

Suomen Toivo Think Tank
In Cooperation with Centre for European Studies

Katja Boxberg • Taneli Heikka

QUASI-DEMOCRACY

*Finland's Fall From the Cradle of Innovation
To the Abyss of Stagnation*

Comment by Professor Martti Häikiö

Suomen Toivo Think Tank
In Cooperation with Centre for European Studies

Katja Boxberg • Taneli Heikka

QUASI-DEMOCRACY

*Finland's Fall From the Cradle of Innovation
To the Abyss of Stagnation*

Comment by Professor Martti Häikiö



**Joint publication of the Centre for European Studies
and the Suomen Toivo Think Tank.**

Centre for European Studies

Rue du Commerce 10

Brussels, B-1000

Tel: +32-2-2854149

Fax: +32-2-2854141

www.thinkingeurope.eu

Suomen Toivo Think Tank

Kansakoulukuja 3 A

00100 Helsinki

www.toivoajatuspaja.fi

This publication receives funding from the European Parliament.

The Centre for European Studies and the European Parliament assume no responsibility for facts or opinions expressed in this publication and any subsequent use that may be made of the information contained therein. Sole responsibility lies on the author of the publication.

All rights reserved. No part of this publication may be reproduced, stored in a retrieval system, or transmitted, in any form or by any means, electronic, mechanical, photocopying, recording or otherwise, without the prior written permission of the publisher.

English translation: James Perkins, Timo Kivistö, M.A.

Layout: Juuso Joutsela, Takomo Tuotanto Oy

Printed in Finland by T-Print, Hyvinkää, 2010

ISBN-13: 978-951-8964-88-2

CONTENTS

Foreword	7
QUASI-DEMOCRACY	17
1: The Bleak Legacy of Economic Depression	17
Deserting the Entrepreneur.....	18
“Economic Blunder of the Century”	20
Agents of Misfortune.....	23
Sitra’s Secret Studies.....	25
Redistribution of Wealth.....	26
2: The Bottomless Pit of Regional Policy	28
The Myth of Finnish Food.....	30
Profiting the Unprofitable.....	31
The Ghost of Kekkonen	35
Dismantling the Welfare State	36
Anachronistic Agriculture	37
Watchdogs of One Truth	39
Clandestine Wastage of Money... and Environment	41
When Finland Fell off the Tree	43
3: Desire for Genuine Capitalism	46
The Eternal Longing for Communism	48
Down and Out in the Land of Frost	50
From Well-Being to Ill-Being	52
Success, What Success?.....	54
The Muted Entrepreneur	55
Lucky Danes.....	57
From Constipation to Competition.....	59
Winners and Losers	61

Net Results of Consensus:	64
Crying at the Pulp Mill	64
Martti Häikiö:	
Do We Learn Anything From Crises?.....	67
Governmental, Economic, and Political Turning Points in Finland	67
The Nineties Crisis Was the Worst	69
Finnish Democracy.....	70
Challenges of Parliamentarianism	72
Lessons from Past Crises	74
About the Authors:	78
Notes	79

FOREWORD

In the autumn of 2010, Finland's economy was forecast to undergo years of feeble growth. The traditional drivers of our economy – forestry, metal and electronic industries – have ceased to employ new personnel. Unemployment figures look slightly brighter with the easing of recession, but too many remain without jobs. Most alarmingly, youth unemployment is stood at over 20 per cent. Anti-immigration attitudes have risen steeply over the last three years. Finland is in crisis, and curled in upon itself.

After the “Nokia miracle” of the early 1990's, no new driving force has emerged. Service trades in export and domestic markets remain weak by West European standards. Growth companies which could create new jobs on the ruins of dwindling industries are, according to various surveys, few and far between.

In 2009, the economy declined an estimated 7.6 per cent – considerably more than the EU average. Long term growth is predicted to sink below two per cent, if nothing is done.

Nothing has been done.

Finland failed to update its economic structures during the rapid growth of the 2000's. Public expenditure has been left unadjusted despite the diminishing gains, while the means of service production remain largely outdated. The bubble has burst on what once was the wonderland of high technology, also dubbed the Japan of the North. Studies confirm Finland drags behind its rivals in the application of digital technology in public service production as well as private enterprise. At the same time, Finland is threatened in a few years' time by Europe's worst dependency ratio as the post-war Baby Boom Generation reaches pensionable age. Everybody knows that the public economy is on the brink of a huge crisis; sources of prosperity and vitality have been exhausted – yet no-one does anything.

How was a once prosperous, even innovative, Nordic democracy reduced into a warning example of economic and political stagnation?

In February 2009, we published a 300-page book, *Quasi-Democracy* (*Lumedemokratia*; WSOY) in which we postulated that Finland was heading towards an economic and social crisis, and analysed the reasons for it. The book sold well and sparked intense debate, although the political elite took no part, but just carried on unperturbed. A year later, in the spring of 2010, the crisis we warned of was about to materialise.

This translation is an abridged version of, particularly, the economic and political observations made in our book. In these opening remarks we present the fundamental idea behind the book, for it helps to understand the parlous state Finland now finds itself in.

What, then, did we postulate? We expounded some dissident ideas concerning the fundamentals of Finnish society. We wanted to arouse discussion on the irresolution that plagues Finland's economic policy, brought about by the shipwreck of our political culture, economic pluralism, and civil society. We argued that Finland is a Western version of an authoritarian democracy, inherently hostile to parliamentarism and market economy.

For decades, Finns were led to believe that they lived in an Arcadia. In truth, they live in a state of delusion not unlike the world of the science fiction film *The Matrix*. There, dissidence was forbidden, mistakes were not discussed, alternatives were non-existent. The delusion was contrived by Consensus: forced unanimity.

Finns had been conditioned to think that Consensus, the ability to concur on everything, was a kind of societal miracle cure which made Finland better than any other European society. This axiom was never questioned. To the shock of many,

we claimed that the exact opposite was true. Because of Consensus, Finland lagged behind its European rivals on several counts.

Consensus has not condoned individuality, dissidence, or innovation. Consensus is incapable of positive reform or creative solutions, for it seeks compromises that are acceptable to everyone. Economic policy, for a long time, has relied on big corporations and heavy industry. Entrepreneurship has been undervalued and innovations reduced to near irrelevance due to the lack of commercialisation. This attitude appeared to be fine while the exports of paper, machinery, and mobile phones flowed.

Finnish politics are governed by three big parties, which only appear different from each other. They tend to agree on major political tenets, and only reveal after each election with whom they would want to form a government. In economic policy, this leads to a dearth of genuine alternatives, betrayal of promises, and ideological about-turns.

Unlike most European countries, Finland is not only a quasi-democracy but also a corporate democracy. Labour market organisations draw up many work laws by themselves, leaving Parliament to act as a rubber stamp. Crucial decisions are made within the framework of National Incomes Policy Agreements, where labour organisations and the government hammer out deals on wages, taxes, and social policies. Parliament and the public are only informed of these deals, often reached by complex horse trading, after they are done and dusted.

In corporate and quasi-democratic Finland, structural unemployment remained stubbornly high through the entire 2000's, despite a period of economic growth among the fastest in Europe. Labour market structures were left unreformed, due to a lack of courage. The current centre-right government has been stopped by this wall of corporatism in its abortive efforts to raise retirement age.

Quasi-democracy has led to the unpopularity of political participation. Voting figures in general elections have in three decades dropped, by Nordic standards, to a very low level; around 65 per cent. In other Nordic countries the corresponding figure has traditionally been, and still is, 80 to 90 per cent. The cornerstone of Consensus, over-broad government bases (sometimes from communist to conservative), has eaten away at the voters' belief in politics offering real alternatives. In other words, the Finnish version of the Nordic welfare state has lost contact with its citizens. What remains is a self-serving elite distributing boons among themselves.

What has created this culture of forced uniformity? We believe that the crisis has its roots in the era of so-called Finlandisierung, or Finlandisation. In our book, we argued that many of our twisted values and distorted structures were conceived in those times and, to this day, remain a part of our political genome.

Some readers were dismayed at our analysis; some appreciated the way the issue was finally brought to the fore.

The 1970's represented the nadir of democracy in Finland. Election results had no direct effect on governmental line-up; instead, certain parties unpalatable to the Soviet Union were predestined to exclusion from co-operation – and Consensus. The Soviets had the last say in every crucial political decision made in Finland. Finland, therefore, was a democracy in a very limited sense of the word.

Many politicians still in power matured into a world where democracy and parliamentarism were merely one possible way of making politics. The long-standing authoritarian President of post-war Finland, Urho Kekkonen (in office from 1956 to 1981) ruled largely by himself with the aid of his close KGB contacts. As parliamentarism in the Western sense of the word did not exist, there was no call for open discussion, debate of alternatives, or contest over the best ideas.

This way of making politics still remains in high regard in Finland. It is manifest in the respect and longing for strong leaders; the disesteem of parliamentarism; and the undeveloped state of a culture of discussion. Even the Finnish media has struggled to assume the critical, Western rôle which would, among other things, mean questioning the prevailing economic policy.

The silence has its roots in common shame. Most long-serving politicians have Finlandisation-era stains on their reputation. Of our current leaders, President Tarja Halonen, as a young lawyer, campaigned for the recognition of the GDR; Bank of Finland boss Erkki Liikanen suggested criticism of the Soviet Union be outlawed; Minister of Foreign Trade Paavo Väyrynen sought KGB assistance for his party's presidential campaign; Former prime Minister Matti Vanhanen lambasted Estonian dissidents in no uncertain terms. Finnish politicians were groomed in the intrigues of a constrained political system; some went as far as to campaign for such a status quo.

These matters are at times touched upon in isolated cases, but the gross impact they have made on Finland's political culture is never discussed. Totally out of the question would be to suggest that the aberrations of Finnish politics, namely, its secretive tone; its authoritarian tendencies (PM Vanhanen is notorious for his ban on discussing unfinished proceedings); and the difficulty of mulling over alternatives were inherited from the time when many of our current leaders conformed to eliminate ambivalence and freedom from our society.

We claim that the repercussions have been much more severe than we would want to believe. Not one single comprehensive, academic study upon the effects of Finlandisation has been made.

