues, but on the candidates themselves; Väyrynen and Holkeri both clearly wanted to position themselves well for the presidential election of 1994. Neither had any hope of defeating the ever-popular Koivisto in 1988, and it was widely assumed that he would not again seek reelection. Väyrynen was seen as the winner of this race for position, in that he had come from far behind in the polls, had easily beaten Koivisto in the northern provinces, had found good support elsewhere—except in the Helsinki area, and had cemented his leadership role in his own party. His strong party base and his ability to attract conservatives dissatisfied with their party's alliance with the socialists, combined with his extensive ministerial experience, made the relatively young Väyrynen Finland's foremost opposition politician. His strong finish, and the lack of any SDP politician of Koivisto's personal stature and popularity, guaranteed Keskinen continued significance in the country's political life even when in opposition, and were perhaps signs that the dominance of post-industrial southern Finland over the country as a whole might only be temporary.

### Mass Media

Finland's first newspaper, the Swedish-language *Tidningar Utgifne Af Et Sällskap i Åbo*, was established in 1771 in Turku. A Finnish-language journal, *Suomenkieliset Tieto-Sanommat*, was created in the same town in 1775. Neither paper survived long, however, and it was not until the next century that regularly published newspapers appeared in Finland. Still in existence today are *Åbo Underrättelser*, founded in Turku in 1824, and *Uusi Suomi*, launched in Helsinki in 1847 (see table 21, Appendix A).

The latter half of the nineteenth century saw the appearance of many newspapers. All the political parties formed in these years and in the early twentieth century had their own newspapers, and, as a result, most Finnish papers were partisan until after World War II. After independence in 1917, there was another upsurge in the number of newspapers published; a high point, never since surpassed, was reached in 1930 when Finns could choose from 123 newspapers, each published at least three times a week. By 1985 there were ninety-eight such papers, a figure that has remained fairly constant since the early 1960s. Total circulation of papers of this type, twelve of which were in Swedish, amounted to about three million by the mid-1980s. In addition, there were about 160 papers that appeared once or twice a week. One United Nations (UN) study ranked Finland fourth in the world for per capita circulation, and surveys have found that over 90 percent of Finns



read papers regularly, 60 percent of Finns viewing them as the most useful source of information.

Finns preferred to have their papers delivered to their homes in the early morning, and for this reason there were only two evening papers in the country, *Ilta-Sanomat* and *Iltalehti*, both printed in Helsinki. Another reason for low newsstand sales in Finland was that no taxes were levied on newspapers and magazines received via subscription.

Most localities were served by only one newspaper, but by the mid-1980s Helsinki had about a dozen, and its newspapers, which constituted only one-eighth of the country's total, accounted for one-third of national circulation. Seven of the Helsinki papers were among the twelve largest Finnish papers. Although many of Finland's papers were published in Helsinki, there was little concentration of press ownership, and there were no dominant newspaper chains, with the possible exception of the firm Sanoma that owned the two papers with the largest circulation, *Helsingin Sanomat* and *Ilta-Sanomat*.

In contrast to the other Nordic countries, the number of newspapers in Finland has remained fairly constant, and there was even a slight upturn in the 1980s. This steadiness was caused, at least partly, by the government program of general and selective support. General support was intended for the press as a whole, magazines included; it involved not taxing subscriptions and essential materials, such as newsprint, and arranging for low postal rates. Selective support, designed to guarantee the survival of the party press, consisted of partial subsidies for distribution and telecommunications costs and direct lump-sum payments to papers in accordance with the number of representatives their parties had in the Eduskunta.

Despite these efforts to encourage a varied party press, the number of independent papers rose sharply after World War II, increasing from 38 percent in 1962 to 64 percent in 1985. The number of nonsocialist party papers decreased most, but papers of this type still had more than twice the circulation of socialist papers.

Most Finnish newspapers were served by the country's principal news agency, the Finnish News Agency (Suomen Tietotoimisto—STT), which was owned by the leading newspapers and the state-run Finnish Broadcasting Company (Yleisradio—YLE). STT was connected to many of the world's news agencies, and it had an extensive network of domestic correspondents. Some newspapers, however, had direct contacts with foreign news agencies. There were also agencies, run by political parties, that supplied subscribers with political news and articles. Agencies of this type were

Kesk's Uutiskeskus (UK), the KOK's Lehdistön Sanomapalvelu (LSP), the SDP's Työväen Sanomalehtien Tietotoimisto (TST), the SKDL's Demokraattinen Lehtipalvelu (DLP), and the SFP's Svensk Presstjänst (SPT).

By the mid-1980s, there were about 1,200 magazines being published regularly, printing a total of about 20 million copies a year. The most popular subscription magazine in the mid-1980s was *Me*, published biweekly in Helsinki for Finnish consumer societies, followed by the Finnish version of *Reader's Digest* and by numerous family and general interest magazines. The magazines with the largest printings were those distributed free at banks, retail stores, and other businesses.

