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The Economic Recovery of Finland, 1945–1952

Abstract

The Second World War was a conflict of critical importance for Finland's existence as an independent political entity. Between 1939 and 1945, the country waged war against both Moscow and Berlin. Complex geopolitical circumstances forced the Finnish political class to make many dramatic choices, including those concerning the country's economic model. War reparations awarded to the Soviet Union and limited sovereignty required skilful political and economic manoeuvring. The aim of this article is to characterise the impact of post-war reparation burdens on the transformation of the Finnish economic model and to assess the effectiveness of the policy of balancing between the Eastern and Western blocs in conditions of limited sovereignty. Finland's economic situation, particularly its foreign trade (major trading partners and the trade structure), is shown in comparison with other Nordic countries. To this end, reports from the Bank for International Settlements and the United Nations were used. The article also shows that Finland, despite not participating in the Marshall Plan, took part in Western economic ventures, skilfully balancing its foreign policy based on the principle of neutrality.

Keywords: economic recovery, reparations, Finlandisation, international trade

Gospodarcze odnowienie Finlandii w latach 1945–1952

Streszczenie

II wojna światowa była konfliktem o krytycznym znaczeniu dla egzystencji Finlandii jako samodzielnego bytu politycznego. W latach 1939–1945 kraj ten prowadził działania zbrojne skierowane zarówno przeciwko Moskwie, jak i Berlinowi. Skomplikowane uwarunkowania geopolityczne stawiały fińską klasę polityczną w obliczu wielu dramatycznych wyborów, także tych dotyczących modelu gospodarczego kraju. Reparatcje wojenne przyznane na rzecz Związku Sowieckiego i ograniczona suwerenność wymagały prowadzenia kunsztownej gry w wymiarze politycznym i gospodarczym. Celem niniejszego artykułu jest

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charakterystyka wpływu powojennych obciążeń reparacyjnych na transformację fińskiego modelu gospodarczego oraz ocena skuteczności polityki balansowania między blokiem wschodnim a zachodnim w warunkach niestabilnego otoczenia międzynarodowego. Sytuacja gospodarcza Finlandii, a w szczególności wymiana zagraniczna (kierunki i struktura), została pokazana na tle pozostałych krajów nordyckich. W tym celu wykorzystano m.in. raporty Banku Rozrachunków Międzynarodowych oraz Organizacji Narodów Zjednoczonych. Artykuł pokazuje również, że Finlandia, pomimo braku uczestnictwa w planie Marshalla, brała udział w przedsięwzięciach gospodarczych Zachodu, umiejętnie balansując w polityce zagranicznej w oparciu o zasadę neutralności.

Słowa kluczowe: odbudowa gospodarcza, reparacje, finlandyzacja, wymiana handlowa

Introduction

Geopolitics gave Finland a specific place at the end of the Second World War. In view of Finnish setbacks on the front, Anthony Eden, the British foreign secretary, stated in his memorandum *Soviet Policy in Europe outside the Balkans* of August 9, 1944: “Although we shall no doubt hope that Finland will be left some real degree of at least cultural and commercial independence and a parliamentary regime, Russian influence will in any event be predominant in Finland, and we shall not be able, nor would it serve any important British interests, to contest that influence” (Aunesluoma 2012: 231). As a result, Finland became as Oula Silvennoinen famously put it “an East European country with East European problems” (Silvennoinen 2013). Despite a challenging starting position, Finland managed to move away from its Eastern European predicament and confirmed its location in Europe as a Nordic country. This piece features the most critical challenges facing the Finnish state in 1945, highlighting its political and economic choices and comparing them with a natural reference group, i.e., the other Nordic countries.

Like most European countries, Finland's fate was significantly impacted by the Second World War. Finland waged war against the USSR, first alone (the Winter War from November 30, 1939), then from 1941 as part of the Continuation War, alongside Germany, and from 1944, at the request of the USSR, it fought a war in Lapland against its erstwhile German allies (October–November 1944, with the last Germans leaving Finland in April 1945). The war resulted in the loss of approximately 13 per cent of the territory to the USSR, including Karelia with Viipuri (Vyborg) and the districts of Salla and Petsamo (with nickel deposits). The loss of Karelia resulted in the displacement of as many as 400,000 inhabitants (10 per cent of the Finnish population). It had a significant impact on Finnish production: in 1938, the industrial production of Karelia accounted for

11 per cent of the total national output, with the production of pulp accounting for a quarter of the total. The same was true for the production of electric power, which resulted in the continuation of domestic electricity rationing until 1948. The Soviets also obtained a 50-year lease on Porkkala, located within artillery range of Helsinki. The border with Finland was moved to a distance of approximately 150 km from Leningrad.