When Finland, in the early 90's, slumped into the deepest depression of her post-war history, it was neither a coincidence, nor solely the consequence of unfortunate outside circum-

stances. It was a case of incompetence, ignorance, and inability to seek – or listen to – advice from abroad.

We claim in our book that the reason was the trap of Consensus. Its distinguishing features are a small circle of decision-makers, pseudo-transparency, and the total lack of dissidence, or those who would be needed to question the way things are.

Of course, unfortunate circumstances, such as the demise of the Soviet Union, have played their part in the escalation of the crisis. Finland's export trade in the post-war era relied heavily on the pull of the Eastern markets. Market economics had nothing to do with this. Deals on exchange trade were struck at state leadership level according to the five-year plans of the Soviets. To Finland, Eastern trade was a double-edged sword until the fall of the Berlin Wall. The mighty neighbour, at any given time, might have a need for hundreds of thousands of pairs of identical boots. This meant work for masses of industrial workers.

However, getting lulled into believing in the fallacy of an everlasting Eastern export market virtually stopped the development of Finnish industry and the services sector. The result is a Finland which, in 2010, only has one single successful product in the international export markets – the mobile phone – and which keeps relying on basic industries, especially the moribund forest industry. It is a sad state of affairs when compared to Sweden, which has produced a string of success stories from IKEA to Hennes&Mauritz.

Finland's elite tends to boast about the compact size of the country's social circles. Finland, they say, is like a small village where everyone knows each other. The trade union chief plays golf with the employers' representatives while the republic's foremost journalists share a sauna with government ministers. Anybody can reach anybody else by phone at whatever hour. However, small circles have a less advantageous – not to

say disastrous – side effect. When everybody agrees on everything all the time, there is no-one to warn the lot from making grave mistakes.

In our book, we show that this is exactly what happened in the great depression of the 1990's. When the economic bubble of the 1980's, built on overheated housing markets and borrowed money, was about to burst, the panicked Finnish politicians made their greatest blunders, and no alternative thinkers emerged. Small businesses, having funded their operations on currency loans, landed in a whole heap of trouble. Wage-earners were laid off in their hundreds and thousands, and many households were overwhelmed by unmanageable new mortgages with their old apartments still unsold while prices sank. What followed was despair, anger, and resentment.

As the sheer scale of the damage dawned on our decision-makers, the government began to tighten its economic belt. In other words, the centre-right government that was appointed in the middle of the crisis pulled the emergency brake just when all resources should have been focused on softening the impact. It raised taxes, hiked interest rates, and allowed the banks to drive their clients – often quite needlessly – into insolvency. Thousands of viable enterprises went bankrupt, and hundreds of thousands of people were made unemployed for no reason of their own. Tightening the screw at the wrong moment created not only unparalleled economic havoc but also widespread human suffering. Its consequences are still to be seen in Finnish society. Finland has devised a second-class citizenship and hereditary social exclusion whose symptoms include poverty, unemployment, and intoxicants.

We present in our book also the crushing influence of the depression on Finnish confidence towards politicians and the entire political system. This is manifest in the disastrously low – and ever-decreasing – voting turnout percentages.

We argue that the seeds of the great economic crisis were sown during the nadir of Finnish parliamentarism in the 1970's. In the socialist-sympathising climate of those days entrepreneurship was perceived as a near criminal activity. These attitudes were reflected in politics. Small and medium-sized enterprises suffered particularly badly. Their operating conditions were impeded by hostile legislation. Major corporations and their interest groups, however, did well. They are, after all, a part of the most important geometrical shape in Finnish society: the Triangle Of Consensus. The other two apices of this trinity are the agricultural lobby and the trade union movement.

The analysis of the 90's depression, as presented in *Quasi-Democracy*, was something new. Consensual Finland tried to hush up the mistakes and protect the people who'd made them. We ask, therefore, how it was possible to sweep out of view the causes and the consequences of the depression while leaving the victims to cope on their own.

In the section dedicated to regional policy, we bring to light one of the greatest taboos of Finnish society: the massive tax-funded income transfers to Finland beyond the population centres. Finland is one of the largest and yet most sparsely populated countries in Europe. The five-odd million inhabitants remain dispersed around backwoods and peripheries. Townspeople make up just 61 per cent of the total population, while in Sweden the corresponding figure is 83 per cent. The natural and universal process of urbanisation has been deliberately hampered by not only exceptionally massive regional subsidies, but also political propaganda as well as empty promises. As a result of this mindless policy, a huge proportion of the people live far away from major population centres, jobs, and services – sustained on funds raised from urban tax-payers.

Regional policy has also sustained the agrarian Centre Party, which won the 2007 election to become Finland's biggest politi-

cal faction. In other Nordic countries, the support enjoyed by farmers' parties has declined since the 1960's and now adds up to only a few percentage points.

Of all the taboo subjects discussed in our book, the treatise on agricultural and regional policy is arguably the most detonative. The existing regional policy is not contested by the otherwise urban-oriented Kokoomus any more than it is by the ecologically zealous Green Party. For a politician from any party, calling regional policy seriously into question would be a bold move. The taboo nature of the subject is, however, manifest in the fact that even researchers and journalists tend to shirk from touching it. Yet the migration of population into cities represents both natural as well as economically and ecologically sober development. This has happened across the world, including the rest of the Nordic Countries.

Contrary to some claims made after the publication of *Quasi-Democracy*, we authors do not advocate the neoliberal school of thought. We regard the so-called Nordic Model as an essentially fair social system. We feel that it must however be made open to modification and development while retaining its core essence. As a basic principle, certain core services should be financed on tax money. As a result, we are prepared to tolerate reasonably high taxes. The welfare state of Denmark has, in our view, admirably accomplished the reform of its labour markets.

As for Finland's development, we remain pessimistic. The principal problems are:

1. *Attitudes* (arrogance; belittlement of problems; "Finland Is Best" propaganda)
2. *Lack of courage* (the crisis is so deep that cosmetic measures are not enough)

3. *Aversion towards entrepreneurship* (the notion of the entrepreneur being “always a crook” is still very much alive)
4. *Downplaying individual responsibility* (“Why does the government/society/council/school/police do nothing?”)
5. *Suppression of creativity* (Consensual Finland still fails to tolerate divergency; dissidents are labelled as fools)
6. *Failure to acknowledge the flaws in regional policy*
7. *Failure to reform innovation policy* (reports commissioned by the government itself corroborate that some of the public R&D funds are wasted)
8. *Anti-democratic tendencies* (indicated by the plummeting of popular confidence in political parties and their competence in solving problems)
9. *Suspicion towards freedom of speech* (members of the so-called elite still entertain a notion of the media being to blame for almost everything)

The Finnish government has failed to respond to the challenge of the economic crisis. It has no credible growth strategy; no growth-inducing tax policy; no adjustment programme of public expenditure. Two aspects stand out as characteristic of the three years of PM Matti Vanhanen’s second cabinet: the campaign financing scandal rippling throughout the term, and the very recent surge of anti-immigration sentiment.

Katja Boxberg

Taneli Heikka



Katja Boxberg, Taneli Heikka

QUASI-DEMOCRACY

1: THE BLEAK LEGACY OF ECONOMIC DEPRESSION

“One who does not remember one’s past is doomed to live it all over again.”

“Utter rubbish”, pouts Hans Tson Söderström in his Stockholm office in the spring of 2008. He shakes his head in disapproval at claims that depression-struck Finland was in danger of falling into IMF administration.

What on earth? In the doldrums of the economic slump in the early 1990’s, Finns were taught that their country was on

the brink of total collapse. That there were no alternatives to the economic policy being pursued. Was the nation put on a starvation diet on account of some non-existent, outside threat?

Söderström says yes. The Finnish establishment led by PM Esko Aho sealed the state purse just when its strings should have been loosened. Söderström is not only professor at the Stockholm School of Economics but also an expert on the Finnish economy. He was one of the “three wise men” summoned from abroad by Matti Vanhala, Governor of the Bank of Finland, in 1993. Vanhala reckoned new ideas were needed to rescue Finland from languishing any longer in the greatest depression it had ever endured.

Söderström’s claims enjoy little benefit of hindsight, for he recorded his thoughts in a report as early as 1993. He suggested at the time that the primary goal of Finland’s decision-makers should be to boost the domestic economy. Balancing the state budget would come later.

Deserting the Entrepreneur

In the spring of 2008, the *Kauppalehti* daily asked entrepreneurs to recount their experiences in the grip of the depression. The most striking aspect of the contributions thus obtained was that many said they were now telling their tale to an outside party for the very first time. The Finnish establishment has remained silent about the gloomiest slump of the century for almost 20 years. Why?

The importance of digging deep in the annals of two decades past lies in the revealing evidence of Finland’s fatal weaknesses which is unearthed: the degradation of democracy, suspicion towards market economy, and the untenability of the consensual decision-making. Finnish protagonists of the depression have sought to conceal their mistakes and remain tight-lipped about their doings. There has also been an effort to make scape-

goats out of entrepreneurs, and of those in debt to the banks.

The authors of this book argue that it is these precise weaknesses that distinguish us from the rest of the Nordic Countries, including Sweden, in a profound manner which is seldom understood and almost never admitted. Despite their ostensible similarities and common history, the two countries are fundamentally different. Democracy and market economy never had time to become properly rooted in Finland, which, as a sovereign state, is still young.

”Democracy and market economy never had time to become properly rooted in Finland.”

Sweden embraced the values of a democratic society by the early 20th century, while Finland was still a part of the Russian empire. The first years of Finnish independence were marked by civil war and, soon afterwards, economic depression. When these were done with, the country again found itself in the throes of war. The post-war development of a civil society was then hindered by the Allied Control Commission and the iron grip of Stalin’s Soviet Union.

The 1960’s, for their part, were characterised by the about-turn of the Social Democrats to line themselves up in support of the foreign policy of President Kekkonen on the one hand, and the lure and fear of revolution on the other. The following decade became an age of stagnation. The old president, seeking another term in power, refused to allow a normal election, and Finnish parliamentarianism was plunged into crisis, denied up to this day.

If democracy was slow to take root in Kekkonen’s Finland, then market economy, too, remained an elusive concept.