Subscription magazines, like newspapers, enjoyed general support from the government in the form of lower taxes and postal rates. In the late 1970s, selective government support was introduced to assist those magazines which, without the aim of financial gain, sought to inform the public about cultural, scientific, religious, and social concerns. By the mid-1980s, several dozen of these so-called "magazines of opinion" were receiving state aid.

Finland's state radio and television company, the YLE, was founded in 1926, and it began television broadcasting in 1958. It was a stock company, with 99.2 percent of its stock owned by the government and the remainder owned by fifty-seven stockholders. As a stock company, it was independent of the state budget. It did not monopolize the airwaves, but sold a portion of its broadcasting time, a maximum of 18 percent, to a private television company, Mainos-TV-Reklam (MTV). This arrangement had been in effect since 1958, when the YLE first began television transmissions. Beginning in 1973, Finland also had cable television, centered in the major urban areas, which by the mid-1980s reached about 100,000 homes. It was expected that Finns and the residents of the other Nordic countries would be able to see each other's television broadcasts via satellite sometime in the early 1990s.

In the mid-1980s, the YLE employed nearly 5,000 persons; each year it broadcast about 5,000 hours of television programming—1,000 hours of which was rented by MTV. Since late 1986, the YLE's television division has consisted of three channels (TV 1, TV 2, and TV 3). The YLE produced about 1,400 hours of television itself; the remaining time was filled by programs purchased abroad. Swedish-language programming amounted to a little more than 500 hours, about 60 percent of which appeared on TV 1.

In the mid-1980s, about 20 percent of television broadcast time was devoted to news and current events, another 20 percent to

documentaries, the same amount again to sports and light entertainment, 16 percent to television serials, and 12 percent to films. Imported programs were shown in their original languages with subtitles. The YLE had coproduction arrangements with many foreign companies, mainly those of Eastern Europe, Western Europe, and the United States. Finns, 81 percent of them on a daily basis, watched an average of two hours of television a day; 28 percent held it to be their most important source of information.

The YLE's radio division broadcast about 21,000 hours annually and consisted of three sections—Network 1, Network 2, and the Swedish Program. Network 2 broadcast around the clock. The other two stations broadcast from early in the morning until around midnight. Somewhat under half of these radio programs were broadcast on a regional or local level from the company's nine local stations, eight of which sent Finnish-language programming. About 20 percent of radio programming was devoted to news and current events, another 20 percent to general cultural and public service programs, and 40 percent to all varieties of music. In addition to its national broadcasts, each year the company transmitted about 13,500 hours—in Finnish and in other languages—to listeners, abroad. Private radio stations first appeared in 1985, and they existed in a score of municipalities by the late 1980s. Finns listened to the radio an average of two hours daily, and 70 percent of them listened every day. Twenty-three percent of the population held the medium to be their most important source of information.

The YLE, having been granted its broadcasting concession by the government, was obliged to present programming that was "factual and fair," provided wholesome entertainment, strengthened popular education, and infringed on no one's rights. A committee, appointed in 1979 to study new legislation for radio and television broadcasting, concluded in 1984 that the YLE's programs should be marked by truthfulness, pluralism, and relevance to the lives of the viewers, and that it should further the basic rights and values of the country's citizens. The Administrative Council, the members of which were appointed by the Eduskunta in accordance with each party's parliamentary strength, was responsible for realizing these objectives. Three program councils, the members of which were appointed by the Administrative Council and according to the political composition of the Eduskunta, were involved in deciding what was to be broadcast. The upper management of the YLE was also somewhat politicized in the belief that this would help to guarantee that all viewpoints were adequately aired during broadcasting time. MTV's programming, including the news broadcasts that it began in 1981, was also supervised by the councils. This

system of control, while occasionally subject to heavy-handed lapses of judgement, was generally conceded to have brought about programming that broadly mirrored the country's political culture as a whole.

Article 10 of the Constitution Act of 1919 guarantees freedom of speech and "the right of printing and publishing writing and pictorial presentations without prior interference by anyone." International surveys of Finnish journalism have found it to be of a high standard and wholly comparable with that of other Western nations. The desire for a press reflecting all currents of Finnish political life has been given concrete expression in government financial support for political newspapers and journals of opinion. Legislation from 1966 protected the confidentiality of sources, in that it allowed journalists to refuse to reveal the identity of sources unless such disclosure would solve a serious crime, i.e., one calling for a sentence of six or more years. In 1971 this protection was extended to television journalists as well.

Information was readily available in Finland. Ten major publishing firms, two of them specializing in Swedish-language books, and numerous smaller houses published some 8,000 new titles each year. This was an extraordinary figure for a small country, especially one the languages of which were not widely known abroad. Finns were able to buy books published anywhere in the world, and local firms that published the *samizdat*, or underground, literature from the Soviet Union allowed Finns to be well acquainted with the opposition groups of their eastern neighbor.