Finland lost valuable ports that had handled almost 20 per cent of its prewar exports. In 1938, the ceded area accounted for 13 per cent of agricultural production and around 10 per cent of forestry. It also produced nearly 25 per cent of the developed hydroelectric power (Fredrickson 1960: 18). The losses included 432 plants and approximately 1000 km of railway tracks (17 per cent of the national total). As much as 15 per cent of Finland's prewar paper and energy industry production was in the lost territories.

Approximately 85,000 Finnish soldiers were killed during these wars. Civilian deaths totalled approximately 2,000. Altogether, these fatalities represented about 2.2 per cent of Finland's population before the war. Roughly 200,000 individuals were wounded (Pihkala 1999: 28). The Continuation War itself claimed the lives of 66,000 soldiers (Table 1).

Table 1. Finnish Military Casualties in Finland's Wars, 1939–1945

Winter War (November 1939 – March 1940)	
Killed/missing in action	27,000
Wounded	44,000
Continuation War (June 1941 – September 1944)	
Killed/missing in action	66,000
Wounded	150,000
Lapland War (September 1944 – April 1945)	
Killed/missing in action	1,000
Wounded	3,000

Source: Tuunainen 2012: 172.

Material destruction from the war represented around 2 per cent of the country's total wealth. Finnish cities remained largely unscathed because the Soviet air raids were effectively repelled. On the other hand, the war with Germany in 1944 caused disproportionately large material losses. The former allies caused damage in Finland amounting to \$120 million

US, including military losses and damage to roads, bridges, and homes. The areas that suffered the most severely, including the capital of Finnish Lapland, Rovaniemi, experienced up to 90 per cent destruction of infrastructure (Erickson 2024: 9). All in all, during the years 1940 to 1944, Finland's war-related costs—excluding the value of lost territories—ranged from 20 per cent to 33 per cent of the nation's GDP each year, averaging 27 per cent (Numella 1993: 297–301). For comparison, military expenditures in 1939 and 1945 accounted for about 10 per cent of Finland's GDP. The national debt rose dramatically from 3.3 billion Finnish marks in 1939 to 67.3 billion by 1944 (Nissen 1983: 315). The war economy was funded by reducing private consumption to less than 80 per cent of its prewar level, imposing strict limits on investment, accumulating current account deficits, and imposing high taxes—including those generated by inflation. Due to human losses, employment issues until 1949 were primarily related to labour shortages rather than unemployment.

Reparations

Under the provisional peace treaty signed on September 19, 1944, in Moscow, the Finns undertook to pay \$300 million US (in 1938 valuation) in reparations to the USSR within only six years (the repayment period was later extended to eight years). This sum was 150 per cent of Finland's 1938 export total or equivalent to about one-half of the GDP in 1938 (Pihkala 1999: 27; Fredrickson 1960: 18). Jukka Nevakivi emphasised that this condition “terrified the Finns, who had been impoverished by the war, as the sum, calculated per person, was higher than the war reparations that Germany had to pay after the First World War” (Jussila, Hentilä, Nevakivi 2001: 243). On a per capita basis, Finland bore the largest reparations burden of all the countries that had fought alongside the Germans (Eloranta, Nummela 2016: 334). Since war reparations were only to be paid in kind, the cost of commodities provided at 1938 levels increased by 10 per cent for consumer products and 15 per cent for capital goods.