The Finnish economy thrived under the regulated trade agreement with Russia. Deals were struck according to the five-year plans of the great and mighty neighbour. Market economy, along with its inseparable partner, free competition, was conspicuous by its absence.

By not embracing free competition, Finland unwittingly ended up shooting herself in the foot. When Soviet trade came to an end, entire branches of Finnish industry found themselves in trouble. Who else was going to buy second-rate products of a planned economy, designed in the spirit of Friendship,

”There are still some who yearn after a strong leader positioned above the people.”

Cooperation and Mutual Assistance? All too late it was discovered that product development, quality, and innovations had drowned in the Soviet hosts’ barrels of caviar and *shampanskoye*.

To the Finnish establishment, the national economy had always meant the state-led export industry, above all forestry, while economic policy boiled down to devaluations timed according to industrial needs. To Finnish decision-makers, democracy equalled a quasi-democratic parliamentary system led by a powerful president according to his will. There are still some who yearn after a strong leader positioned above the people. Such yearning, so evident in modern Russia, is utterly alien to countries like that of our Western neighbours, Sweden.

“Economic Blunder of the Century”

Consensus Society does not seek to assign guilt. We feel this is wrong, for power involves responsibility. In Finland, the notion of economic as well as political responsibility is still strangely unknown. It is particularly wrong when consensual decision-makers have unanimously shifted the blame for mistakes and failures on to entrepreneurs and the public.

One major mistake was the provision of gratuitous aid to ailing banks. Entrepreneur and professor Arto Lahti has dubbed the decision “the biggest economic blunder of the century”. Esko Aho’s government betrayed tax-payers in the worst way imaginable by its failure to nationalise the banks. Worse still, the betrayal was accepted with little public opposition.

A basic principle of market economy dictates that those who collect the profits must also carry the risks. In Finland, the profits were private, but the losses became a collective affair in the most intolerable manner. The well-being of the capitalist system is built on bankers and investors sometimes losing their money. In the situation of a banking crisis, the first duty of the state is to ensure that *somebody* suffers – at least the owners and the governors.

The (mis)management of the Finnish banking crisis and the economic depression meant that the tax-payer became the sufferer. The state should have taken over the banks and sold them on later for a profit to benefit the tax-payer. But in Finland, the politicians elected by the people made innocent victims of the people: the entrepreneurs and those overburdened with debt.

Had the state become the principal owner of the commercial banks, it would have reaped the profits on the stock price gains generated by the capital influx. As it was, these profits, too, went to the owners, who were not asked to cover the losses caused by the crisis. At the same time, domestic businesses with their employees and foreign exchange debts were left at the mercy of the banks, to wait for annihilation. Why didn't the state help the entrepreneurs? Arto Lahti asks in his book whether it would not have been wiser to save some 10,000 of the most viable businesses and, with them, up to 200,000 jobs.

The cost of rescuing the banks has been estimated at some six billion euros. Why did the state feel unable to grant the businesses capital credit, at interest? They would have recovered from the slump within a few years, repaid their debts, and Finland would have escaped an economic and moral shipwreck.

In the event, the depression swept away 30,000 – 60,000 businesses, many of them quite needlessly. With them was lost a large chunk of entrepreneurs' wealth. More seriously, an entire generation lost – along with its wealth – its belief in justice, personal effort, and entrepreneurship.

A by-product of the depression was the birth of the Finnish “ill-being society”. Violent deaths peaked between 1990 and 1994. Even today, a mass of men and women of working age remain unemployed, surviving – often against their will – on handouts. Political decision-makers, their party affiliations notwithstanding, have either silently acquiesced to this phenomenon, or have sought to blame it on a wave of neoliberalism that now allegedly holds sway in Finland.

There are still too many unanswered questions concerning the depression:

- Why were the unemployment figures allowed to rocket, when steps could have been taken to curb them?
- Why were the state coffers opened to banks without them being taken over?
- Why did the banks refuse leeway to entrepreneurs when security values crashed? Why were even viable businesses allowed to be wound up?
- Why did President Koivisto interfere in banking trials, siding with the banks?
- Why did it take well over a decade to relieve citizens overburdened with debt? Whose interests did this inhumane treatment serve?
- Why were the “agents of depression” allowed to escape responsibility?
- Why did PM Lipponen’s government sell the outstanding claims of property management company Arsenal to Nor-

dic collection agencies at the ridiculously low price of 600 million Finnish marks?

- Why was the report on the sale by the National Audit Office classified as secret?
- Why do politicians, led by President Tarja Halonen, remain secretive about the mistakes made in the grip of economic depression?

Agents of Misfortune

At its nadir, the depression had a direct effect upon the lives of over 500,000 unemployed persons, and an even greater number suffered indirectly. Ministry of Labour statistics indicate that, at the height of the economic boom in 2007, there were still approximately 350,000 people without jobs. Supporting this multitude carries an annual price of four billion euros in direct costs – unemployment benefits and losses of tax income. Indirect costs are naturally much higher, and the grand total is unknown to anyone.

The decision-makers never shouldered responsibility for their mistakes, but in fact rewarded each other with highly paid top appointments. Later these “agents of depression” have frowned upon Finnish entrepreneurs’ perceived unwillingness to take risks.

Why, then, was the individual deserted? We argue it was because the *modus operandi* of the political elite came straight from the

past; the dark era of *Finlandisierung*, and further back. Secrecy, underhand dealings, and the promulgation of one truth stuck as politicians schooled in the ways of *Finlandisierung* first became key actors in the depression – and later, central bankers and Presidents of the Republic.

”At the height of the economic boom in 2007, there were still approximately 350,000 people without jobs.”

It has indeed turned out well for the master chefs from the recession kitchen. Erkki Liikanen, Iiro Viinanen, Sirkka Hämmäläinen and Esko Aho, among others, were awarded boons as a reward for deepening the severest economic crisis in domestic history. When the world was being ravaged by another financial crisis in the autumn of 2008, the Finnish media turned to these self-same “gurus” for answers to people’s questions.

In the early 90’s, Finland’s public debt was still small in relation to its GDP. Professor Söderström pointed out that Finland could have afforded to increase its budget deficit at least temporarily. Unlike other Nordic countries, he noted, Finland had exercised remarkable budgetary discipline during the entire post-war period. Now, in the maelstrom of depression, was the time to reap the rewards of prudence. Söderström’s bottom line was that the conscious aggravation of unemployment to make up for the expenses of aid for ailing banks was not only wrong in human terms but also economically short-sighted.

Attempts at balancing the budget were, of course, basically correct and indicative of responsible economic policy. However, as the economy was already in freefall, conventional rules for ordinary times shouldn’t have applied. Söderström warned of the vicious circle which would occur if the government sought to compensate for aiding the banks by reducing other public expenditure. He also argued that mass unemployment would lead to enormous

”Unlike other Nordic countries, Finland had exercised remarkable budgetary discipline during the entire post-war period.”

welfare cuts and the weakening of growth prospects in the long term. An unemployment rate of almost 20 per cent amounted, he argued, to a social as well as economic disaster.

The point was not taken. The report of the Three Wise Men,

with their suggestions, was buried forthwith. Söderström remembers the Governor of the BoF, Sirkka Hämäläinen, even cancelling an appointment with him. The central banker's opinion could not have been indicated more clearly.

“As anticipated, the reports do not offer any new or easy way out for Finland, but rather follow the guidelines already implemented here,” Hämäläinen wrote in the *Markka & Talous* monthly in the autumn of 1993. In reality, Söderström's theses were diametrically opposed to what our key decision-makers were doing.

Sitra's Secret Studies

Now, almost 20 years after the event, the study of the economic depression is in its infancy. In particular, the voices of the victims remain unheard. Finns are still at a loss to explain why the economic-political elite acted the way it did. Were there alternatives after all? Can something possibly be learned from the mistakes?

We turned to the Federation of Finnish Enterprises in an attempt to find out what befell their member businesses in the longer term. How many re-emerged from bankruptcy and started anew? How many found other employment? And, how many were left to rot in debt or disappeared for good? But not even the entrepreneurs' own interest group had bothered to find out. There was no information. That, they said, was to be sought at the Ministry of Trade and Industry. That no data was available there either was no longer a surprise.

A comprehensive interview study on the subject of the depression has been conducted, but it remains – bizarrely enough – beyond the grasp of the inquisitive. In 1995, economic historian Antti Kuusiterä interviewed close to one hundred Finnish decision-makers in order to map the thoughts and motives behind their actions.

The study was commissioned by the Finnish Innovation Fund *Sitra* – later presided over by depression-era PM Esko Aho – on the promise that whatever the interviewees said would not as such end up in the public domain. After well over a decade, the decision still holds, although *Sitra* works under parliamentary control. How can the Parliament conceal information that concerns a large proportion of the public and, furthermore, is bound to be of interest?

Professor Arto Lahti of the Helsinki School of Economics proposed in March 2008 the formation of a Truth Commission to delve into the mistakes made in those dark days of the early 90's. The proposal was hushed into oblivion. The main issue, however, is not about becoming a witch-hunt. Study and research belong to open society, as do learning from mistakes and unhindered conversation. What does not belong to open society is a small, self-serving elite, whose members reward each other with lush appointments for massive blunders.

Redistribution of Wealth

The banks, which had landed themselves in trouble, were bailed out with the blessing of the Bank of Finland, Esko Aho's government, and President Koivisto. At the start of the year, the government appointed a committee to come up with suggestions for "securing and improving the prerequisites for the functioning of the banking sector" in Finland. Why securing? Were the prerequisites for successful banking not in place, well before the banks pushed themselves into crisis thanks to reckless lending?

The committee's line-up was no less peculiar. It was headed by Sirkka Hämäläinen from the BoF, and six of its eight members were bankers. Bank tycoons thus formed the majority in a committee whose task it was to decide the fate of the banks.

In other words, the perpetrators of the crisis were solving their very own problems – on tax-payers' money.

How could this be possible? Which member of the committee would stand up for the tax-payer?

No one. Had the tax-payers' interests been of any concern to PM Aho and Finance Minister Iiro Viinanen, the state would have taken over the banks.

Democratically elected politicians saved the banks, but, at the same time, authorised the mass cull of small and medium-sized enterprises. And that was not all. The Establishment, led by President Koivisto, also resisted granting amnesty to debtors, with no small vehemence. The reasoning behind the continued bullying was simple – fear of a lax attitude to debt repayment developing and a lack of respect for legal agreements. Not that the banks were always any better themselves.

