The Changing Role of the State

From National To Global Capitalism in Finland During the 1980s and 1990s

Jari Ojala
jaojala@campus.jyu.fi
http://research.jyu.fi/orgevolution/

Introduction

During recent decades, the Finnish economy has been characterised by membership in the European Union (1995), adaptation to globalization and growth of high tech industries. Finnish Economy has been noted as an example of high growth associated with Nordic Welfare policies.\(^1\) Especially efficient schooling sector have gained international attention during the recent years as fifteen years old Finnish students outperformed the students from other OECD countries in so called PISA assessments (OECD’s Programme for International Student Assessment).\(^2\) Also certain Finnish companies, especially Nokia, have been successful during the past years. The Institute for Management Development (IMD) ranked Finland as number six in terms of business competitiveness in 2005 and the World Economic Forum (WEF), for its part, ranked Finland as number one in terms of growth competitiveness in 2003.

Nevertheless, Finnish economy has faced a structural change from a coordinated market economy (CME) towards a liberal market economy (LME) during the past two decades.\(^3\) How deep this change has actually been is widely discussed in Finland today. Especially the role played by the state in constraining, allowing, restricting and governing the economy has been under a deep structural change from the 1980s up to the turn of the millennium. The period witnessed a change from a semi-closed national capitalism to the environment characterized by global capitalism. This change has not occurred without challenges, embodied in the de-industrialization of the traditional industries and in the increase of the governmental expenditure and social transfers.

The building of the welfare state was the foremost processes in the post-war Finland. The factors affecting the demand for social expenditures were rather similar in Finland in comparison to other

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\(^1\) On welfare models see e.g. Lindert 2004 vol. 1 and 2.
\(^2\) Finns were ranked as number one in Pisa science score both in 2003 and 2006, as one in mathematics in 2003 and second in 2006, and in reading literature as number one in 2003 and second in 2006. Source: OECD’s Programme for International Student Assessment (PISA), 2003, 2006.
\(^3\) On CME and LME structures see especially Hall and Soskice 2001 and on different business systems Whitley 1999. A recent adaptations of these models to Nordic countries see, for example, Tainio and Lilja 2003 and Fellman & al. 2008.
countries. Social programs, health care, education (basic, secondary, tertiary), idea of full employment and pension programs were the main objects of the welfare policies. As Eloranta and Kauppila (2006) have noted, the golden era of the growth of the welfare state was during the 1960s, and after that Finland became one of the high-spending states in terms of social transfers. The recession in the early 1990s hit hard the welfare structures, which were exceptionally high level at that time: social transfers were around 25 per cent from the GDP. Dismantling at least party the welfare structures has been among the most discussed items in Finnish politics throughout the 1990s and first decade of the third millennium. The central government spending from GDP has remained around 25 per cent level from the late 1980s up to the first years of the third millennium and has even declined since many of the welfare state functions were taken over by municipalities and towns.

This paper aims to discuss the major changes in formal institutional development in Finland. This manuscript is a tentative one and, thus, offers rather a description than an in-depth analysis.

Finnish economy in perspective

Finland is and was a small country: with inhabitants of five million and gross domestic product of 210 billion US dollars in 2006 it is far behind from large countries such as Japan (with population of almost 128 million, and GDP of 4,367 billion US dollars in 2006) or the United states (with population of almost 300 million, and GDP of 13,945 billion US dollars respectively). That is, Finnish population and GDP are only around four per cent from the Japanese and around 1.5 per cent from the US one. Finnish population was only 1.1 per cent of the total population of the EU (25) nations and 0.5 per cent of the total population of the OECD countries in 2005. Finland produced approx. 1.4 per cent of total EU and 0.5 per cent of total OECD gross domestic product in 2004. However, when the GDP figures are compared to the amount of population, Finland does show up in rather differently: per capita GDP was in 2006 in Finland 39,994 US dollars, whereas in Japan it was 34,181 dollars and in US 44,024 dollars. These figures, however, should not be taken as granted: larger economies do have more possibilities to take advantages from the economies of scale.