The Soviet ambassador to Sweden, Alexandra Kollontai's suggestion that the Finns “will have to pay for every tree cut down in Karelia”, indicates the mood at the time (Griffiths 2011: 205). The USSR attached great importance to this form of compensation for losses incurred, as industrial production in the European territories of the country fell to one-third of its prewar level in 1944–1945. The potential end of US aid to the USSR further emphasised to Stalin the importance of Finnish war reparations. On December 17, 1944, a final agreement was reached on the implementation of repa-

rations, according to which most of the compensation required from the Finns was to come from outside the paper and wood industry (traditional for Finland). Such a structure of reparations resulted from the abundance of timber in the USSR. As a result, the typical Finnish exports of paper and wood comprised only 25 per cent of the reparations deliveries. Thus, the bulk consisted of cable products, ships, machinery, and equipment that Finland had not previously converted to war economy. It was the Finnish metalworking and shipbuilding industries that bore the brunt of the burden: 35.3 per cent of the total value of reparations consisted of shipping of various types, 21.2 per cent of machinery and equipment, and 5.7 per cent of electric cable (Recent Trends 1959: 3). The initial Soviet demands were such that Finland's capacity to produce these goods was exceeded. As a result, importing raw materials and semi-finished products, primarily from Sweden, was necessary to meet the targets. A strike by Swedish metal workers in 1945 had the potential to jeopardise those deliveries (Singleton 1998: 148).

Moscow's demand stimulated the need to expand existing plants to produce for the needs of its eastern neighbour. As a result, production in the shipbuilding sector and related fields grew rapidly: by the end of the 1940s, the metallurgical industry produced twice as much as before the war (Paunio 1993: 144). As more than half of all deliveries to the USSR were scheduled to consist of commodities that had not been exported before, Finland was forced to establish new production lines to meet the demands for reparations. Before World War II, 57 per cent of the Finnish population worked in agriculture and forestry (Pihkala 1999: 36). Thus, Finland needed to reshape its economy to make reparations and debt payments and rebuild the country. Moreover, many armament factories started making sewing machines, paper products, and electrical parts instead of guns and ammunition.

Table 2. Commodity composition of exports and reparations deliveries by Finland (percentage of the total value)

	Total exports 1935–1937	Reparations 1944–1952	Total exports 1955–1957
Wood and paper products	83.9	27.8	78.7
Metalworking products	2.8	72.2	14.1
Agricultural products	8.7	–	3.4
Other	4.6	–	3.8

Source: Recent Trends 1959: 6.

Finland's war reparations to the Soviet Union represented a significant portion of the country's state expenditures during the post-war period from 1945 to 1952. Additionally, payments impacted fiscal policy: to pay for reparations, top tax brackets skyrocketed after WWII (Roikonen 2021: 243). The total reparations effort averaged about 4 per cent of annual GDP over the eight years. The share varied over time, peaking in the early years and declining as deliveries progressed and the economy adjusted: the obligation of war reparations as a proportion of Finnish GDP averaged 4.5 per cent yearly from 1945 to 1947, 3.3 per cent from 1948 to 1949, and 1.5 per cent from 1950 to 1952. (Pihkala 1999: 32). The correlation between the falling burden of war reparations, expanding expenditures on the emerging welfare state, and other social objectives (e.g. improving the dilapidated public infrastructure) occurred

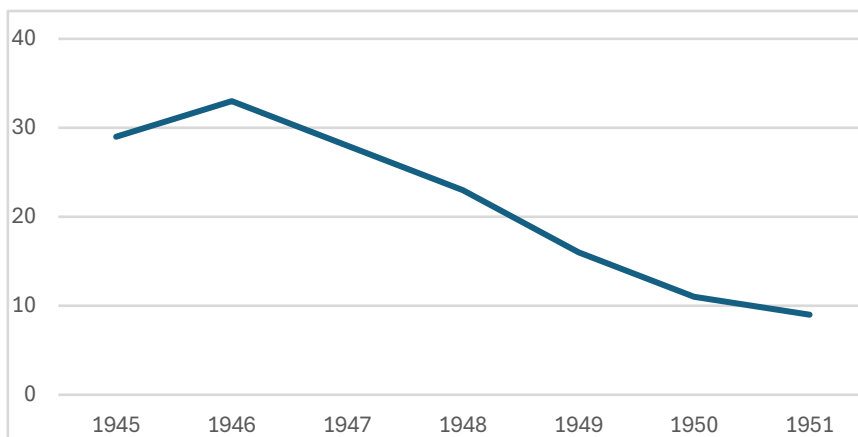


Figure 1. War reparations as a share of state expenditures (1945–1951)

Source: Valvanne: 1952, 6–7, 12–13.

Barbara Szordykowska points out that “the costs of the resettlement campaign and compensation payments to the USSR were so high that for a long period, until the 1950s, Finland was unable to recover from its economic collapse” (Szordykowska 2011: 307). Indeed, war reparations and servicing wartime loans consumed almost a third of all budget expenditure in 1946. On the other hand, no other country at war with the USSR managed to save so many civilians and material assets. Finland remained the poorest country in the North, but the dynamics of its economic recovery – especially in such an unfavourable international environment – deserve high praise.