According to the distinguished Finnish journalist and former diplomat, Max Jakobson, Finnish journalism did not possess an adversarial spirit and a tradition of aggressive reporting to the same degree as the American press. Also on occasion it was noted that the politicization of YLE broadcasting meant that television journalists sometimes remembered the political party from which they came better than they did their duty to inform the public objectively. In consonance with the tone of Finnish foreign policy, press and television criticism of the superpowers' foreign policies was muted to some degree. Finnish press discussions of the failures of the Soviet Union could be frank, but they were couched in gentler tones than was true in some other countries.

A reminder of the sensitive years just after World War II, when Finland's survival as an independent nation was not assured, was a 1948 addition to the Penal Code that threatened a prison term of up to two years for anyone who damaged Finnish relations with a foreign power by means of defamatory journalism. Serious as

this penalty appeared, only the president could decide if a journalist seen guilty of such defamation should be prosecuted. Although not applied for decades, the clause continued to be an embarrassment for Finns. Government officials, when called upon to comment on the clause, stressed the value of a free press and the lack of censorship, noted Finland's good relations with all countries, acknowledged that there had been in the past some "self-censorship" of the press with regard to the Soviet Union, but pointed out that the clause had not been applied for decades. Since World War II, leading Finnish politicians have also occasionally exhorted the press to be more responsible in its reporting on foreign policy issues; there were several such calls by Koivisto in his first years in office. Such political tutelage was by the mid-1980s, however, no longer viewed as appropriate for a modern democratic state.

Finnish media were also subject to some popular controls. The Press Law of 1919 gave the right of correction to anyone who held that material printed about him in a periodical was incorrect or offensive. The publication was obliged to grant the injured party an equal amount of space within two days after receipt of the statement. Failure to do so could result in a fine. Finns could also turn to the Council for Mass Media (Julkisen Sanan Neuvosto—JSN), which was founded in 1968 to promote journalistic ethics. This body examined each complaint submitted to it and decided on its merits. Between 1969 and 1978, the council received several hundred queries; it found about a quarter of them justified and recommended to the criticized journal or station that it issue an unedited rejoinder from the injured party.

Films were subject to censorship in Finland according to a law from 1965 that had been enacted by the elaborate procedure required for legislation seen as being an exception to the Constitution. In this case, there was an exceptional curtailment of the constitutional right of freedom of information. The law dealt only with films shown for commercial purposes, and it forbade those that offended good morals, were brutalizing or injurious to mental health, endangered public order and the nation's defense, or harmed Finland's relations with other countries. The Film Censorship Board was set up to administer the law, and its decisions could be appealed up to the Supreme Administrative Court. Of 2,688 films reviewed between 1972 and 1983, some 227 were forbidden in their entirety. Of these, nearly all were rejected for reasons of morality or potential danger to mental health, and 2 percent because they could hurt Finland's external relations. The most noted of these films was the British-Norwegian coproduction, "One Day

in the Life of Ivan Denisovich," based on the eponymous novel by Aleksandr Solzhenitsyn. Several films from the German Democratic Republic (East Germany) were banned after having been judged potentially offensive to the Federal Republic of Germany (West Germany).

## **Foreign Relations**

Finnish foreign policy is aimed at preserving the nation's political and territorial integrity and safeguarding the continuity of its national existence. Geographical reality—having the Soviet Union as a neighbor, and defeat in World War II led Finland to adopt a postwar national security policy of maintaining its freedom of action by dissociating itself from the conflicts of major powers. The main feature of contemporary Finnish policy, therefore, is neutrality. As the official political doctrine, nonalignment has helped in the establishment of friendly relations with other countries regardless of their political systems.

Within the framework of Finnish neutrality, there are three important policy orientations: a special relationship with the Soviet Union; a traditional policy of close collaboration with the other Nordic countries—Sweden, Norway, Denmark, and Iceland; and an active policy as a member of the UN.

## **Neutrality**

Finland, independent only since 1917, does not have a long tradition of neutrality. In the interwar period, it declared itself neutral, but its foreign policy was not neutral enough to satisfy the security concerns of the Soviet Union, and Finland was drawn into World War II. The years immediately after the war were taken up by the country's struggle to survive as an independent nation. The treaties of 1947 and 1948, which confirmed the existence of a Soviet military base on Finnish territory and created a defensive alliance with the Soviet Union, seemed to preclude Finnish neutrality (see *The Cold War and the Treaty of 1948*, ch. 1).

The Treaty of Friendship, Cooperation, and Mutual Assistance (FCMA) of 1948 mentioned in its preamble, however, Finland's desire to remain outside the conflicts of the great powers and to maintain peace in accordance with the principles of the UN. A first example of the Finnish policy of avoiding entanglements in superpower disputes was the decision in early 1948 not to participate in the European Recovery Program, also known as the Marshall Plan. Finnish rejection of the much-needed aid was caused by Soviet contentions that the program was an effort on the part of the United States to divide Europe into two camps.