4 Lindert 2004 vol 1 and 2.
6 Eloranta and Kauppila 2006, 227. See also www.stat.fi (Finnish Official Statistics)
7 This text is partly based on Ojala 2006 and Eloranta, et al. 2006.
However, as Joel Mokyr has noted, smallness as such can be a comparative advantage, especially when associated with “good institutions”. Economies of scale do not necessarily lead to success, which can be seen from the fact that the growth figures of GDP have been on average higher in small countries in comparison with larger ones. Small but open economies tend to overcome the disadvantages of scale with high ratios of foreign trade to GDP, as it has been also in the case of Finland. Firm commitment to the free markets has been among the explanatory factors for the Finnish economic growth during the past decades, but even in the longer period of time. The central government structure was, by and large, established during the Russian period, as Finland enjoyed a large degree of autonomy in terms of its domestic policies, including also economic legislation.

The governmental regulation over the economy has played a notable role from the mercantile era up to the current time when Finnish economy is adjusted to the regulations of the European Union. A rather typical feature in the Finnish economy has been the co-evolutionary development of economy, business and Finnish society as whole. These vertical links between the state and the economic actors have played an important role ever since the early 16th century onwards.

Table 1. Estimated annual average growth rates of GDP per capita in certain years and countries 1871—2003, per cent

<table>
<thead>
<tr>
<th></th>
<th>Finland</th>
<th>Sweden</th>
<th>UK</th>
<th>US</th>
<th>Japan</th>
</tr>
</thead>
<tbody>
<tr>
<td>1871—1899</td>
<td>1.2</td>
<td>1.4</td>
<td>1.3</td>
<td>1.8</td>
<td>1.7</td>
</tr>
<tr>
<td>1900—1914</td>
<td>1.5</td>
<td>1.3</td>
<td>0.5</td>
<td>1.3</td>
<td>1.1</td>
</tr>
<tr>
<td>1920—1938</td>
<td>4.8</td>
<td>3.1</td>
<td>1.4</td>
<td>0.6</td>
<td>1.7</td>
</tr>
<tr>
<td>1946—1969</td>
<td>4.1</td>
<td>3.3</td>
<td>1.7</td>
<td>1.3</td>
<td>8.2</td>
</tr>
<tr>
<td>1970—1989</td>
<td>3.3</td>
<td>1.9</td>
<td>2.3</td>
<td>2.1</td>
<td>3.6</td>
</tr>
<tr>
<td>1990—2003</td>
<td>1.4</td>
<td>1.5</td>
<td>1.9</td>
<td>1.7</td>
<td>1.2</td>
</tr>
<tr>
<td>1871—2003</td>
<td>2.4</td>
<td>2.0</td>
<td>1.5</td>
<td>2.0</td>
<td>2.8</td>
</tr>
</tbody>
</table>

Sources: Maddison 2001; Groningen database.

Finland was for a long time a typical catch up economy with high growth levels. There are certain similarities in the Finnish and Japanese economic growth, as these countries have outperformed many other in terms growth as can be seen in Table 1. Especially after the Second World War the growth rates in these countries have been significantly higher than those of Sweden, United Kingdom or the United States. Indeed, during the late 1980s Finland was sometimes called as the “Japan of the North” because of this similarity. Riitta Hjerpe and Jukka Jalava have noted that the

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8 Mokyr 2006.
Gross domestic product per capita of Finland grew 21-fold in period 1860—2000, whilst the EU countries (EU15) gained only 11-fold growth on average per capita.\(^9\) In comparison in Japan the GDP per capita rose in period 1870—2003 c. 29-fold, in Sweden 13-fold, in UK 7-fold, in US 12-fold, and in Finland 18-fold.

Still in the 1860s Finnish economy leant heavily on primary sector, as almost 80 per cent of Finns got their employment from the agriculture. The structural change of the Finnish Economy can be easily noted as this share was only around 6 per cent in the turn of the millennium.\(^10\) (Table 2) Secondary sector, that is industry, took over the primary sector in terms of employment only in the 1950s and 1960s. A notable factor is, however, that by that time the service sector was already the largest employer in the country. Thus, Finland shifted a quite straightforward from agrarian economy to service economy.