The exact number of bankruptcies in those years is still unknown. As businesses needlessly went bust, the banks amassed, at bargain prices, a massive amount of property pledged as security for debts. This property was then resold at a hefty profit, or, in some particularly outrageous cases, conveyed to associates at vastly reduced prices. And when unpaid debts were relinquished to foreign collection agencies, these would – again – fall, like a ton of bricks, on the hapless debtors.



2: THE BOTTOMLESS PIT OF REGIONAL POLICY

In his report of 1993, Hans Tson Söderström urged Finland to eliminate obstructions to free competition, increase workforce mobility and, notably, cut the massive farming subsidies. With this he stirred up a veritable hornets' nest.

“Agriculture is the government’s Number One concern,” proclaimed former Foreign Secretary Ilkka Kanerva in the *Maa-seudun Tulevaisuus* daily, October 2007. The headline was no misunderstanding. Kanerva explained how the then current talks on Article 141 (concerning the EU’s agricultural policy) would require “defence on the whole width of the pitch”.

“This 141 is a fatal [sic] matter. It is no longer a question of agriculture, but permeates the whole of Finnish society and relations with the EU. And if I say it is the number one worry in Finland, then that is heavy talk, that.”

Heavy talk indeed, and complete poppycock to boot. The Minister made the issue sound like no less than a proclamation of war. In actual fact, article 141 concerns the continuation of farming subsidies worth 100 million euros, which come from the Finnish government’s own budget.

100 million is a lot of money, but in the framework of over two billion euros poured annually into agricultural subsidies, it is a negligible amount. The claim that this particular subsidy would affect “the whole of society and relations with the EU” is patently absurd. Agriculture constitutes just over one per cent of Finland’s GDP, and the proportion is permanently in decline.

However, the Consensus Society allows only one opinion, and that is to stubbornly subsidise the farming industry with tax money. No political party dares to disagree, not even the “urban and middle-class” Kokoomus, which fears losing its rural votes to the Centre Party (Keskusta). Easier to turn to the tax-payer’s purse, as before.

In 2008, *Kauppalehti* issued a series of articles on agricultural policy. Merely publishing the subsidy figure of two billion euros was too much for a number of readers. The daily was accused of attempts at ruining agriculture and of diffusing right-wing and/or socialist propaganda. Irate feedback poured in; some demanded the reporter be sacked, others cancelled their subscription. All because the story disclosed the sum which can be read in any account of the State Budget.

One may argue that agricultural and regional policy represent the Finnish Consensus in its most unadulterated form. The systematic bleeding of tax-payers’ assets falls outside the scope of legitimate discussion and, particularly, criticism. The “con-

sensual triangle” of agricultural lobbyists, the Leftist camp, and corporate industrialists has ensured there are no critics – or, if there are, they are cornered and silenced forthwith. The good of the countryside is the common goal of the entire nation; everything else is unpatriotic fifth column activity.

The Myth of Finnish Food

Food in Finland is the third most expensive in Europe. On shop shelves and in restaurants it tends to be stale and withered. The conceived purity of Finnish food is based on the belief that germs die as croplands freeze in the winter – or at least used to do so. Quality, for its part, is a near joke. Finns eat rubbery cheese, tasteless prepared foods, plastic-wrapped bread, and meat drowned in marinade.

How can this be possible? Why do urban tax-payers tolerate it? There are several reasons. Firstly, very few people know the real cost of regional policy. The tax-payers do not recognise the freakishness of Finland’s attitude to regions when compared with almost any other country. No other member of the EU forks out proportionally as much money in farming subsidies as Finland. The greater part of all state subsidies is allocated to agriculture. Consensus thrives on Finns leering at France and its perceived obsession with farming, while people are ignorant of how things are at home.

The Finns possess an almost atavistic devotion to the countryside. Many men and women of influence come from the country, and most Finns have their roots there. For decades, it has been the design of rural politicians to foment hatred and suspicion towards cities in the hope of winning cheap brownie points. Nobody has stood up for towns and urbanisation in a similar fashion.

The foundations of the present regional policy were laid in the reign of President Kekkonen. When consensus gained

strength in the 60's, farmers sat down with employers and trade unionists to hammer out the *Tupo* (short for national incomes policy agreement). Thus was the Finnish Way cemented; and although agriculture has steadily diminished in significance, price controls no longer exist, and even *Tupo* itself is now extinct, still no one has deemed fit to break the mould. A further twist is added by the fact that the Centre Party's two major rivals, Kokoomus and the SDP (Social Democrats), garner so many votes in the provinces that they dare not rock the consensus.

Profiting the Unprofitable

A new turn in the discussion on regional policy occurred in the summer of 2008, when Professor Esko Niemi of the Helsinki University of Technology calculated the price of regional subvention. His figures were based on data regularly collected by the national institute Statistics Finland, but before him no one had really added all the numbers together. Government representatives condemned the calculations as invalid and erroneous, but provided no "correct" figures in their place.

Niemi's findings point out that, in developing regions, less money is collected in taxes than is spent on governmental and communal services. The weakest provincial areas, therefore, are not self-sufficient, but are largely being supported by the Greater Helsinki region.

This simple axiom is not common knowledge. The widespread belief of provinces sustaining the metropolis strangely persists. How could this be possible? Rural areas have relatively few people going to work, and few businesses.

The north-easterly province of Kainuu may serve as an example. In 2006, the state received 5,200 euros per capita in tax income. State expenditure was 8,200 euros per capita. In the metropolitan region the respective figures were 9,500 and 7,400

euros. The government's financial support for each resident of Kainuu amounts to 3,200 euros per year. Unsurprisingly, the discussion on the cost of regional policy grew heated, especially as Professor Niemi had the nerve to state that, if regional policy were dispensed with, average communal tax throughout the country could be lowered by ten percentage points.

The main argument of the authors of this pamphlet is that agricultural and regional policy, at its current massive scale, is too costly. But is it a problem, if such policies are being endorsed by democratically elected politicians on the voters' mandate? It is, if the powers that be do their best to conceal the cost of artificially breathing life into remote villages. Maintaining an inefficient society structure is a burden on everyone.

In European terms, Finns pay very high taxes, and enjoy only mediocre services in return. The Finns' average disposable income is, by some margin, lower than that of other Europeans (EU-15).

Where does the tax money go? Why is it the working Finn's purchasing power stubbornly remains the weakest in Western Europe? Coffee table talk tends to be full of complaints about the woeful state of child and senior care, the financial blight of the schools, and the deterioration of basic healthcare even after a full decade of economic expansion. The money disappears into the black hole of over-sized and difficult-to-justify regional policy. It costs a fortune and hinders the natural, ubiquitous process of urbanisation.

Consequently, Finland has lost, and continues to lose out on, a number of benefits prompted by the centralisation of population, workforce, and economic activity. The secondary effects of this wasteful policy are thus much bigger than the direct ones, and possibly incalculable.

Finland is not only among the most thinly populated, but also the least urbanised, countries in Europe. Even today, only 61

per cent of the population live in towns and cities, while other Western industrialised countries such as Denmark, Sweden and Germany have a respective figure of 83 to 89 per cent. The difference is due to our regional policy, through which successive governments – regardless of their political stance – have discouraged urbanisation.

Why, then, should people move to cities? Everyone, of course, has the right to live where they choose. But choosing to live in the outback does not entail the right to have others pay for it. The provision of services and infrastructure is more expensive in rural areas than in population centres. The balance is paid

”Choosing to live in the outback does not entail the right to have others pay for it.”

by tax-payers in big cities. Furthermore, urbanisation and well-being go hand in hand. Townspeople make up about a quarter of the total population in the poorest countries; in the richest ones the typical proportion is three out of four.

A further proof of the correlation between urbanisation and well-being lies in the fact that productivity in developed countries tends to concentrate geographically. In Japan, for example, three major population centres cover only 5 per cent of the land but account for 40 per cent of total production.

It is important to note that regional policy is no zero-sum game, in which the whereabouts of the recipient of the government’s financial input would not ultimately matter. As money now goes to the provinces, many advantages of urbanisation remain unattained. *Scale advantage* means the decrease in unit cost as production is increased. Concentration of production in one big facility instead of several small ones thus makes economic sense. Deployment of one branch of economic activity in one place, for its part, brings about *localisation advantages*. Information and innovations proliferate where people from the

same trade meet. *Urbanisation advantage* refers to the concentration in the same area of services in universal demand. Workers need housing, food stores, schools, and leisure activities.

Services must be available where people live, gather, and consume. Dr. Aki Kangasharju from the Government Institute of Economic Research points out that the tertiary sector surpasses traditional industry in importance because the demand for means of well-being and entertainment is virtually inexhaustible compared to the demand for manufactured goods and machinery. A person needs just one washing machine, but there is no such limit for, say, eating out or having a massage.

The underdevelopment of the Finnish services sector is partly due to the small size of our urban centres. Where there is insufficient demand, the restaurants and massage parlours keep their doors closed on Sundays.

”Why are we far behind Sweden in urbanisation? The obvious answer is money.”

The low priority of urban development is reflected in the line-up of the present government of PM Vanhanen. Unlike many Western countries, Finland has no Minister for that purpose. The development of towns and cities is nobody’s responsibility. Yet there is a Ministry of Agriculture.

Where, then, are the prominent experts on urban studies? Nowhere to be seen. Who stands up for the cities in this society still bent on pastoral romanticism? Professor Niemi was one of the few who dared to bring critical insight to the issue of regional policy. That is why his calculations evoked aggression and denial.

How did we end up like this? Why are we far behind Sweden in urbanisation? The obvious answer is money. Liberal expenditure on the provinces has contributed heavily to the wide dispersion of our population. Sweden, on the other hand, introduced a radical overhaul of its regional policy in 1990 – a full two decades ago.

The Ghost of Kekkonen

The father of the consensus on regional policy is former President Urho Kekkonen. He ruled over half a century ago that the entire country was to remain populated, and specifically on government support. Provinces first got factories, then universities. Money for this was to be stockpiled by pinching on other public spending.