In the late 1940s, Finland joined the General Agreement on Tariffs and Trade (GATT—see Glossary) and the World Bank (see Glossary), participating in their economic programs, but avoiding any political implications of membership that could be seen by the Soviets to link the country to the West. Finland also stayed out of the discussions of the period about the formation of a Nordic defense union.

During these early years after World War II, there were few official Finnish statements about neutrality, but in a speech in 1952 Prime Minister Kekkonen held that the FCMA treaty presupposed a kind of neutrality for his country. In 1955 a major impediment to Finnish neutrality was removed by the closing of the Soviet military base located near Helsinki, and in the following years leading Soviet officials praised the neutrality of their neighbor. In 1955, too, Finland was able to join the UN and the Nordic Council, acts that reduced its isolation and brought it more fully into the community of nations.

By the early 1960s, Finnish neutrality was recognized by both the West and the East, and the country entered a more confident period of international relations when it began practicing what came to be officially termed an active and peaceful policy of neutrality. Finland participated in local and in global initiatives aimed at creating conditions that allowed nations to avoid violence in their relations with one another. As President Kekkonen noted in 1965 in an often-quoted speech, Finland could “only maintain its neutrality on the condition that peace is preserved in Europe.”

An essential element of Finland’s active neutrality policy was the concept of a Nordic Nuclear-Weapons-Free Zone (Nordic NWFZ), first introduced by Kekkonen in May 1963 against the background of a Europe increasingly armed with nuclear weapons. The Finnish president proposed the creation of a zone consisting of Finland, Sweden, Norway, Denmark, and Iceland. Their *de facto* nuclear-weapons-free status was to be formalized by the creation of a Nordic NWFZ that would remove them somewhat from the strategic plans of the superpowers. The zone idea was based on the supposition that, as these countries had no nuclear weapons in their territories, they might avoid nuclear attacks from either of the two alliances, whereas the presence of nuclear weapons would certainly invite such attacks.

The Nordic NWFZ idea was not realized at the time it was initially proposed. A major impediment was the membership of Denmark and Norway in the North Atlantic Treaty Organization (NATO) and hence their pledge to consider the deployment of nuclear weapons on their territories in a time of crisis. Despite its



*President Koivisto with President Ronald Reagan at the White House,  
September 1983  
Courtesy The White House (Pete Souza)*

lack of success, the zone proposal remained part of Finnish foreign policy, and in 1978 it was reintroduced in an altered form in the light of new developments in weapons technology. In Kekkonen's opinion, the cruise missile made the use of nuclear weapons in war more likely. His new Nordic NWFZ proposal contained the concept of a negative security guarantee, according to which the superpowers would bind themselves to refrain from attacking with nuclear weapons those countries belonging to the zone.

The zone proposal has since become a permanent part of security discussions in Nordic Europe, with support from a variety of quarters. President Koivisto declared his firm support for the zone proposal in a speech at the UN in 1983, and in 1985 a Nordic parliamentary group convened in Copenhagen to discuss the idea and to set up a commission to study it.

In addition to the problem of Danish and Norwegian membership in the Atlantic Alliance, other problems continued to prevent the zone's realization. A central question was how, and to what extent, the Baltic and Barents seas and the adjacent areas of the Soviet Union would be included. The Soviet Union, the only power of northern Europe that had nuclear weapons in its arsenal, always welcomed the zone proposal but left its participation in the zone uncertain. Finnish officials seemed content to hold continued talks



about the zone. Foreign affairs specialists occasionally commented that Helsinki was more interested in using discussion of a Nordic NWFZ as a means of emphasizing the existing stability of northern Europe than in the realization of such a zone.

Another core element of Finland's active policy of neutrality was the country's participation in arms control and disarmament initiatives. In 1963 Finland signed the Nuclear Test Ban Treaty, prohibiting nuclear testing underwater, above ground, and in outer space; and in 1968 it approved the Treaty on the Non-Proliferation of Nuclear Weapons. It was the first country to form an agreement with the International Atomic Energy Agency concerning the peaceful use of nuclear power. In 1971 Finland signed the treaty banning the placement of nuclear weapons on the world's seabed, and in 1975 it joined in the prohibition of the development, production, and stockpiling of biological weapons. Since the early 1970s, Finnish scientists have been developing technology for the detection of chemical weapons, and since the mid-1970s, they have been engaged in perfecting a global seismic verification station system.

Helsinki was the site for some of the Strategic Arms Limitation Talks (SALT), and in 1973 and 1975 Finland was the driving force behind the Conference on Security and Cooperation in Europe (CSCE) and the host of its first and third meetings. The signing of the Final Act of the CSCE in Helsinki in 1975 was the high point of the country's policy of active neutrality. The signed document recognized the legitimacy of neutrality as a foreign policy, a point demonstrated by Finland's hosting the conference. The country has continued to work as a member of the neutral and nonaligned group at later CSCE meetings, where the emphasis has been on the formation of confidence-building and security-building measures (CSBM). The fourth CSCE meeting was scheduled to take place in Helsinki in the spring of 1992.