**Table 2. The Share of Primary (mainly agriculture), Secondary (mainly industry) and Tertiary (services) sectors from the total employment in Finland, 1860 – 1999, per cent**

<table>
<thead>
<tr>
<th>Year</th>
<th>Primary</th>
<th>Secondary</th>
<th>Tertiary</th>
<th>Together</th>
</tr>
</thead>
<tbody>
<tr>
<td>1860</td>
<td>79</td>
<td>14</td>
<td>7</td>
<td>100</td>
</tr>
<tr>
<td>1890</td>
<td>74</td>
<td>17</td>
<td>9</td>
<td>100</td>
</tr>
<tr>
<td>1920</td>
<td>60</td>
<td>20</td>
<td>20</td>
<td>100</td>
</tr>
<tr>
<td>1950</td>
<td>35</td>
<td>29</td>
<td>36</td>
<td>100</td>
</tr>
<tr>
<td>1980</td>
<td>13</td>
<td>34</td>
<td>53</td>
<td>100</td>
</tr>
<tr>
<td>1999</td>
<td>6</td>
<td>28</td>
<td>66</td>
<td>100</td>
</tr>
</tbody>
</table>


Economic growth of Finland has been dependent foremost on two simultaneous factors: namely, the growth of labor productivity and on the key role played by the foreign trade. Labor productivity growth has contributed to the economic growth especially in the industrial sector as a result of rapid technical progress during the 20th century; in the late 19th and early 20th century labor shifting out of agriculture to industries was the major contributor to labor productivity growth. However, during the last decades of the 20th century and first years of the third millennium the growth has became innovation-driven with high ratio of Research and Development expenditure to GDP. Though the imports to Finland have increased over the centuries, the terms of trade have been positive to the country; namely, export prices have risen more than import prices.\(^11\)

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\(^9\) Hjerppe and Jalava 2006.
\(^10\) Hjerppe and Jalava 2006.
\(^11\) Hjerppe and Jalava 2006.
For a long time, cheap labour costs and low-priced raw materials were advantages for Finnish economy as a whole. However, during the 20\textsuperscript{th} century, know-how and research and development (i.e. human capital generally) have taken on greater importance. Technological development has also played a role, Finnish economy being for a long time rather an exploiter of existing technology than an innovative creator of new methods and appliances. This has changed profoundly during the past few decades, when especially mobile technology firms with the lead of Nokia have generated innovations and wealth to the Finnish economy.\textsuperscript{12}

Table 3 aims to illustrate the changes and continuities in Finnish economy from the mid-19\textsuperscript{th} century to the present. As the Table illustrates, export markets have played a crucial role in Finnish industrialization and economic growth. This is natural as the domestic markets with small population offered only scarce growth possibilities—even though the population growth was quite rapid from the mid-18\textsuperscript{th}: the population roughly doubled every fifty years from the 1750s to the 1950s, but thereafter the growth has become slower. Today, with a total population of 5.2 million, Finland is among the smallest EU countries. However, the total land area is among the largest.

\textit{Table 3. Phases in Finnish industrialization and growth}

<table>
<thead>
<tr>
<th>Time</th>
<th>Operational environment</th>
<th>Activity</th>
<th>Typical features in industrialization</th>
<th>Typical features in growth</th>
</tr>
</thead>
<tbody>
<tr>
<td>1850s to 1914</td>
<td>Industrial capitalism</td>
<td>Entrepreneurial</td>
<td>Mechanization of forest industry</td>
<td>Export led growth, Russian and W-European markets</td>
</tr>
<tr>
<td>1914—1939</td>
<td>Industrial and national capitalism</td>
<td>Cooperative capitalism</td>
<td>Industrial take off, forest industry lead</td>
<td>Export led growth, markets in Western Europe</td>
</tr>
<tr>
<td>1944—1985</td>
<td>National and Financial capitalism</td>
<td>Cooperative capitalism, financial spheres</td>
<td>Diversification (industries and businesses)</td>
<td>Export led, growing domestic and Soviet markets</td>
</tr>
<tr>
<td>1985—2008</td>
<td>Emerging global capitalism</td>
<td>Competitive capitalism</td>
<td>Emergence of high-tech industries and services, de-industrialization</td>
<td>Global companies, markets in W-Europe, Russia?</td>
</tr>
</tbody>
</table>