Northern Finland enjoyed special patronage. Government money had to be invested, for private enterprises had, according to Kekkonen, “neither the capital, nor the desire, to exploit the natural resources of the North”.

This was a far cry from the ideals of capitalism or free market economics. In fact, the model comes from Stalin and his drive to industrialise Soviet Russia. Factories and power plants were followed by other government facilities, such as universities. In the early 50's there were only three universities in two towns; now there are more than 20 scattered across the country.

More than 50 years on, Finland's regional and industrial policy remains based on Kekkonen's vision and Stalinist doctrine. How has it not occurred to anyone to question the obsolete, megalomaniac policies of a small and seemingly modern country?

But, as it happens, PM Matti Vanhanen only last year proposed a massive programme, in which tens of billions were to be invested in provinces by building, among other things, new motorways and fast rail links. One outstanding folly is to move up to 8,000 state jobs out of the Helsinki region to other parts of Finland, regardless of the costs. Unsurprisingly, most employees are loath to leave behind their spouses' jobs, children's schools, functioning communications. Replacements must be scoured from near and far, often in vain. The long and expensive task of training and retraining is on the cards.

The former prime Minister has also promoted the availability of higher education throughout the country, claiming that the nationwide network of universities has contributed to Fin-

land's success. PISA studies indicate that Finland fares well at educating children, but there is no proof of any particular excellence at our academic education. Dispersing universities over the landscape has indubitably benefited the localities in question, but is it in the best interests of the country as a whole? What good has slowing down urbanisation brought? We think nothing.

Dismantling the Welfare State

Despite successive governments' costly efforts, unemployment rates remain considerably higher in the remote provinces of Kainuu, North Carelia, and Lapland than in the rest of the country. Regional unemployment has gradually become a phenomenon that is both permanent and quietly accepted. Government aid to localities hit by structural change has been limited to special subvention measures: a few million euros here, a few there.

The silent acceptance of regional differences in unemployment brings us back to the main argument of this pamphlet: Finland is no welfare state. Full employment is both the characteristic and the lifeblood of a welfare state. Only through full employment will it be possible to fund comprehensive welfare services.

Many Finns were bemused in 2008 by the news that the quality and availability of their public services had sunk to a level comparable with Southern Europe. How did this happen? The truth is that, by Nordic standards, Finland's employment rate remains low. In Denmark, some 77 per cent of people of working age go to work; in Finland, the corresponding figure (MoL 1/2010) is 67.1. Rescuing the welfare state begins here.

Long-term unemployment is much more common in Finland than in, for example, Denmark, Norway, Sweden, and the United States. It is no more than a reflection of the overall un-

employment statistics. Finland lags behind other Nordic states particularly in the employment of those with only basic or intermediate-level education.

Denmark allocates a much larger slice of its GDP to education (8.47 per cent) than Finland (6.42 per cent). In healthcare, the figures are all the more alarming. Public expenditure on healthcare in Norway amounts to 180 dollars per capita (estimates are derived from purchasing power parity in 2004); in Sweden, \$130; and in the USA, \$145. The OECD average of \$148 surpasses Finland's meagre \$93 by a frightful margin.

The illusion of a welfare state ranks among the biggest taboos of Consensus. In reality, Finland has become an "ill-fare" state where each year 4,000 people retire because of chronic depression. More than 260,000 are on disability pension. This costs the state some three billion euros a year. Over 40 per cent of those retiring on disability pension suffer from mental problems; fewer than one in four from diseases of the musculoskeletal system.

"Finland has become an "ill-fare" state where each year 4,000 people retire because of chronic depression."

Anachronistic Agriculture

Agriculture's share of Finland's national economy has diminished greatly. It was shrinking even before Finland joined the EU. In 1993, it comprised only 1.3 per cent of gross national product. It employs directly some 100,000 people, and has ceased to be economically viable. About half of the income comes from subsidies: The chunk paid by the EU; the slice paid jointly by Finland and the EU; and finally, the subsidy from the state budget. This last portion is also the greatest.

We argue that Finland cannot afford to continue its mindless regional policy. Not in an economic, or moral, sense. Keeping

the entire country inhabited cannot be the common goal of the nation. It is unjust to the tax-payers in towns and other centres of population. It has already been stated that those who choose to live in remote places have no right to expect others to pay for their choice. Now, however, the law dictates that every citizen is entitled to core services regardless of their place of residence.

There is one solution to this asymmetry. People will have to move where there is work. The problem was recognised over 20 years ago. Yet no government has taken bold steps to encourage domestic migration. Finland could do worse than follow Canada's lead. In this country, not unlike Finland in its natural conditions, population has become concentrated in major towns by the coast.

No one is suggesting that regional policy should be buried within a few years. What we want is for politicians to stop deliberately misleading voters about the "advantages" of regionalisation. We call for honest discourse on the benefits of urbanisation.

Looking for dissidents in regional affairs, it is natural to turn to the media. In vain, we might add. The contribution of the Finnish media to the farming discussion is biased and almost religiously devoted to Consensus.

The reporters' culpability manifested itself again in the context of another "national crisis", the affair of Russia's planned timber export tariffs. These, according to our forest industry, would gradually lead to the demise of the entire industrial sector in Finland.

The government's first response was to set up a committee (headed by ex-PM Esko Aho of the Centre Party), whose primary task – so it seemed – was to channel as much government subsidy as possible to the forest industry and avoid discussing the real problem. Forestry in Finland is faced with enormous challenges, and these have nothing to do with the Russian tim-

ber tariffs. In the future, both the raw materials and the markets will be quite elsewhere. It means that the forest industry will employ far fewer Finns. Pretending this is not the case boils down to fighting a losing battle which can only delay the inevitable.

In the summer of 2008, the government announced retroactive tax breaks in wood trade. "If wood is not sold, it will lead to disaster", PM Vanhanen told Parliament. "The national economy will shrink and tens of thousands lose their jobs."

"Disaster" appears to be hyperbole of the first order. Professor of Wood Products Marketing Anne Toppinen from the University of Helsinki argues that the awarded tax breaks do nothing to turn the tide of forestry investments back to Finland. At best they can "help to maintain some obsolescent East Finland pulp line in operation", she told the *Aamulehti* daily.

But, once again, the decision on government aid was met with a consensual standing ovation. Even the opposition parties found no fault in sponsoring a sunset trade, or intervening in market processes.

Watchdogs of One Truth

The attitudes of Consensual Finland are epitomised in an editorial in *Helsingin Sanomat*, October 2007. The writer castigates Sweden's Minister of Agriculture, whose aversion to Finland's 141 Farming Aid apparently "betrayed that [...] in the EU's farming policy, Nordic co-operation is an utterly empty phrase: Finland, Sweden and Denmark have gone separate ways all along."

There is another way of putting it. Finland, in its agricultural policy, has abandoned the natural group of countries it refers to, and allied with those which cling on to governmental subsidies. Instead of lining up with cost-cutting reformists like the rest of the Nordic countries, the Baltic states and Britain, we –

alongside the protectionist French – cry for increased subvention of the farming sector.

Sweden has long supported radical cuts in farming aid. Our neighbours have, quite understandably, sulked at the Finns saturating their markets with cheap 141-sponsored eggs. It is easy to imagine the uproar that would follow if the tables were turned and Sweden, with its generously backed meat industry, dumped its products onto the Finnish markets.

The editorial might also have mentioned that the Swedes pay no national farming aid. They radically overhauled their agricultural sector as long as 20 years ago. The degree of urbanisation in Sweden, with 83.4 per cent of the population living in towns, is in an altogether different league to Finland (60.9 per cent).

”The editorial might also have mentioned that the Swedes pay no national farming aid.”

Even *Kauppaletti*, a self-confessed supporter of free market economy, joined the chorus in an editorial published in October 2007 by condemning the “threat” posed by the EU. The article claimed that stopping the national 141 aid would be a major blow to farmers and the food industry, fatally jeopardising pork and chicken meat producers of Southern Finland. The paper claimed Finland must not become dependent on imported raw meat.

Why not? Finland is already dependent on imports of various foodstuffs. Besides, if the meat processing industry were to allow itself an unrestricted supply of cheaper imported meat, the consumer would benefit – provided that the retailers cut their prices correspondingly.

But, as it happens, the Finnish consumer is twice bitten. He pays for the proportionally highest farming subsidies in Europe, and yet his food bill is the biggest in the EU, and third biggest in all Europe.

No one disagrees that natural conditions in Finland are not hospitable for farming. In the plain terms of business economics, Finland would do wisely to rely exclusively on imports. Security of supply in a time of crisis is often mentioned to justify the preservation of Finnish farming. It is a valid point and worth further scrutiny. But surely the emergency stocks could be maintained from farms in South and South-West Finland, where conditions are the least hostile to agriculture?

Concentration of production near population centres would also increase the availability of so-called local food. Finland's markets of local and organic food are underdeveloped in comparison with almost any other Western country. There is, allegedly, insufficient demand for such products. In reality, centralised ownership of industry and trade restrict supply.

Clandestine Wastage of Money... and Environment

Nowhere does the Finnish consensus appear more unabashed than in the denial of environmental problems caused by agriculture. Although the pollution of Finland's inshore and coastal waters is for everyone to see, official conclusions over the issue are, if anything, inconclusive.

Farms committed in principle to the restriction of fertiliser use receive a total of 300 million euros within a special Agro-Environment Subsidy Scheme each year. Since 1999, a grand total of three billion euros has been paid to prevent the flow of nutrients into waters, especially the highly sensitive Baltic Sea. More than 90 per cent of Finnish farmers receive this subsidy.

Positive results are few and far between. Both the Finnish Environment Institute and the National Audit Office reported in 2008 that the environmental effects of the scheme have proved negligible, and the special subsidy has diluted into "ordinary" farming aid. Manager Ilpo Kuronen from the Finnish Association for Nature Conservation believes that farming sub-

sidies in their present form seriously hinder the achievement of Finland's goals in water protection, leading to "needless over-fertilisation that ruins our waters".

Industrial spills into waters have been effectively reined in over the last few decades. Pollution of waters is forbidden by law. For some reason, agriculture appears to be the only sector of the Finnish economy that is exempt from such restrictions.