## **Soviet Union**

Two hard-fought wars, ending in defeat and in the loss of about one-tenth of Finland's land area, convinced some leading Finnish politicians by the end of World War II that the interwar policy of neutral distance from the Soviet Union had been mistaken and must be abandoned if the country were to survive as an independent nation (see *The Cold War and the Treaty of 1948*, ch. 1). Juho Paasikivi, Finland's most prominent conservative politician and its president from 1946 to 1956, came to believe that Finnish foreign policy must center on convincing Soviet leaders that his country accepted, as legitimate, Soviet desires for a secure northwestern

border and that there was no reason to fear an attack from, or through, Finland.

The preliminary peace treaty of 1944, which ended the Continuation War, and the Treaty of Paris of 1947, which regulated the size and the quality of Finland's armed forces, served to provide the Soviets with a strategically secure area for the protection of Leningrad and Murmansk. The deterioration of superpower relations, however, led the Soviets to desire a firmer border with the gradually emerging Western bloc. In February 1948, Finnish authorities were notified by Soviet officials that Finland should sign a mutual assistance treaty with the Soviet Union.

The treaty that Finnish and Soviet negotiators worked out and signed in April 1948 differed from those the Soviets had concluded with Hungary and Romania. Unlike those countries, Finland was not made part of the Soviet military alliance, but was obliged only to defend its own territory if attacked by Germany or by countries allied with that country, or if the Soviet Union were attacked by these powers through Finnish territory. In addition, consultations between Finland and the Soviet Union were required if the threat of such an attack were established. According to the FCMA treaty, Finland was not bound to aid the Soviet Union if that country were attacked elsewhere, and the consultations were to be between sovereign states, not between military allies. Just what constituted a military threat was not specified, but the right of the Finns to discuss the posited threat and how it should be met, that is, to what extent military assistance would be required, allowed Finnish officials room for maneuver and deprived the treaty of an automatic character.

Since its signing, the treaty has continued to be the cornerstone of Finnish relations with the Soviet Union; that both found it satisfactory was seen in its renewal and extension in 1955, 1970, and 1983. For the Soviet Union, the FCMA treaty meant greater security for the strategically vital areas of Leningrad and the Kola Peninsula. Any attack on these areas through Finland would meet first with Finnish resistance, which many observers believed would slow an offensive appreciably. The prohibition of Finnish membership in an alliance directed against the Soviet Union meant hostile forces could not be stationed within Finland, close to vital Soviet installations.

Finland's neutral status had an effect on the Nordic area as a whole. Its special relationship with the Soviet Union reduced pressure on Sweden and eased that country's burden of maintaining its traditional neutrality. The consequent lowering of tensions in the region allowed Norway and Denmark NATO membership,

although each of these countries established certain restrictions on the stationing of foreign troops and the deployment of nuclear weapons on their soil. The interdependence of security postures in northern Europe, sometimes referred to as the Nordic Balance, has removed the region somewhat from the vagaries of the Cold War over the last few decades. The Soviets have closely monitored developments in the area, but their basic satisfaction with the security situation that has prevailed there has allowed Finland to survive as an independent country, bound to some degree to the Soviet Union in defense matters, but able to maintain its democratic institutions and its membership in the Western community of nations.

During the years immediately following the signing of the FCMA treaty, the Finns complied with their obligation to pay reparations to the Soviet Union; the last payment was made in 1952. The preceding year the two countries had signed a treaty setting up trade between them on the basis of a barter arrangement, which has been renewed every five years since then. In 1954 Finland became the first capitalist country to sign a scientific and technical agreement with the Soviet Union.

Despite the provisions of Article 6 of the FCMA treaty, which enjoined each contracting party from interfering in the domestic affairs of the other, Soviet comments on Finnish domestic politics were often quite harsh. Soviet attitudes toward Finland softened, however, with the death of Joseph Stalin and the advent of better relations with the Western powers in the mid-1950s; consequently, no objections were raised to the 1955 decisions to admit Finland to the Nordic Council and to the UN (see Nordic Europe, this ch.). Late in the same year, the Soviets gave up their base at Porkkala in exchange for an extension of the FCMA treaty, due to expire several years after Paasikivi's scheduled retirement in 1956. Soviet uncertainty about the conduct of his successor made Moscow anxious for the treaty's renewal.

The departure of Soviet troops from Finnish territory removed an obstacle to Finland's full sovereignty and to its achievement of neutrality. In 1956 Nikita Khrushchev, first secretary of the Communist Party of the Soviet Union (CPSU), spoke for the first time of Finnish neutrality. Soviet tributes to Finland's neutrality and nonaligned status grew common in the next few years.

Finnish-Soviet relations were shaken by two crises—the Night Frost Crisis of 1958–59 and the more serious Note Crisis of 1961 (see Domestic Developments and Foreign Politics, 1948–66, ch. 1). The Note Crisis was a watershed in Finnish-Soviet relations in that Kekkonen, whose successful resolution of the crisis made

him the virtual master of Finnish foreign policy, and others realized that in the future Finnish foreign policy ought to be formulated only after its effects on Soviet interests had been carefully weighed. Another effect of the crisis was that it led to the inauguration of a policy of active and peaceful neutrality (see *Neutrality*, this ch.).