Table 3. Finland's reparations payments and exports between 1944 and 1952

Year	Commercial exports (million Finnish marks)	Reparations (million Finnish marks)	Reparations as a percentage of exports	Exports volume (1938=100, excluding reparations)
1944	6,332	–	–	33.9
1945	5,228	8,172	61	17.0
1946	23,051	8,775	28	47.1
1947	45,228	10,405	19	65.7
1948	56,505	11,546	17	72.4
1949	65,606	12,226	16	86.7
1950	81,479	7,846	9	100.6
1951	186,883	12,396	6	126.2
1952	156,829	8,215	5	111.9

Source: Oksanen, Pihkala 1975: 26.

The method of calculating commodity prices imposed by the USSR proved particularly costly. It was agreed that the 1938 sales prices would be used. As a result, in the last year of deliveries (1952), the value of Finnish war reparations calculated in dollars almost doubled compared to the sums demanded by Stalin in 1944. In addition, under the Potsdam Agreement, Helsinki was charged with part of Germany's war debts to the USSR (\$48 million). Unable to make reparations deliveries from current production, the Finns settled their obligations by measures including transferring the real estate of Finnish diplomatic missions (Tallinn, Leningrad) or selling the coastal defence battleship *Väinämöinen* (Szordykowska 2011: 307).

Internal challenges

The Finnish economy quickly gained momentum, with GDP per capita exceeding prewar levels as early as 1946. Unfortunately, the black market simultaneously fuelled inflation, increasing demand and raising prices. Between 1945 and 1948, the cost of living quadrupled, with inflation rising by an average of 50 per cent year-on-year. One of the monetary policy instruments used by the government was the decree of 31st December

1946, “on cutting all banknotes in circulation in half, thereby halving their value” (Jussila, Hentilä, Nevakivi 2001: 259). Half of the banknotes taken by the state constituted a compulsory loan, which was to be repaid within three years with an interest rate of 2 per cent. This loan accounted for almost half of the loans undertaken by the government in 1946. The practice of “cutting the bills” did not impede inflation; however, it facilitated the accumulation of traceable funds in bank accounts, which were subsequently audited by the tax authorities.

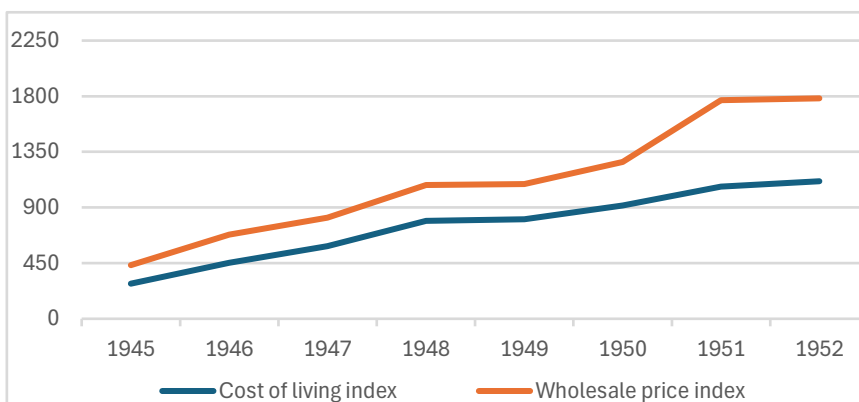


Figure 2. Price indices (1938=100)

Source: Own elaboration based on Hjerpe 1989: 275–276.

Strikes were another huge problem. They peaked in 1947 when the Central Organisation of Labour Unions warned of its intention to call a general strike. As a result, a total of 479,416 working days were lost due to stoppages. The protests also had a political background, marked by competition for position in the trade unions between the social democrats and the communists. In April 1948, the situation was so tense that rumours of a communist takeover began to circulate.