With large forest areas forest industry has quite naturally emerged as the leading industry in Finland and it also emerged as a “niche” that was competitive enough in export markets. Throughout the 19\textsuperscript{th} and 20\textsuperscript{th} century forest industry was highly valued in Finland, also from the governmental point of view. This can be seen in the favorable legislation (e.g. in customs and forestry policies) and even in educational system; Finland probably has more experts in forestry and forest industries per capita than any other country in the world. This has also created severe path dependence to Finnish economy, as today Finnish forest industry companies, mainly concentrated to paper production, are

\textsuperscript{12} See especially Asplund and Maliranta 2006.
in difficulties in this highly competed line of business. This has led to an emerging de-
industrialization in Finland: forest industry companies are now closing some of the unprofitable production units which has caused unemployment in certain areas of the country.

The markets for the Finnish industrial products have been mainly abroad. During the 19th century, up to the Finnish independence in 1917 Russia offered growing markets for Finnish industrial products. However, one must still bear in mind that most of the Finnish industrial production was even during the Russian period exported to western markets, especially to Germany and Britain. These exports consisted forest industry products, mainly sawn timber, which was the most important export item for Finland from the 1830s up to the 1950s. The latter part of the 19th century and the inter-War period witnessed a significant economic growth in Finland and also the number of industrial companies grew significantly.

Figure 1. Share of Forest industry products from Finnish Industrial Exports, 1950-1999, per cent

Source: Finnish Official Statistics

Finland gained independence in 1917 during the revolutionary time in Russia. After a short but violent civil war in Finland, a democratic country emerged. The old trade connections with Russia, however, were lost after the independence, which was a severe shock not only to the export industries but also to Finnish agriculture, as bulk of the agriculture products were sold to Russian markets. The state started to make trade agreements with other countries and in many ways aimed

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13 Finland was conquered and annexed to Russia in 1809 – before that Finland was for centuries a part of Sweden.
to help the Finnish industries in the difficult situation.\textsuperscript{15} As at the same time protectionism was emerging in Europe, also Finnish government favored measures that can be, at least afterwards, be labeled as “national capitalism”.\textsuperscript{16}

Right after the Second World War forest industry still played a crucial role in the Finnish industries and exports. As can be detected from the Figure 1, in the 1950s over 80 per cent of the Finnish industrial exports were products from the forest industries, and in the 1960s this share was over 70 per cent respectively. After that this share clearly diminished, though even in the 1990s one third of the exports were forest industry products. The quality of these products, however, changed towards more refined products. As in the 1950s sawn wood and other related products made 27 per cent of the forest industry exports, this share was in the 1990s only 12 per cent. At the same time the share of the paper industry products rose from 30 to 64 per cent respectively. Thought forest industry remained among the most important lines of businesses after the Second World War, also other industrial branches did emerge.

Finland was among the most important trade partners in the Western countries with Soviet Union in many years. For example, in 1987 Finnish trade was the second largest among the western countries with Soviet Union, right after West Germany. These exports mainly consisted of industry products such as machinery and textiles. From the 1950s up to the late 1980s the exports to Soviet Union were around 15 to 25 per cent from Finnish total exports.\textsuperscript{17} For certain companies this trade was of particular importance; Nokia, for example, produced in the 1970s and 1980s cables that were sold to Soviet Union with large quantities. This Soviet Trade was among the key elements for the Nokia’s later success.\textsuperscript{18}