Finnish-Soviet relations since the Note Crisis have been stable and unmarked by any serious disagreements. Trade between the two countries has remained steady since the 1951 barter agreement. In 1967 Finland became the first Western country to set up a permanent intergovernmental commission with the Soviet Union for economic cooperation. A treaty on economic, technical, and industrial cooperation followed in 1971, as did a long-term agreement on trade and cooperation in 1977 that, in 1987, was extended to be in effect until the turn of the century. The first joint venture agreements between Finnish and Soviet firms were also arranged in 1987. In 1973 Finland was the first capitalist country to cooperate closely with the Council for Mutual Economic Assistance (CMEA, CEMA, or Comecon—see Glossary) (see *Regional Economic Integration*, ch. 3).

The Soviet Union has carefully monitored Finland's adherence to the FCMA treaty, and Finland's awareness of this scrutiny has influenced Finnish policy. For example, Finland refrained from full membership in the European Free Trade Association (EFTA) and instead joined the body through an associate membership in 1961. The entry into a free-trade relationship with the European Economic Community (EEC—see Glossary) in 1973 occurred only through a carefully orchestrated preliminary plan that included formal links with Comecon and a special re-election of Kekkonen in 1974 to assure the Soviets of continuity in Finnish foreign policy.

Since the Note Crisis, Soviet interference in Finnish domestic concerns has been limited to occasional critical comments in the Soviet press and from official spokesmen. Clarification about Soviet policy toward Finland could be obtained from Soviet officials themselves, or from articles published in authoritative newspapers or journals. Since the 1970s, a frequent source of enlightenment about the Kremlin's attitudes toward Finland, and about Nordic Europe in general, were articles written under the name of Komissarov, many of which were commonly believed to have been written by Iurii Deriabin, a well-placed and knowledgeable Soviet specialist on Finnish affairs. As valued indicators of Soviet attitudes, the articles were examined line by line in Finland. Komissarov articles, for example, disabused Finnish foreign affairs specialists of the notion, which they had entertained for a time, that Finland had the

right to determine on its own whether consultations according to Article 2 of the FCMA treaty were necessary. A Komissarov article that appeared in January 1984 in a Helsinki newspaper expressed the disquieting Soviet view that the passage of cruise missiles through Finnish airspace might conceivably mean the need for consultations.

Two examples may indicate the restraint exercised by the Soviets in their dealings with Finnish affairs since the early 1960s. In 1971 the Soviet ambassador was recalled from Helsinki after he had become involved in the internal feuds of the Communist Party of Finland (Suomen Kommunistinen Puolue—SKP). A suggestion in 1978 by a Finnish communist newspaper, which was repeated by the Soviet chief of staff General Dmitri Ustinov, that Finnish military forces should hold joint maneuvers with Soviet forces was quickly dismissed by Finnish officials as incompatible with their country's neutrality; there was no Soviet rejoinder.

Finnish foreign policy vis-à-vis the Soviet Union enjoyed widespread support from the Finnish people. Polls in the 1980s consistently measured an approval rate of over 90 percent. Another proof of the acceptance of the Paasikivi-Kekkonen Line was that foreign policy played virtually no part in the parliamentary elections of 1983 and 1987. From the Soviet side, comments on these elections were neutral, with no hints of preferred victors.

## **Nordic Europe**

Finland is an integral part of Nordic Europe. With the exception of a small Swedish-speaking minority, the country is ethnically distinct from the Scandinavian countries, but the 700 years that Finland was part of Sweden gave it a Nordic inheritance that survived the century during which Finland was an autonomous state within the Russian Empire. During the interwar period, it entered into numerous agreements with the other states of Nordic Europe. After World War II, relations resumed, but with caution owing to the tensions of the Cold War. Finland could undertake no initiatives in international relations that might cause the Soviet Union to suspect that Finland was being drawn into the Western camp.

The gradual relaxation of superpower tensions meant that in 1955 Finland could join the Nordic Council, three years after its foundation. The Nordic Council was an organization conceived to further cooperation among Norway, Sweden, Denmark, and Iceland. Meeting once a year for a week in one of the capitals of the member countries, the council was an advisory body, the decisions of which were not binding; it did carry considerable weight, however,

as the delegates at the annual meetings were frequently leading politicians of the countries they represented. At the insistence of Finland, security matters were not to be discussed, and attention was directed rather to economic, social, and cultural issues. Unlike the European Community (EC—see Glossary), the Nordic Council was not a supranational organization, and membership in the council did not affect Finland's status as a neutral nation.