In this light, it is no surprise that there were legitimate fears that the USSR would occupy the country in the early post-war years. Specific preventive measures were even taken in case this dramatic scenario came to pass: weapons and ammunition were hidden; intelligence archives and technical materials were transported to safe locations (Alvarez 2004: 14). Contrary to predictions, the Allied Control Commission, chaired by Andrei Zhdanov, spent more time supervising the systematic delivery of goods by the Finns as part of reparations than overstepping its remit. Attempts by the Commission to interfere in Helsinki's internal politics also proved less significant than expected. With few exceptions, the Commis-

sion operated through official channels, via the government, and left Finland in September 1947 when it ratified the Peace Treaty of Paris (signed February 10, 1947).

However, Zhdanov did not entirely give up the opportunity to influence Finnish communists, who were concentrated in the Finnish People's Democratic League (*Suomen Kansan Demokraattinen Liitto*, SKDL), instructing them not to seek power until they had gained sufficient experience and recruited enough people to fill positions in the state administration. Their excellent result in the March 1945 elections (49 seats out of 200 in the Eduskunta) gave hope that Finland could be steered towards a "people's democracy" through parliamentary means. Indeed, SKDL formed a coalition government with the Social Democrats and the Agrarian Party and took over key government portfolios (Mauno Pekkala from the SKDL became prime minister) as well as control of the police and radio broadcasting. However, the Communists were excluded from the new administrations after suffering a significant defeat in the July 1948 elections.

Nevertheless, the question of the country's independence remained uncertain. In a letter to Paasikivi dated February 22, 1948, Stalin invited the Finnish side to talks on a treaty of friendship, cooperation and mutual assistance (similar in content to those previously concluded by the USSR with dependent Hungary and Romania). Paasikivi was the foremost advocate of cordial relations with the Soviet Union. He maintained that Finland had no alternative but to reinforce the Soviet Union's northwestern border by acquiescing to the so-called Paasikivi Line. This geopolitical strategy was devised to allay Soviet concerns regarding Finland's potential realignment with its adversaries, thereby ensuring that the nation could no longer be utilised as a launchpad for an incursion against the Soviet Union (Hanhimäki 1995: 289).

The context of events in Czechoslovakia, where the communists had taken control of the state apparatus, created the threat of a repeat of this scenario in the USSR's western neighbour. Paasikivi played an effective diplomatic game, convincing the Russians that overly radical wording in the treaty would discourage the Finnish Parliament from ratifying the agreement. As a result, the treaty signed on April 6, 1948 contained relatively favourable provisions to Finland, confirming that the country wanted to pursue a foreign policy "away from the conflicting interests of the Great Powers" (Kirby 1979: 226). Furthermore, Finland and the USSR undertook to cooperate in the event of aggression against Finland or the USSR (if the aggressor had previously entered Finnish territory). The Friendship, Cooperation and Mutual Assistance Pact diluted a Communist strategy to instigate a leftward political transition due to a persistent right-

wing plot. It also probably reduced the need for the Soviet Union to occupy Finland (Rentola 1997: 38–50). Jaroslaw Suchoples emphasises that the USSR was granted the right to call upon the Finnish side to hold talks on political and military matters at a time and in a manner that suited its leaders (Suchoples 2022: 24).

After signing the agreement, the USSR reduced its reparations claims by 50 per cent. After this operation, the share of reparations of Finland's national income fell to 4 per cent. Finnish communists tried to take advantage of the political turmoil in the country related to the treaty, going so far as to cordon off the parliament building to exert pressure for faster ratification of the agreement. It is possible that a left-wing coup was planned but, lacking Moscow's consent to such a development, it did not take place. Stalin's fears that Finland's ostentatious dependence could lead Sweden to abandon its neutrality and align itself with the Western powers may also have played a role. Despite Finland's official recognition as a sovereign country, other states were aware and accepted that there were special Soviet-Finnish relations and that Finnish leaders would not provoke the Kremlin. This policy was a unique solution for the establishment of relations with an uncomfortable neighbour. The result of political calculations led to the conclusion that “the Soviet Union had become the dominant power in the North and Finland would not be able to survive if it maintained an antagonistic stance towards the USSR. Therefore, Finnish leaders vowed never to fight against the Soviet Union again” (Zubok, Pleszakow 1999: 150). Finlandisation – as this policy was later called – can also be seen as a process: “the transformation of a hostile country into something Stalin could feel comfortable with, a friendly neighbour of the USSR – not a satellite, but a state that was not entirely independent in terms of security” (Pentilla 1991: 5).