The large commercial banks gained more importance in Finnish economy during the 20\textsuperscript{th} century, and especially after the Second World War; financial capitalism alongside with the national capitalism was a typical feature in Finnish economy at the time. The competing commercial banks created financial spheres upon the industries, a bit in the similar way as the Japanese Keiretsus. In Finland, however, there were practically only two (or three) competing commercial banks, and even the power relations and ownership were not especially direct. Government also played still a significant role in the economy and industry; state was also important owner of some strategically

\textsuperscript{15}Hjerpe and Lamberg 2000.
\textsuperscript{16}On industrial, national, financial and global capitalism see especially Gras 2003 (1933) and Cantwell 1989.
\textsuperscript{17}See especially Eloranta and Ojala 2005.
\textsuperscript{18}See especially Häikiö 2002.
important industrial companies, for example, in energy industry and even in forest industry. Cooperation between the companies still played an important role. The structure of industrial companies changed during the period, as especially diversification occurred: conglomerates with several lines of business emerged. One and most notable of them was Nokia; the aim of the company in the 1980s was to establish itself as a Japanise-type conglomerate, with dozens of lines of businesses. After the Second World War also the rising domestic consumption gave more opportunities for industries, and even service industry got more important role.

From CME to LME: Finland as an extraordinary case?

It has been argued that Finland as a country is among the rare cases in the world that has changed a from a Nordic type of coordinated market economy (CME) towards a liberal market economy (LME) during the last two decades. There are many factors that, indeed, confirms this assertion (see Table 4), but it is highly doubtful whether Finland is even yet an extreme case of liberal market economy. Welfare state model is still alive, though widely discussed all the time – at the moment the discussion is concentrated especially to the ownership and governance structure of Finnish (state-owned) universities.

Nordic countries, together with Japan, South-Korea and Germany are usually stressed to be as typical examples of CME’s, whereas USA and GB are often viewed as LME-countries. In long run CME and LME economies seem to be as efficient, which can be detected, for example, from the growth rates (Table 1). LME economies are argued to be strong in the phases of change (especially in developing new services and products), whereas CME economies are at their best in stable situation in organising production and production methods. Though e.g. Richard Whitley has argued that the different economic systems are not converging, this seem to happen at least when we look at the Finnish and European cases. The convergence in Europe is based on the fact that European economies are bound to adapt themselves to the directives and legislation of the European Union, which are at least partly imitating the similar legislation of the USA.

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19 Häikiö 2002.
The last period in the Table 3 started in the mid-1980s and is labelled as emerging global capitalism. During the past 30 years the business environment and even activities have changed due to the external and internal pressures. During the period from the early 1980s up to the first decade of third millennium both endogenous and exogenous changes have affected Finnish state and economy. The most profound changes have occurred in nearby areas. Namely, the collapse of Soviet Union and socialistic regime in the Eastern Europe and the deepened integration process of European Union were especially important as Finland’s exports were depended on these areas.

Though exogenous factors seem to be obvious explanations to the policy changes in the Finnish economy, one should note the endogenous changes as well. The country had built up a Nordic welfare state after the Second World War. From the 1980s it became rather clear that the growth of the public sector was not necessarily possible any more and new modes were needed to be created.

The major changes that occurred from the 1980s up to today are compiled in Table 4. In this short paper it is not possible to go to the details on each characteristic, thus, only certain illustrative cases are taken into discussion. Perhaps among the most single most important events in Finnish path creation process from CME towards LME economy occurred in the mid-1980s when the capital markets were de-regulated. Before that, for example, the foreign loans to private enterprises were negotiated through the Bank of Finland. Therefore, the borrowing from abroad was only possible by the terms and restrictions given by the Bank of Finland. State controlled financial system and financial institutions, regulated the conditions (limits of contracts and property rights), and legitimised the institutional arrangement by using the Bank of Finland as a tool. The Finnish capital markets were too thin to finance the industrial investments with the domestic funding – as an average c. 40 per cent of the total funding of the investments was typically financed with the loans from abroad. The law up until the late 1980s restricted the direct foreign ownership. The deregulation of the financial markets led to overheating of the capital markets and indebtedness of especially small and medium sized firms. Finnish mark was bound to European Monetery System (EMS, in practise to German mark) with overvalued price, which in turn enhanced speculation when Finnish economy was in a deep recession in the early 1990s.

