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CENTRAL INTELLIGENCE AGENCY
OFFICE OF CURRENT INTELLIGENCE
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UNSTABLE ECONOMIC AND POLITICAL SITUATION IN FINLAND

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The indecision of the Finnish government concerning the resolution of the country's pressing internal economic problems, the drift toward closer economic ties with the Soviet bloc, and the gradual loss of western markets are key factors in Finland's increasingly unfavorable economic and political position. Despite this situation the USSR has so far refrained from outright interference in Finnish domestic affairs.

The recent signature in Peiping of a Chinese-Finnish bilateral trade agreement is a further step in the orientation of Finnish trade toward the Orbit, which now holds an influential position in Finland's foreign trade. Approximately one third of Finland's total foreign trade in 1953 will be with the Soviet bloc, as compared to approximately 23 percent in 1952. This gives the Soviet Union a powerful lever with which it could influence internal Finnish political developments.

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In order to avoid widespread unemployment, Finland has been forced to divert an increasingly large share of its exports to the Soviet bloc because of tighter markets in the West and high domestic production costs which are gradually pricing most Finnish exports out of the world market.

Despite predictions of a record postwar unemployment of approximately 100,000 workers next winter and of even further reductions in exports to the West, the Agrarian-Social Democratic coalition government has hesitated to take effective economic countermeasures such as devaluation or altering the system of tying wages to the cost-of-living index. The Social Democrats, who primarily represent labor, remain adamantly opposed to altering the wage index system in view of its possible unfavorable effects on the labor vote in the communal elections in October and the parliamentary elections next summer. It is generally conceded in Finnish political circles that any new economic program would retain the wage-index principle.

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The present government's preoccupation with the immediate political consequences of the proposed countermeasures could result in a further deterioration of the country's weak economic position and result in the defection to the Communists of a significant number of labor votes in the forthcoming elections. The strong competition between the Communists and the Social Democrats for this vote is illustrated by the fact that in the 1951 parliamentary elections the latter polled 480,000 and the Communists about 390,000 votes.

Assuming a further contraction of Finland's Western export markets, and barring effective action by the government to restore economic stability, the Communists could emerge from the forthcoming elections with sufficient strength to demand a voice in the government. In view of the Orbit's strong position in Finland's economic life, the USSR would then be in a position to exert considerable pressure on the Finns to give the Communists a greater voice in Finnish affairs.

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