Confirmation of Finland's considerable independence on the national political scene came with the formation of Karl-August Fagerholm's minority cabinet on July 31, 1948, which included no representatives of the extreme left (the coalition government formed after the March 1945 elections included seven communists). The Fagerholm cabinet (1948–1950) supported the financing of the construction of cheap, universally accessible housing and pursued a policy of subsidising grain for bread baking. As a result of the collapse of the export market, employment in the forestry industry fell, and the negligible post-war unemployment rate rose to 50,000 people. The twofold devaluation of the Finnish mark (by over 60 per cent) increased imported goods' prices. Generous social policies lost an essential source of funding. Despite the gradual move away from rationing, Finland's post-war economy was an example of a system sub-

ject to strong state regulation. The state adopted a markedly more direct and interventionist stance on industrial policy than was the case, for instance, in Sweden (Vartiainen 2011: 60). A commission of government and industry representatives was set up to draw up production plans and reports on their implementation. It also set the prices of goods repurchased by the Finnish government and passed them on to the USSR (Paunio 1991: 148). It is noteworthy that Finland maintained a balanced budget despite its obligation to pay reparations. In 1951, for the first time since the war, it recorded a trade surplus – 31 billion Finnish marks (BIS 1952: 110).

As in many other countries, the Korean War triggered a significant rise in inflation, forcing the government to introduce unpopular price controls. In 1951, wholesale prices rose by 34 per cent and fell by 8 per cent a year later, and the cost of living rose by 7 per cent in 1951 and by 4 per cent a year later (BIS 1953: 77). In the winter of 1952, unemployment had already affected over 100,000 people. Urho Kekkonen's coalition cabinet undertook several measures to reverse the negative trend of rising unemployment. In the brochure *Does our country want to become wealthy?*, he proposed that, once reparations had been paid off, the country's industrialisation should be increased and investments concentrated in northern Finland. These projects were accompanied by cuts in public spending, which were relatively largest in social benefits and smallest in agriculture. Moscow tried to take advantage of Finland's economic problems by offering a long-term loan in 1953 and promising to pay for trade in Western currency in exchange for Kekkonen remaining the prime minister. Fearing that the economy was becoming too dependent on the USSR, Paasikivi dismissed Kekkonen and appointed a right-wing government headed by Sakari Tuomioja in November 1953.

Seeking opportunities in the West

As early as December 1944, while seeking financing for the purchase of semi-finished products that could then be profitably exported, the Finns requested a loan from the United States. They cleverly referred to their country's reputation for honouring its commitments in their talks. However, Washington was not interested in an agreement in which the ultimate beneficiary (as the recipient of reparations) would be the Soviet Union. During these negotiations, the often-quoted words were spoken: "What right have the Finns or any others to suppose that it is the policy of the United States to give money to the Finnish mouse-trap" (Heikkilä

1988: 62–63). In subsequent years, however, American reluctance weakened. In 1947, \$30 million in loans were made available (the interest rate was 3 per cent). There was a visible trend towards broadening Finland's lender base: while in 1945 Finland received financial assistance only from Sweden, in 1947 it came from Argentina, Brazil and Colombia, among others.

On the whole, Finland received \$128 million in net foreign long-term loans between 1946 and 1948. In January 1946, the Export-Import Bank lent Finland \$35 million; in January 1947, another \$20 million. To this should be added a loan of \$10 million from the Export Bank in December 1948 and a \$12.5 million loan for investments in the timber and energy industries from the World Bank in 1948 (*Salient Features* 1948: 83; Heikkilä 1982: 223).

However, a primary battle was lost. Finland's rejection of the European Recovery Program (ERP), commonly known as the Marshall Plan, symbolised Soviet influence (Majander 1994: 315). On July 4, 1947, Finland received an invitation to participate in a conference on the economic recovery of Europe, which was to be held in Paris. The very next day, Moscow (but interestingly, not through official diplomatic channels, but via the Allied Control Commission, a body established to monitor Finland's compliance with the terms of the provisional peace treaty) set out its objections to a number of invited countries, including Finland. In Helsinki, there was a concerted effort by president Juho Paasikivi and the government to acquire "free dollars". This hesitation is well illustrated by the fact that, although the prime minister and the president succumbed to pressure from Moscow, the foreign committee of Parliament voted by ten to five (the majority consisting of members of the Social Democratic, Agrarian, Conservative, and Liberal parties) to recommend the acceptance of the invitation. In its reply, the government stated: "As Finland's position as a state has not yet been established in the form of a permanent peace treaty, and since the Marshall Plan has developed into a matter of deep controversy between the Great Powers, Finland, wishing to stay out of global conflicts, regrettably does not regard it possible to take part in the said conference" (Polvinen 1986: 271). The reply pointed out that Finland sincerely desired purely economic cooperation with other states and needed foreign aid in reconstruction. Consequently, the government declared its willingness to provide information regarding the Finnish economy. It made it clear that the Finns had not abandoned the Marshall Plan of their own volition, but because of the Soviet ban.