The Treaty of Helsinki of 1962 gave birth to the Nordic Convention on Cooperation, which defined the achievements and goals of the regional policy of increased interaction. This agreement was followed by the formation in 1971 of the Nordic Council of Ministers, which instituted a formal structure for frequent meetings of the region's cabinet ministers. The issue at hand determined which ministers would attend. In addition to these larger bodies, numerous smaller entities existed to further Nordic cooperation. A study of the second half of the 1970s found more than 100 such organizations. The efforts of these bodies and the many formal and informal meetings of Nordic politicians and civil servants stopped short of full integration, but they yielded numerous agreements that brought Finland and the other Nordic countries closer together. This so-called "cobweb integration" has given the citizens of Nordic Europe many reciprocal rights in one another's countries. Finns were able to travel freely without passports throughout Nordic Europe, live and work there without restrictions, enjoy the full social and health benefits of each country, and since 1976, vote in local elections after a legal residence of two years. Citizenship in another of the Nordic countries could be acquired more easily by a Finn than by someone from outside the region.

Economic cooperation did not proceed so smoothly. Nordic hopes, in the mid-1950s, of establishing a common market were disappointed, and EFTA was accepted as a substitute. An attempt in 1969 to form a Nordic customs union, the Nordic Economic Union (NORDEK), foundered when Finland withdrew from the plan. The withdrawal may have been caused by Soviet concerns that Finland could be brought into too close a relationship with the EEC via Denmark's expected membership in the Community. This setback was mitigated, however, when the Nordic Investment Bank began operations in 1976 in Helsinki. The bank's purpose was to invest in financial ventures in the Nordic region.

In the second half of the 1980s, Finland continued working with its Scandinavian neighbors, being a part, for example, of the Nordic bloc in the UN and participating in Nordic Third World development projects. Finland's Nordic NWFZ proposal was being studied and furthered by an inter-Nordic parliamentary committee,

and Finland was always present at the semiannual meeting of Nordic foreign ministers.

## **Western Europe**

Finland had to adjust its foreign policy after World War II to the changed international environment; however, it continued to enjoy good relations with West European countries, particularly in the field of economic cooperation. The country joined economic projects such as GATT and the International Monetary Fund (IMF—see Glossary), but, wary of arousing Soviet apprehensions about potential political ties to the West, did not seek membership in the Organisation for European Economic Co-operation (OEEC). Through a clever device, however, Finland did manage to participate in the trade benefits provided by the OEEC's European Payments Union: in 1957 Finland formed its own body, the Helsinki Club, which was subsequently joined by all OEEC countries. In 1961, for imperative economic reasons, Finland worked out a special relationship with EFTA after complex negotiations. Finland's relationship, an associate membership in the body, became feasible after the Soviet Union agreed that it was compatible with the Finnish policy of neutrality and after tariff arrangements ensured the continuity of Finnish-Soviet economic cooperation. A more stable world meant that in 1969 Finland was able to join the OEEC's successor, the Organisation for Economic Co-operation and Development (OECD). In 1973 Helsinki, in a balancing effort, signed agreements with both the EEC and Comecon and was given a special status with both organizations.

Another subtle act of diplomatic balancing was Finnish treatment of the thorny question of what kind of relations it should have with the two German states. To recognize either would antagonize one of the superpowers. The Finnish solution was to establish two separate trade missions, one in each of the Germanies. This arrangement allowed diplomatic relations and alienated no one. Once the two German states recognized each other in 1972, Finland was able to establish normal diplomatic relations with each of them.

The years since the early 1970s have seen a steady normalization of Finland's relations with Western Europe. In the 1980s, Finnish trade with the region accounted for about 60 percent of its exports; the country participated in European economic and research endeavors like Eureka and the European Space Agency (ESA); and 1986 saw full Finnish membership in EFTA. In addition, by the end of 1988 all obstacles appeared cleared for Finland's

membership in the Council of Europe (see Glossary) the following year.

The increasing integration of the EC, however, presented problems for Finland and for EFTA's other neutral states. The supranational character of the EC, which was always incompatible with Finnish neutrality, became even more so with the signing in 1985 of the EC's Single European Act. The act aimed at foreign policy cooperation among members, and it therefore made Finnish membership in the EC inconceivable. Exclusion from the EC, however, could threaten Finland's export-based economy if the "internal market" that the EC hoped to have in place by 1992 led to trade barriers directed against nations outside the Community. The late 1980s and the early 1990s were certain to be a time of intensive Finnish discussion on how this challenge was to be met.

## **United States**

The United States recognized Finland as an independent state in 1919. In that year, the United States assisted Finland with deliveries of food through an organization led by Herbert Hoover. Since then assistance has been in the form of loans, all of which have been repaid. This has contributed to the development of friendly relations between the countries. The American public expressed great sympathy for Finland during the Winter War, and, although the United States ambassador was recalled in June 1944 after Finland's decision to continue the war against the Soviet Union, the United States did not declare war on Finland (see *The Winter War*, ch. 1). In the postwar period, Finnish-American relations have been exceedingly cordial. Even though political considerations did not allow Finland to participate in the Marshall Plan after World War II, in the immediate postwar years, Finland received about US\$200 million in credits from the United States to help rebuild its industrial base.