The Baltic is the most polluted sea in the world. The farming lobby is keen on finding a scapegoat from abroad, but fails to concede agriculture itself is the leading domestic polluter of waters. Agriculture contributes over half of the nutrient loading on Finnish waters; in the Archipelago Sea the proportion is even higher. Contrary to what the Ministry of Agriculture is willing to admit, there is an easy cure to the state of our coastal waters: A farming ban on all croplands that slope directly into water bodies in South-West Finland. This has been suggested by researchers from the Environmental Institute as well as the National Audit Office. Besides, experts also say that basic foodstuffs could be organically produced on a mere 50 or 60 per cent of the present cultivated area.

If politicians have been secretive about the environmental effects of farming, they have doubled their efforts in the massive scale of its subvention. In 2007, and despite Finnish opposition, the European Commission finally took steps to create a union-wide register of recipients of agricultural subsidies. Finland was forced to change its regulations accordingly. Yet Parliament passed a motion to only register farms that receive subsidies from the EU. The recipients of national aid remained exempt.

When in 2007 the Minister of Agriculture, Sirkka-Liisa Anttila, was asked in Parliament what steps the government intended to take to save tax-payers' money, the answer was "nothing". She argued that subvention has promoted the con-

tinuation of farming and the livelihood of the countryside. She also remarked that Finland remains the most bucolic country in the EU.

The Minister hit the nail on the head. Finland, defying all logic, is an exceptionally agrarian country. Finland preserves a 50's-style social structure, which brings few new positives to its society.

Finnish politicians seldom miss an opportunity to boast about Nokia's achievements and the results of PISA studies. Much fairer would be to accept the responsibility for maintaining scattered settlement at the expense of services, education, and research. Politicians are far less instrumental in Nokia's success than in the deliberate impoverishment of the country. And who knows what Finnish scientists might have achieved, had they had all these billions of euros at *their* disposal.

When Finland Fell off the Tree

The proportion of urban population in Finland will in time rise to a Western standard, well over 80 per cent. With the concentration of population, services will be improved and competition in every sector increased. Old giants in, particularly, wholesale and building will face challenges from new enterprises:

prices will drop; new ideas will emerge and develop into profitable business; GDP will rise; prosperity and well-being will accumulate.

Future Finland need not listen to tales of the economic plight of towns and communes in the 2000's. Especially small and remote municipalities suffered long from economic imbalance, as there were not enough tax-paying businesses or people. Yet municipal mergers were resisted to the bitter end. Nobody

”Politicians are far less instrumental in Nokia's success than in the deliberate impoverishment of the country.”

questioned whether the people in distant villages could reasonably expect similar services to those available in cities. On the contrary, the media spawned horror stories of the long hospital trips in Lapland.

Denmark implemented a major municipal reform without much resistance or agitation. Citizens themselves saw the necessity and took the preliminary steps with no interference from politicians. The Danes understood that the money for core services would run out if nothing was done. The number of independent municipalities was cut by two thirds, and a redistribution of liabilities between the government and local authorities took place.

In Finland, the Danish Model was shot down forthwith. What was passable for Denmark surely would not work in this country of long distances. The reasonable conclusion, then, is that distances must be shortened and asinine, state-sponsored scattered settlement dispensed with. This would shatter the basis of Consensus, and politicians would have to concede the advantages as well as the inevitability of urbanisation.

Finland will have its centre of activity within the Southern triangle comprising the merged Helsinki region, Turku, and Tampere. It will become the pulsating heart of business, culture, the arts, and the sciences. Only a conglomeration as big as this has the power to compete with European metropolises.

Obviously, there will still be life beyond the triangle. But it will be economically autonomous and free from artificial life support from the outside. Touristic entrepreneurs of North and East Finland can offer classy nature travels tailor-made for Central European tastes. The tomfoolery of drunken shamans and unecological snowmobile safaris make way for unassuming Finnish hospitality and high-quality service. The “unadulterated silence of the North” becomes a top worldwide brand.



3: DESIRE FOR GENUINE CAPITALISM

Have you ever wondered why it is so hard to buy fresh bread in Finland? Other Europeans nip to their local baker's for some warm rolls, but the Finns dig into a plastic bag for their virtually everlasting loaf.

Does it feel strange that getting some trousers laundered in Helsinki sets you back ten euros? In Brussels, the price for a clean pair is five euros; in Berlin, less than four. Have you ever trudged through the streets of our capital on a Sunday in search of an open restaurant?

What, then, would life be like in a Finland relieved from the burden of the old, government-controlled economic policy? For one thing, the country would be richer, healthier, and more open. Work would pay and enterprise flourish. The atten-

tion now given to chimney-stack industry would diminish to match its actual importance. Creative trades, cutting-edge science, and services would rapidly become the new keystone of our economy.

The former pulp producer would rank with Sweden as an originator of international brands. The technology industry would shift its emphasis from technocratic engineering to commercializing its products. Services and applications would be developed to match the real needs of consumers. The refinement value of our export industry would soar. The current state-led innovation policy would be abandoned as ineffectual and redundant. Leadership in businesses would get a whole new meaning. The constant need for slashing costs would be offset by the increased value of the goods and services produced.

Finland is stuck in the rut of unending cost-cutting and refuses to face the facts. The heart of the problem lies in the continuous fall of industrial goods in relation to rising employment costs. It takes no great financial genius to realise the equation is unsustainable. If this is to change, the universal validity of collective labour agreements must go. Finland remains among the last European states where general wage rises are still in near universal use. In Sweden, individual wage-setting is being applied to some 80 per cent of wage-earners.

”Finland is stuck in the rut of unending cost-cutting and refuses to face the facts.”

The forest industry, pre-eminent in the Finnish economy for decades, has failed. In general terms, too, the international conquests of Finnish industry are few and far between, and the billions of euros of government subvention have failed to bear fruit. Where are the new Nokias and Vaisalas, the success stories that were supposed to be born on the generous support of our tax-payers?

Finland lost a golden opportunity to transform itself into a real Western democracy, based on free market capitalism, at the fall of the Berlin Wall twenty years ago. When the Soviet Union lost its grip, there was a chance to reflect what the Finland of the future would be like. An open society based on free enterprise, or a place where a job at the paper mill meant a paradise on earth? An urbanised service economy, or a remote country in slow but steady decline, with its tiny population scattered across backwoods and frontiers?

Sadly, this reflection never took place. Finland supposedly chose capitalism and the West, but these choices were made only half-heartedly. A true revision of values would have necessitated an honest reassessment of our past.

The Eternal Longing for Communism

Finland has yet – two decades after the defeat of communism – to fully accept the superiority of the Western way.

Out there certain perceptive individuals such as Friedrich Hayek identified the advantages of economic freedom as early as the 1940's. The ending of the Cold War and the demise of Soviet hegemony proved to everyone but the most thick-headed that affluence and welfare can only prosper in a free system of democracy and market economy.

Anyone visiting Estonia in the Soviet era and again recently cannot fail to see the difference. In Finland, as has been stated before, the transition from a regulated mixed economy to free markets was incomplete – as statistics clearly indicate. Here, the wage-earner remains more important than the entrepreneur; industry more valued than services; and the system still reigns supreme over the individual.

Control of the past involves an updating of values. A prominent part of our elite, starting with the autocratic President Kekkonen, long believed in the eventual victory of the East-

ern Bloc. Or, at least, prepared for it. The fall of the Berlin Wall took the political elite by surprise. This happened to President Koivisto, who observed the Baltic States' struggle for independency but apparently did not believe what he saw, turning his back on our small neighbours to bow to Moscow. Did the consensual Finland ever question the President's discretion? Of course not. Instead, and especially in socialist circles, there is a tendency to see outstanding statesmanship in what might otherwise be chalked off as colossal lapses of judgment.

Investment-based economic policy was being unflinchingly pursued for three decades. From the 60's to the 80's over a third of our gross national product was invested in machinery and industrial facilities – something of a world record in itself.

The Finnish tragedy is that the people did not grow in prosperity as expected. The resulting standard of living was rather lower than “all the sacrifices would have led us to believe”, wrote Professor Matti Pohjola of the Helsinki School of Economics in the immediate aftermath of the slump in 1994, criticising the course taken until then. Little has changed since, and the policy has not even been properly discussed.

In his last New Year's speech in 1994, President Koivisto declared that Finland would face a long wait until there was room for any notable increase in consumption level. The claim defies belief, because increasing consumption makes perfect sense in an economy that has overindulged in investment.

The government paved the way for industry with regular devaluations and lavish subsidies. “Maintaining competitive edge” became the overriding mantra in economic parlance. Finland had decided to take on the world with industry as her spearhead, and there was neither the skill nor the will for altering the course. Even the depression failed to bring change, although the appropriate hour for updating Finland's economic structure would have been there and then.

Recuperation became synonymous with massive sacrifices. At the worst point there were officially half a million unemployed. MoL statistics show the actual number of people without proper jobs in 1994 was as high as 720,000. Employment was consciously sacrificed to save the sunk investments. As Prof. Pohjola says, “capital cannot be laid off; only the employees may be sacked, and entrepreneurs filed into bankruptcy”.

The economy took an upward swing in the mid-90’s, but mass unemployment did not decline as expected. More than 300,000 people remained without jobs. The cost of their maintenance amounts to some 3.5 billion euros a year; add in those on disability pension and the sum exceeds 6.5 billion.

After the depression, the economy recovered on the wings of the export industry. It was a long time before the boom started to manifest itself in the employment figures. Many could never return to working life. It remains a disaster not only in economic but also in humane terms.

As globalisation began to chip away at the profits of the chimney-stack industries in the 2000’s, business magnates resorted to the old cure: the combination of modest wages, low expenditure, and bulk products.

A fine example of the *modus operandi* was seen in 2008, when Consensus put up a show of solving the problems of the forest industry on government’s tax breaks. Nobody questioned the scheme, not even when timber export tariffs became an excuse to an industry tripping up on its own incompetence to lay off more and more workers. How is it possible that all the state subsidies poured into forestry have failed to spawn anything of importance?

Tax-payers really ought to worry.

Down and Out in the Land of Frost

“A chilling piece of journalism”, commented *Helsingin Sanomat* on the Financial Times’ Finland supplement in September 2007. This was an excursion from the usual dross of a “Nordic success story”. Suddenly Finland was no longer a dreamland of PISA glory, Nokia and mobile phone culture, but something worth little more than its actual light weight; a small, cold place where the Elite forgot the Individual a long time ago.