**Table 4. American aid to selected countries between 1946 and 1951
(in millions of US dollars)**

	1946	1947	1948	1949	1950	1951	Total 1946–1951
Finland	22	52	28	15	10	<0.5	128
Denmark	15	<0.5	6	94	77	60	252
Norway	<0.5	11	33	101	69	60	275
Sweden	1			22	47	38	107
Czechoslovakia	113	100	<0.5	<0.5			213

Source: *Foreign Aid* 1952: 83.

There is no doubt that such additional American funds would be helpful. As previously mentioned, in 1946, the Finnish GDP had already surpassed its prewar level, but the benefits of this recovery—particularly in manufacturing—went eastward as war reparations. Mikko Majander argued that if Finland participated in the ERP, it could count on receiving approximately US\$150 million in aid. In that case, between 1946 and 1951, it would have received the same aid level as Norway, which obtained some \$253 million in Marshall Aid, while Denmark received \$271 million. Sweden got conditional aid totalling \$107 million (Kowalski 2014: 206). These funds would accelerate the country's reconstruction and bring about an earlier departure from restrictive economic regulations (Majander 1994: 326). On the other hand, in the two years preceding the ERP, it received loans from the US amounting to as much as \$74 million, which enabled it to finance its first post-war investments and helped rebuild the country. In this sense, it is fair to say that Finland was a beneficiary of the Plan before it was announced (Nevakivi 1989: 139–140).

Trade patterns

Although at first glance it might seem that Finland's economic achievements have not reached the same level as those of its Scandinavian neighbours, a more careful observation reveals many economic successes of the poorest Nordic country. Being a predominantly agricultural nation (agriculture accounted for as much as 30 per cent of the GNP) with 57 per

cent of the population employed in this sector compared to 31 per cent in Norway, 25 per cent in Sweden, 28 per cent in Denmark, Finland started from the relatively low level of development (BIS 1952: 40).

Although war reparations accounted for an average of 28 per cent of total exports, the value of Finnish exports gradually increased (Hjerppe 1989: 156; Table 5). Bartering was the primary method of conducting international trade until 1946, when bilateral trade agreements and clearing accounts took over. Despite its political dependence on the USSR, Helsinki managed to conclude trade agreements with Western countries (provided that these agreements were not perceived in Moscow as part of a political game – as was the case with the Marshall Plan). Perhaps freedom granted to the Finns stemmed from the Kremlin's belief in the interdependence between the development of the Finnish economy and the timely repayment of reparations (Nevakivi 1994: 109).

Between September 1944 and spring 1945, Sweden remained Finland's only western trading partner, offering Helsinki generous humanitarian aid. This aid was of crucial importance, especially considering the cessation of imports of food and other necessities from Germany. In 1945, trade relations with Denmark gained importance. In the same year, the United Kingdom regained its prewar position as the leading recipient of Finnish exports. Thanks to loans, the share of imports from the USA increased, accounting for 24 per cent of all imports to Finland in 1947.

Finnish commercial exports were homogeneous and consisted mainly of timber: 90 per cent of exports in 1950 (BIS 1953: 119). As it was before the war, imports consisted of raw materials, machinery, fuels and, in the early post-war years, food (on average 20–40 per cent). While 1945 foreign trade turnover was only 18 per cent of the 1935 level, 1948 imports reached 121 per cent and exports 67 per cent or 79 per cent after considering reparations (BIS 1949: 85). The most crucial difference was the increase in trade with the USSR: before the war, trade with the USSR accounted for only 3 per cent of Finland's total trade (Salient Features 1948: 177). Between 1951 and 1952, exports to the USSR almost doubled. This was accompanied by an increase in the share of imports from the USSR from 7.6 per cent to 12.1 per cent in 1952 (BIS 1953: 120). The Korean War sparked a fresh trade boom, and the 1950 five-year trade deal included the first commercial supplies of Finnish metal industry products to the Soviet Union.