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22 Suomen Pankin ohjesääntö. BFEO, Rahoitussuunniteluseminaari 7th – 8th May 1981. – See also especially Kuisma 2004, 368 – 370, 379 – 381.
23 See e.g. Fligstein and Feeland 1995, 22. - The state control in France (among others) in same time period is discussed e.g. in Auquier and Caves 1979, 573.
<table>
<thead>
<tr>
<th>CME (up to turn of the 1990s)</th>
<th>LME (from the late 1980s)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Regulated financial markets</td>
<td>Deregulation of the financial markets</td>
</tr>
<tr>
<td>Building welfare state (role of the central government emphasized)</td>
<td>Dismantling welfare state (role of the local municipalities and towns emphasized)</td>
</tr>
<tr>
<td>Consensus: national necessities</td>
<td>Consensus: adjustment to global necessities</td>
</tr>
<tr>
<td>Ownership and control of firms: domestic (including state ownership)</td>
<td>Ownership and control of firms: global (outsourced state ownership)</td>
</tr>
<tr>
<td>Firms: production plants basically in Finland</td>
<td>Firm: rapid internationalisation of production</td>
</tr>
<tr>
<td>Equal distribution of income</td>
<td>Rising inequality of income distribution</td>
</tr>
<tr>
<td>Cooperative capitalism (incl. sales cartels)</td>
<td>Competitive capitalism</td>
</tr>
<tr>
<td>Corporatist labor policy</td>
<td>Corporatist labor policy</td>
</tr>
<tr>
<td>Technology policy</td>
<td>Innovation policy</td>
</tr>
<tr>
<td>Economic policy to promote export industries (devaluations)</td>
<td>Economic policy to adapt to the rules of the EU (especially competition law)</td>
</tr>
<tr>
<td>Domestic banks (financial capitalism)</td>
<td>International capital (global capitalism)</td>
</tr>
<tr>
<td>Diversification as strategy within big business</td>
<td>Concentration to core competences</td>
</tr>
<tr>
<td>Comparative advantages (macro/state/natural resources)</td>
<td>Competitive advantages (micro/firm/strategy)</td>
</tr>
</tbody>
</table>

As at the same time Soviet Union collapsed and this vital export market was lost, the indebted Finnish companies were in serious difficulties, the banking sector was about to collapse, and unemployment soared to almost 20 percent of labour force (and in certain areas well over), it was clear that some drastic policy changes were forced to be done. These included, for example, an expensive saving operation of banks, an increase in foreign loans and outsourcing governmental welfare functions to local municipalities and towns, which in turn were facing challenges in years to come. Growth of public sector, aging of population and state involvement with large subsidies to banking crises brought budged pressures in the 1990s.24

The most profound change, however, was ideological one: the mindset of Finns drastically changed as the “old world” had failed. Finns were willing and able to adjust themselves to the “new rules” of LME-economy; the policy changes went through in the parliament surprisingly smoothly. This was

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24 On aging of population in comparative perspective see especially Lindert 2004 vol. 1, 27 – 29 and chapt. 8.
even more pronounced when Finland joined European Union in 1995. As Pauli Kettunen has noted, Finnish people took the change even in the welfare reforms a quite calmly, based on the consensual response to the challenges of globalisation. Old institutions of the welfare state and industrial relations were modified to serve the new functions of competitive community.\textsuperscript{25} Thus, after all, CME structures are deeply locked in to the LME; path dependences are too strong to be broken down in just few years. Ideological change included also policy change towards private entrepreneurship and enterprises: the economic policies aimed to improve the competitive and institutional environment of private companies. This was seen as a necessity as the firms in turn would facilitate growth and employment, and thus, tax revenues to state. Though the linkage between social spending and economic growth as asserted by Lindert (2004)\textsuperscript{26}, is not widely discussed as such in Finland at the moment, the necessity of government to provide especially higher education and research is stressed in policy making. However, the focus is to promote research and education in areas where most obvious and direct advantages to economy are thought to be achieved.