Instead of gawping at the long spell of strong economic growth, the paper advises looking at Finns’ purchasing power; that is, the disposable income after taxes and compulsory charges. An OECD study shows that Finland has been going next to nowhere since 1977. The nation has gained in prosperity, but its nationals – in relation to those of other OECD countries – have not. The reason is that the transition from a regulated economy to a free-market style one is still incomplete.

Prices in Finland remain high, wages low, and the income tax punishing. The population is ageing rapidly and public expenditure swells intolerably. Industrial jobs escape abroad, and the services sector remains underdeveloped.

Of those with a graduate degree, a meagre two per cent work in the private sector. Immigrants make up just over two per cent of total population, while in Sweden the figure is 11 per cent. People want to become wage-earners, and entrepreneurship holds little attraction. Those who do have their own businesses are seldom keen on expanding them, and true success stories are conspicuous by their absence.

The proportional number of businesses in Finland corresponds to the European average. The problem lies in the dearth of ambitious, expansion-seeking, and innovative entrepreneurship (Global Entrepreneurship Monitor study, 2007).

Finland is at its weakest when potential entrepreneurship activity is assessed. Only three per cent of those who reckon they

could set up their own business actually do so. The figure is the lowest among the Nordic countries and fifth lowest in a GEM study of 42 countries. A further handicap is that less than one third of new or relatively new businesses operate in the export markets.

Researchers attribute these disappointing figures, especially Finland's inferiority to Sweden, to differences in culture. We authors believe the real culprit – for all the damage done by legislation, tax policies, perverted attitudes, and Depression mismanagement – is Consensus.

”Finland, apparently, is an Arcadia, and does not take kindly to ignorant, malevolent foreigners telling us how things should be.”

An editorial in *Helsingin Sanomat* suspected the FT based its article on information from “Finnish sources wailing their own frustrations in domestic politics to a foreign journalist”. Such a denouncement, this time from the country’s leading daily, is highly typical. Finland, apparently, is an Arcadia, and does not take kindly to ignorant, malevolent foreigners telling us how things should be.

From Well-Being to Ill-Being

For the War generation, work was a matter of honour. Now its importance has declined and been replaced with talk of “shit jobs”. Students complain how having children during their studying years is impossible because the state does not pay them for doing so.

Among those disappointed with the welfare state are those who contributed to building it. Trade union boss turned lawyer Risto Kuisma complains of students who seek advice to maximise their study grants and income support. “When I ask them does the future elite consider social handouts its biggest problem, they get mad”.

The English term for such benefit hunting is rent-seeking. For instance, a farmer receiving government subsidies considers the ensuing tax burden on others morally justifiable: He, after all, pays his taxes, which in turn are used to finance other people's benefits. The trouble with rent-seeking is that it gradually changes the behaviour of a community. People become keener on extracting benefits and less eager to take productive action themselves.

”Sadly, there is much less talk about why Finns drink the way they do.”

Our elementary school ideology, based on an East German model, has clandestinely infiltrated the rest of society in Finland. Progress follows the pace of the slowest, and personal excellence is not to be desired. The individual has not been taught to assume responsibility for himself.

When a deranged youth shoots his school-mates, teacher, and finally himself, Official Finland cries for more social workers. Would that have prevented the bloodbath? Where lies the responsibility of grown-ups – parents and other close persons? That barely gets a mention.

When there was talk of an Innovation University, the Rector of one provincial institution shuddered at the thought of the new academy sucking in all the best undergraduates of the land. Now that would be a blow: the most talented students swarming to the best university. How very un-Finnish! Surely everyone is entitled to equally average education, are they not?

Finland's perennial topic of conversation, alcohol tax, is another case in point. Should it be raised again to try to save drinkers from themselves? Alcoholism is increasingly considered an illness, and less and less an addiction. Yet it is the one illness where the patient, and the patient alone, can guarantee his own recuperation. Sadly, there is much less talk about *why* Finns drink the way they do.

We authors feel the welfare state has, within the last few decades, grown into an almost uncontrollable centipede. Now this unruly state-beast must be tamed and put back in the cage. Responsibility must be put back on whom it belongs: the individual.

Success, What Success?

Finland is by no means the star of international comparative studies that all too common complacency would have us believe. Certain statistics make sobering reading after the triumphs in competitiveness and PISA studies.

In the Index of Economic Freedom, Finland ranks no better than 16th. Top standings belong to the likes of the USA, Singapore, Hong Kong, Canada, and several European states.

For the flexibility of the labour market, Finland only gets 48 points out of 100, while Denmark tops the list with a near-perfect 99.9. The WBES survey by the World Bank rates Finland 13th for its business climate; some places behind our Nordic neighbours Norway, Denmark, and Iceland.

Worse still, recruiting new employees to business enterprises is deemed so difficult that Finland slumps to 127th place in this survey. Certainly our entrepreneurs have not been complaining for nothing. And when it comes to the level of employment, Finland again trails its Western competitors at 14th; the top six (in 2008) being Iceland, Switzerland, Denmark, Norway, New Zealand, and Sweden.

These are facts and figures that Official Finland has chosen to keep out of public debate. The reality they convey is, indeed, bleak: Finland has deregulated the capital markets, but left the labour market largely unreformed. The consequences for the unemployed have been the worst possible. Many never found new employment, thus missing the boons of the economic boom of the 2000's.

Finland's low employment level not only tells of the massive number of people without jobs. It also conveys the effects of our special problems: early retirement and the late entry into working life.

Peculiarities abound in Finland's corporate economy, too. Our politicians have for years highlighted the importance of innovation, and hundreds of millions of euros of tax-payers' money has been spent in developing innovation. Despite the best intentions, no new truly successful businesses have emerged. Far from it.

"If the system is intended to breed new winners – that is to say, growth companies – it has failed miserably", quips CEO and Consultant Juha Ruohonen in *Helsingin Sanomat*. He has conducted a survey on capital investors' thoughts on the Finnish innovation development scheme. According to this, there is little willingness for risk-taking and no ambition in the system. The government does its best to upset the markets with its own direct investments.

The biggest individual subsidies are allocated to big-league players like Nokia and the forest corporations. The choice is dubious. Nokia could have afforded to finance its R&D unaided, and the forestry sector has devised nothing worth mentioning.

No wonder the authors of the critical survey call for major reforms in the subvention policy.

"If the system is intended to support research and development in big corporations, it works adequately, even well", Ruohonen concludes.

The Muted Entrepreneur

Why is hiring an employee in Finland so difficult? Why are companies loath to grow, and why do young, well-educated people steer clear of entrepreneurship?

Capitalism was a near swear word in Finland right up to the

end of the 90's, and even market economy itself was considered something which did not really pertain to a nation fed on Soviet exchange trade and forestry. Business equalled government-controlled industry. Private enterprise was held in little esteem and, following the Leftist surge of the 70's, deliberately hampered. The result is Modern Finland.

If we were to jump back a few decades, we would find the Socialist-controlled Parliament about to overhaul the labour market legislation of the day. MPs are engaged in a row over legitimacy issues concerning dismissals under the planned labour agreement. Right-wingers and entrepreneurs argue that the motion, if passed, renders firing employees well-nigh impossible. The leftists perceive it as penalizing unlawful dismissals.

Familiar voices would be heard. MP Lipponen rejects a survey by the entrepreneurs' lobby SYKL, which exposes the adverse effects of the law on employment. MP Halonen, not to be outdone, calls these prognoses "well-conducted psychological hysteria-mongering" on the part of the employers.

The Law on Employee Protection was later considered a catalyst to increasing unemployment (Parkkinen, 2002). For the first time, employers were made liable to hefty sanctions if they laid off employees.

What has been the cost of general incomes policy agreements (which the entrepreneurs were not allowed to co-negotiate) to society? Licentiate and Research Director Pekka Parkkinen claims they have rendered hiring employees prohibitively complex and expensive to small-business entrepreneurs. Comparative international studies corroborate his view.

Our short visit to the 1970's Parliament points out that the Consensus-merchants blundered not only politically but also at economic-politics. Their colossal misjudgement remains tragically ignored.

President Halonen, formerly an active campaigner for the recognition of the GDR, might as well publicly concede that Communism brought no gravy on chips in East Germany either. The ruinous state of its economy became fully exposed, at the very latest, in 1989. Nor did Finland, attempting success with its curious form of mixed economy, achieve its aims.

Lucky Danes

That hideous ogre, otherwise known as the Danish Model, is worth a closer look. This socio-economic framework, deeply suspect in some Finnish eyes, is everything but an insidious stab of Neoliberalism in the back of the Nordic welfare state. Denmark has radically revamped its labour markets, but it has not happened at the expense of the working man. Trade unions and the entire political Left supported the reform.

The Model would not have been feasible without the Danes' profound fondness for their welfare state. They are willing to

”The combination of carrot and stick works: the level of employment is among the EU’s highest, as is job satisfaction.”

pay high taxes for the quality services they enjoy in return. The Danish Model advocates an individual’s right to work. The cornerstone of this medley of security and flexibility in labour markets – also known as *flexicurity* – is the idea that people, not jobs, need protection.

“There is no sense in defending industry which has no future. It only serves to impoverish the country”, Danish economic expert Lars Andersen remarks in the *Kauppalehti* daily.

Andersen, Chief of economic research institute AErådet, explains that both hiring and firing have been easy since Denmark completed the reform. Anybody losing their job has a right to an unemployment benefit of up to 80 per cent of their pay, but only for a period of one year – or half a year for young

persons. The combination of carrot and stick works: the level of employment is among the EU's highest, as is job satisfaction. Few feel compelled to stay in an unpleasant job; indeed, the Danes switch from one post to another much more frequently than their European neighbours.

“Losing one’s job is not the end of the world. There are always vacancies”, Chief Consultant Henning Gade from Denmark’s employers’ confederation says in *Kauppalehti*.

Jobs come and go; that is understood by Denmark’s unions as well. It has not assumed the role of “globalisation resister”. Industrial jobs in, for example, the textile industry have escaped to cheaper countries, but still Denmark has a flourishing clothing trade. Well-paid designers and marketing experts see to that.