Table 5. Volume of foreign trade, 1945–52 (1938=100)

	1938	1945	1946	1947	1948	1949	1950	1951	1952
Exports									
Total	100	17	47	66	72	87	100	126	111
Metal industry	4	21	39	48	54	113	154	259	364
Agriculture	10	-	-	-	-	23	34	33	53
Paper industry	42	17	50	64	72	77	89	103	84
Imports									
Total	100	20	51	82	101	94	106	137	164
Raw materials	53	27	56	94	107	102	113	147	160
Fuels	10	8	51	62	115	96	143	170	184
For consumption	21	18	31	46	76	67	73	89	116

Source: Oksanen, Pihkala 1975: 122–127.

Due to its withdrawal from the ERP, Finland did not participate in trade liberalisation negotiations with the Organisation for European Economic Cooperation (OEEC) countries. Nor did Finland join the Council for Mutual Economic Assistance, the Soviet-led counterpart of the OEEC. Despite the invitation, Helsinki also initially declined to discuss the customs union of the Nordic countries, which resulted from concern for the competitiveness of domestic products. The common Nordic labour market proposal was not implemented until the mid-1950s (Matera 2001: 69–89). Not being a member of the OEEC, it also did not use the settlement mechanisms under subsequent Marshall Plan beneficiary agreements or the European Payments Union. However, it did participate in the General Agreement on Tariffs and Trade (GATT) rounds and supported the maintenance of protectionist policies (Annecy round, 1949). Finland was also permitted to join the International Monetary Fund and the International Bank for Reconstruction and Development in 1948. Only in 1952 did the latter provide Finland with \$20 million (*World Economic Report* 1953: 124). Despite its declared neutrality, “economically and culturally, Finland stood on the western side of the Iron Curtain” (Paavonen 1989: 40). The Finnish government managed to avoid an embargo on American products in exchange for a ban on re-exports. The technologies obtained played a significant role in the development of an innovative economy in the future (Heikkilä 1983: 259).

Table 6. Finland's export and import destinations 1945–1950
(in percents, excluding reparations)

	1945		1946		1947		1948		1949		1950	
	E	I	E	I	E	I	E	I	E	I	E	I
USSR	30	19	20	21	12	11	15	12	15	11	8	8
UK	35	11	27	21	30	17	28	25	27	22	23	23
Sweden	16	51	9	10	6	5	5	5	4	7	4	7
Denmark	11	15	11	10	7	6	6	8	7	6	7	8
Benelux	2	1	10	8	10	13	11	11	11	14	12	11
USA	2	0	7	19	11	24	9	12	8	8	9	6
Others	4	3	15	10	23	24	25	27	28	32	36	37
Total	100	100	100	100	100	100	100	100	100	100	100	100

E – export, I – import

Source: Paavonen 1989: 26.

Summary

Despite Finland's exclusion from the Marshall Plan, the Finnish economy demonstrated a recovery partly facilitated by Western Europe's broader economic recovery process. Finland's economic revival can be attributed to a significant expansion in exports to Western markets and the acquisition of substantial foreign loans. Consequently, Finland was able to allocate financial resources to the settlement of war reparations and the initiation of investment projects. In Finland, inflationary pressures were observed, primarily attributable to the necessity of dismantling the prevailing rationing system. Except for Norway, it recorded the fastest GDP per capita growth in the first post-war decade.

Considering the war damage and human losses suffered, Finland was the country most in need of assistance among all the Nordic countries. Not being a beneficiary of the Western economy recovery scheme, it proved that successful economic reconstruction after World War II was also possible outside the OEEC group of countries, operating under the American safety net. Finland effectively exploited the complementarity of its economy with the Soviet market, importing raw materials in exchange for processed product exports. As part of the post-war international order, it capi-

talised on the circumstances created by its specific relations with Moscow. However, what was crucial to achieving a good result was that, while balancing its foreign policy on the principle of neutrality, it refused to adopt the Soviet model in its economy, implementing a mixed economy scenario based on cooperation between employers and employees. Despite strong state regulation of the economy until the end of the 1950s and resistance to foreign trade liberalisation projects, Finland was not treated as a representative of the USSR's interests. The Finnish case proved that development or stagnation was determined by the chosen economic system, not just by limited American funds.

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