Even though the tax rate in Finland was and still is among the highest ones in OECD countries both in labor income and consumption, Finns are rather satisfied with the situation according to a recent survey. The results of the survey revealed a strong support for the current welfare state system. The majority of the respondents were not willing to cut social spending even if such cuts would be accompanied by tax reductions. Similarly, the majority of the respondents would be willing to pay more taxes if the increased tax revenues were earmarked to health expenditures, pensions or child benefits.\textsuperscript{27}

Internationalisation of the ownership of Finnish firms as well as the internationalisation of production of Finnish firms both occurred only in the 1990s. In the 1990s the foreign ownership in the Finnish companies was allowed, which deeply changed the ownership structure in the Finnish companies. As in the early 1990s only below ten per cent of the ownership of the firms listed in the Helsinki Stock exchange was from abroad, this share was at the turn of the millennium almost 80 per cent.\textsuperscript{28} Though companies had owned production plants abroad for decades, it was only from the 1990s onwards when the internationalisation of Finnish companies really began. For example, the share of personnel working abroad within the largest Finnish forest industry companies (Enso, UPM and Metsäliitto), was around ten per cent in the early 1980s, whilst this figure was already 40

\textsuperscript{25} Kettunen 2006, 310 – 311.
\textsuperscript{26} See especially Lindert 2004 vol 1, 6, 17, 29 – 33.
\textsuperscript{28} See especially Mannio, et al. 2003.
to 70 per cent in 2001 respectively. Furthermore, also the industrial structure of economy diversified, as the forest industry lost its superior share in the production and exports (Figure 1), and new lines of businesses emerged, such as high-tech industries and various service industries. Many of the traditional “smokestack” industries came to an end and the de-industrialisation began. In the turn of the millennium the big question in Finland was what will happen to the forest industry, to paper industry in particular? As it is still an important part of the economy and especially important employer in many areas of the country.

Equal distribution of income is a typical feature in CME-type of economies. Also in Finland the period after 1970 witnessed a declining trend in income inequality. Though the income inequality has rose since the late 1980s, still in the late 1990s Finland had one of the most equal distributions of income in the OECD countries. Still, the inequality rose in the 1990s to levels last seen in the early 1970s in Finland. The causes for this development are, according to Jäntti (2006), especially the changes in the norms that govern income distribution.

Alfred D. Chandler (1990) has noted that in certain countries co-operative capitalism has been a typical feature for a long time. In these countries, the co-operative groups are usually relatively stable and long-term in nature. Whereas in the US “big business” competed aggressively for market shares and profits, in Germany many companies preferred to co-operate, states Chandler. A similar co-operative mode of doing business was typical throughout the 20th century in Finland, and indeed even before that. And that it is still to some extent the case even today, even though there has been a shift from cooperative capitalism to more US-type competitive capitalism. By using Whitley’s 1999 concepts, Finnish business system has changed from collaborative towards compartmentalized type. Corporatist labour policy was for a long time an integral part of Finnish cooperative capitalism; that is, employers’ organizations and labor unions have negotiated on wages and other issues related to employment, often together with the state (political) representatives. Even though there has been certain signals showing a change even in these corporative structures, they seem to have survived surprisingly well the change from CME to LME economy.

Finnish economic policies were still in the 1980s characterised with stress on the industrial and technological demands. That included, for example, the promotion of export industries with

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31 See especially Chandler 1990.
devaluations of Finnish mark.\textsuperscript{33} Devaluation policy had a positive effect especially on large companies engaged in exports of products manufactured from domestic raw materials.\textsuperscript{34} In the 1980s the state adopted R&D-enhancing policies to speed up the restructuring the Finnish industry towards high-tech sectors. Information technology was already then recognised as a key ingredient in this process. Finnish Technology Agency Tekes was founded in 1983 as a tool to promote collaboration between industry, universities and research industries. The shift from technology policies to more broader innovation policies can be witnessed, for example, in the fact that the name of this organ was change to Finnish Agency for Technology and Innovation in early third millennium.