Both Kekkonen and Koivisto paid state visits to the United States, and United States presidents have occasionally expressed their support for Finnish neutrality. In early 1983, however, the supreme commander of NATO forces in Europe, United States general Bernard Rogers, expressed uncertainty about the Finns' desire to defend themselves. His press conference remarks caused much consternation in Finland. Other military officials have since praised Finland's defense readiness; among them was United States admiral William Crowe, who paid Finland an official visit in 1986 as chairman of the Joint Chiefs of Staff.

## **United Nations and the Third World**

Because Finland had fought with the Axis powers during World



War II, it was ineligible for charter membership in the UN in 1945. Finland applied for membership in 1947, but Cold War disagreements among the great powers on UN admissions policies delayed Finland's entry until 1955.

Finland had not been very enthusiastic about membership in the UN in the 1945 to 1955 period. The country tried to pursue the Paasikivi policy of passive and cautious neutrality and feared that joining the UN would be incompatible with its nonaligned status. A strict interpretation of the UN charter made membership in it incompatible with neutrality. According to Article 25 of the charter, members of the UN are obliged to follow the decision of the Security Council in applying economic or military sanctions against other member states.

Since becoming a member, however, Finland has been a committed and active participant in accordance with its official foreign policy of a peaceful and active neutrality. In the late 1960s, it was a member of the Security Council, and one of its UN officials, the diplomat and historian Max Jakobson, was a strong contender for the post of secretary general. His candidacy is said to have failed because of reservations on the part of the Soviet Union. In the fall of 1988, Finland was reelected to the Security Council for a two-year term, and it was expected to assume the council's chairmanship in 1990.

There have been two main lines of Finnish policy in the UN. The first is that Finland avoids any political or economic confrontation in which the interests of the superpowers are directly involved. This policy explains why Finland has refrained over the years from condemning Soviet actions, most recently the Soviet military presence in Afghanistan. Finnish officials hold that their country can be more effective on the international level if it has good relations with all countries. (They commonly explain that Finland wishes to work as a doctor rather than as a judge.) The second current of Finland's UN policy is that country's role as part of the Nordic bloc within the organization. Finland consults and collaborates closely with other Nordic members, generally voting with them, participating with them in aid projects to the Third World through the United Nations Development Programme (UNDP), or being part of the UN forces sent to troubled areas. Finnish forces have taken part in every UN peacekeeping mission since the early 1960s. In addition, the country maintains a permanent military force available to the organization (see United Nations Peacekeeping Activities, ch. 5). Finnish aid to the Third World has not been so extensive as that of the other Nordic countries. Finland, for example, has never met the goal of contributing 0.7 percent of its gross national

product (GNP—see Glossary) to Third World development, and critics have charged that Finland gets a “free ride” from the achievements and good reputations of Sweden, Norway, and Denmark. Efforts were underway in the 1980s, however, to come closer to this figure. The foreign aid programs in which Finland was involved were not only multilateral, but, with regard to a few selected countries, were carried out on a one-to-one basis. Finland’s record as a provider of asylum for refugees did not always match the records of the other Nordic countries. A quota system instituted in 1985 provided for the acceptance of 100 refugees a year. Criticism of this figure led to the quota’s increase to 200 a year in 1987, and in mid-1988 Finnish officials decided to admit 300 refugees that year. As of late 1988, there were about 1,200 refugees in Finland, nearly all of them from the Third World.

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An excellent introduction to Finnish political life is David Artner’s *Politics and Policy-Making in Finland*. The same author’s *The Nordic Parliaments* presents in great detail the workings of the Eduskunta, the Landsting, and the Nordic Council. Somewhat dated, but still useful, is Jaakko Nousiainen’s classic *The Finnish Political System*. The second edition of *The Finnish Legal System*, edited by Jaakko Uotila, will meet the needs of many readers on this subject; in addition, it has expert surveys of various Finnish political institutions. *Small States in Comparative Perspective: Essays for Erik Allardt*, edited by Risto Alapuro et al, contains a number of valuable articles. Klaus Törnudd’s *Finland and the International Norms of Human Rights* examines Finnish legal protections for human rights and provides much information about law and the media.

Stimulating brief accounts of Finland’s unique international position are George Maude’s *The Finnish Dilemma: Neutrality in the Shadow of Power* and Max Jakobson’s *Finnish Neutrality*. Roy Allison’s more recent *Finland’s Relations with the Soviet Union, 1944–84* is also very useful. *Foreign Policies of Northern Europe*, edited by Bengt Sundelius, treats the Nordic region as a whole, yet it will help the reader seeking more specific information about many aspects of Finnish foreign relations. The Nordic quarterly *Cooperation and Conflict* often contains excellent articles that deal with Finnish foreign relations, as does the *Yearbook of Finnish Foreign Policy*, published by the Finnish Institute of Foreign Affairs. (For further information and complete citations, see Bibliography.)