Industrial spheres were important in Sweden and in Finland up to the 1990s. In both countries the large commercial banks played an important role within the spheres. This was due to the fact that the capital markets in both countries were too thin to collect capital from the markets. Thus, the financing institutions gained importance in providing credit to industry, though credit was by and large not the only reason for the creation of spheres. Also, as stressed by Magnusson (2000), industrial spheres around the commercial banks provided security to the markets. This led, on the one hand, to the long-term and stable client structures, and on the other, also to the special kind ownership structures. In both cases the financing institutions played a dominant role in companies’ decisions.\textsuperscript{35} In Finland, the bank-spheres lost their power during the early 1990s bank crises. When two largest competing banks SYP and KOP were merged as Merita Bank (later part of Nordea) in 1995, the era of financial capitalism ended in Finland.\textsuperscript{36}

Related and unrelated diversification were typical strategies for Finnish companies up to the late 1980s. As Davis et al (1994) argue, a diversified firm composed of several unrelated businesses, was a dominant corporate form in the United States during the 1980s and before. Still, by the turn of the 1980s and 1990s this form of business structure was deinstitutionalized, and by 1990 the largest industrial firms in the United States became considerably less diversified.\textsuperscript{37} The same occurred in the European companies as well, and particularly in Finland. The concentration to core competencies was, thus, a part of the convergence of business practices. The story of Nokia is an illustrative example. Namely, the company was engaged to several lines of businesses in the 1980s;

\textsuperscript{33} There were altogether 14 devaluations and one revaluation between 1949—1991.
\textsuperscript{34} Pekkarinen and Vartiainen 1993.
\textsuperscript{36} Kuisma 2004, 581—582.
\textsuperscript{37} Davis, et al. 1994.
actually, even the strategy of the company at the time was to emerge to be a Japanise type of conglomerate with dozens of business areas. During the 1980s Nokia emerged as the largest privatively-owned enterprise in Finland. At the same time, it was a market leader in Europe in several products (televisions, computer monitors and rubber boots). Moreover, it was the fifth largest producer of cables in Europe. In Scandinavia it was the largest producer of computers. Furthermore, it was involved in an alliance of tissue paper producers that had the largest capacity in Europe. In the emerging mobile phone business, Nokia was already the largest manufacturer in the world by the end of the 1980s, though this line of business was among the smallest in the company as mass markets for this product had not yet been developed. After shedding other lines of business, the role played by telecommunications grew rapidly within the company: in 1988 mobile phones accounted for only 5 per cent of Nokia’s sales, but in 2000 the share was increased to 72 per cent. At the same time, the share of mobile networks rose from 5 to 25 per cent of the total turnover.38

Conclusions

This paper has described the changes that have occurred in Finnish economy during the past 20 years. This process can be labelled as a change from a coordinated market economy (CME) towards a liberal market economy (LME). As so many times in phases of change there are always structures that have remained either partly or almost totally unchanged. One can pose a question whether it was necessary to make such changes as described above? The former prime minister Esko Aho has said that during the period of economic crises in the 1990s none of the decision-makers knew for sure how to operate and what kind of decisions were necessary to make in the opening economy. This led, in his opinion, to mistakes and challenges, and to several wrong conclusions.39

The Nordic model of welfare state is facing challenges.40 This is true especially in Finland due to the ongoing de-industrialization, aging of population, unemployment, regional inequality, and increased governmental expenditure. At the same time the globalized Finnish companies have some what lost their interest in their country of origin, as not only the markets for the products produced them are abroad, but today an increasing share of the production as well and even the ownership of the largest corporations is international.

38 See especially Häikiö 2002.
40 See, for example, Marklund 1988; Lindert 2004 vol 2, 264-295.
REFERENCES