Amidst the Finnish Consensus, no one dared say that the controversial demise of the Kemijärvi pulp mill, first established on Kekkonen’s edict, was merely a matter of time, and that any procrastination would have been utterly futile. Here, even the Speaker of the Parliament joined the nationwide chorus of condemnation.

Denmark, a country the size of Finland, shines in economic comparisons, but not exclusively in them. According to a survey conducted in 2008, the Danes are the world’s happiest nation. Finland’s position among 97 listed countries is 25th. Several European nations, including (of course) Sweden, rank better.

The Supervisor of that study, Dr. Ronald Inglehart from the University of Michigan, believes that happiness correlates with peace and prosperity. Most important, however, is the extent to which people can influence their own lives (World Values Survey, 2005 – 2007).

The feeble showing of the relatively prosperous and undisturbed Finland is probably attributable to its people’s perceived helplessness before the system – thanks to the adamantine

power structures of our hallowed Consensus. Citizens of post-depression Finland tend to remain unmoved by whichever party is at the helm of their country. The caravan goes on regardless, and always along the same old trodden path.

In a series of keynote appearances in 2006, former SDP leader and trade union heavyweight Eero Heinäluoma could not have hit farther off the mark in his scaremongering about the “neoliberal” winds allegedly sweeping across Denmark. From Finland’s point of view, Denmark has performed a true miracle. Its reshuffling of the labour market brought superb flexibility, and this was achieved with the full backing of the entire trade union movement.

PM Vanhanen’s comments on the supposedly prohibitive expenses of the Danish Model are equally unfounded. His stooges at the Economic Council have failed to calculate the *real* costs of a corresponding reform. These clearly cannot exceed the price of letting 300,000 people lay idle, as is now the case.

From Constipation to Competition

Security reasons are often quoted as the driving force behind Finland’s accession to the EU, but the economic, and especially competitive, dimensions tend to be overlooked. Pre-EU Finland was a relatively closed mixed economy where the mechanisms of market capitalism remained largely unapprehended.

This was particularly evident in the food trade. Price control on foodstuffs was officially dismantled in 1965, but only ended *de facto* with Finland’s entry into the EU.

Food prices sank, but still remain third highest in Europe. This is due to a number of reasons, from the heavily subsidised production to the hegemony of two massive chain stores and the paucity of foreign competitors.

Things could be worse. Without the EU and its competition watchdog, retail giants *Kesko* and *Tuko* might well have com-

pleted their planned merger in the 1990's. In the 1980's, construction firms and the daily consumer goods trade thrived in the competitive vacuum of Finland's closed domestic markets. Consensus had duped people into believing that this was good; better than anywhere else. Market economy and competition were alien to the extent that when international corporations sought to gain a foothold in the late 90's, they met with enormous opposition. Their crime was to distribute the benefits of market capitalism – lower prices.

Finnish allegiance to Consensus reached gale force as late as the turn of the millennium, when budget airlines for the first time extended their operations to Finland. Everywhere in Europe, travellers were delighted with the sudden availability of genuinely cheap flights. In Finland, the media apparently turned to Finnair's PR Office for their opinion. A not dissimilar muck-throwing campaign heralded the invasion of German food giant LIDL which, too, had the cheek to compete at vastly reduced prices.

Nonetheless, in many fields foreign competition is still scarce. A paucity of available gaps in the market is one limiting factor. A spider's web of bonds exists between municipal decision-makers and traders, especially the co-op based 'S' Group. Should a Finnish supermarket operator and a foreign newcomer vie for the same property, the precious acres tend to go to "friends". IKEA had to wait for almost 30 years to gain access to Espoo. No doubt someone benefited from this delaying action; but it was certainly not the voters, or the consumers.

The deepening of the global economic crisis in 2008 had many longing for the days of tight regulation. The most frenzied were ready to close down borders and cry Marx to the rescue. "See, what we said all along: capitalism is evil!" In January 2009, even the former prime Minister was bidding farewell to what he called ultra-capitalism. Vanhanen, championing a

“third way” for the economy, yearned for more regulation to hold back market forces.

Yet capitalism has an undeniably strong track record. Like democracy, capitalism has its shortcomings, but to date no better system has emerged. The world’s wealthiest states have placed their faith in market economy.

The global crisis does not remove the need for economic reforms in Finland; rather the contrary. The crisis must not be made an excuse for increased protectionism or government control in economic policy. If government intervention is necessary to rescue the banks, the decision must be made for practical, and not ideological, reasons. Crises are inherent to market economics; so is surviving crises.

Winners and Losers

The winners in post-depression Finland have been big corporations and the richest citizens. Big exporting firms were greatly aided by the recurrent devaluations of the early 90’s and mass unemployment, which guaranteed the availability of cheap labour.

The rich, for their part, benefited from the tax reform of 1993, which radically widened the gap between the tax rates from wage and capital income. As a consequence, income differences in Finland during the last decade have increased more sharply than in any other OECD country (OECD statistic, 2008).

The biggest earning tenth of the population saw their real income increase by 62 per cent in ten years. The top one per cent beat even that; their incomes rose by 154 per cent in real terms. The lowest earning tenth of Finns had to make do with 14 per cent (Riihelä & Sullström & Suoniemi, 2007).

According to the 2007 tax returns, those who had the most capital income paid an average of 29 per cent in taxes. Those with the most earnings had an aggregate rate of 47 per cent.

The proportion of wages of the GDP has sunk, which means that the corporations have had the lion's share of Finland's economic growth. Researchers believe this is due to the high post-depression unemployment and its adverse effects on the wage-earners' capacity to hold their own in pay talks. If the employer's offer has not been good enough, then so be it; there are other takers who will accept it gladly.

”If the employer’s offer has not been good enough, then so be it; there are other takers who will accept it gladly.”

Another explanation for pay losses in industry and services involves the core problem of the Finnish economy; the lack of competition. The situation in wholesale business serves as an example: while wholesale traders have prospered, their employees have seen their wages sink in real terms since the mid-90's. Consumers, of course, suffer too by paying higher prices than they would in markets where there is genuine competition.

A similar fate befell professional builders, whose wages in 2006 dropped to their lowest level in three decades. Their employers the construction firms, on the other hand, raked in big profits by *not* supplying the increased demand for housing. In fact, they cut back building, which led to overheating in the housing markets, especially in the Greater Helsinki region.

The state of Finnish society can be depicted by means of a triangle; the Triangle of Consensus. Its corners represent theoretically incompatible interests, which, taken together, somehow form a solid concentration of power, which has cost very dearly the individual – the Finnish voter. The fundamentals of this unique entity can be broken down as follows:

(1) The Red Camp

Who has the power: the SDP; the Left Alliance; the federation of trade unions (SAK)

Who gains: low refining industry and its workers

Who loses: the unemployed; the marginalised; the middle class

Consequences: labour market flexibility among the worst in the world (WEF Freedom Index); low level of employment; public services below West European standard

Cost: over €6bn a year in unemployment and similar benefits

(2) The Regional Camp

Who has the power: the Centre Party (*Keskusta*); the agricultural lobby (MTK)

Who gains: peripheries, which elsewhere in Europe are largely deserted

Who loses: educated urban middle class; the marginalised; the unemployed

Consequences: tax income from cities being transferred to developing regions at an annual rate of 7 billion euros (Statistics Finland); lowest degree of urbanisation in the EU

Cost: over €7bn a year

(3) The Capital Camp

Who has the power: big corporations; *Kokoomus*; Confederation of Finnish Industries (EK)

Who gains: major corporate shareholders

Who loses: the unemployed; the marginalised; entrepreneurs; educated middle class

Consequences: small and medium-sized enterprises subdued; recruitment difficult

Cost: *over 100,000 people marginalised by the past depression causing an accumulated loss of up to €50bn to national economy*

Net Results of Consensus:

- high taxes
- low quality and availability of services
- lack of competition; high prices
- marginalisation; violence & ill-being
- abasement of democracy
- degradation of entrepreneurship
- dearth of innovations
- Who loses: the Finnish people
- Who gains: in the long run, *nobody at all.*

Crying at the Pulp Mill

The Swedish researcher and expert on structural reforms Johnny Munkhammar wrote in 2007 that every country, regardless of its history, size, and geographical location undergoes a similar pattern of change: From an agrarian via industrial to, gradually, a service society. He argues that this reform entails a diminution of the government's role in society. The important thing is to allow old products, services, factories, and jobs to subside before new ones. Little new is gained without the willingness to let go of the old.

Breathing life into dying jobs on government subvention merely serves to prolong the end. That is in nobody's interests. Benefiting least of all is the tax-payer, whose money goes down the drain. Munkhammar points out that GDP directly correlates with the people's health and well-being. Only rich countries can provide their citizens with high-quality services including healthcare, free education, and children's daycare.

The freer the economy, the greater the GDP per capita. The United States is still in a class of its own in economic competitiveness. Europeans still manage fewer working hours than the Americans. Here, a smaller proportion of the population goes to work, and production is on a lower level than on the other side of the Atlantic. Europeans are hampered by harsh taxation of work, and generous social benefits. People act rationally. If work does not pay, it is left undone. If hiring the first employee to a firm is complicated and expensive, no one gets hired.

As a general rule; the less regulated the labour markets, the higher the level of employment. This is the only way to maintain a welfare state financed on tax income. Finland forgot this lesson when the government, acting on the insistence of the trade unions, began to dump the depression-struck jobless into different early retirement schemes. This brief relief led not only to distortion in the labour market but to severe attitude problems as well. Finland is raising a second generation of an unemployed, marginalised underclass and idle loafers. Little has been done to amalgamate this segment back into productive society.

Munkhammar remarks that there are also high-tax countries that have enjoyed strong growth and increased employment. These countries have revamped their economic structures in other ways. As has become evident, Finland, despite punishing taxes, does not represent Europe's summit in social and welfare expenditure. Tax money disappears elsewhere, including into that Moloch's mouth called regional policy. But there are oth-

er problems, too. In an international survey measuring the efficiency of the public sector, Finland ranks no better than 17th.

The public sector has a monopoly within its own field as a provider of welfare services, and the consumer has no real choice. Monopolies are fertile breeding ground for queues, inefficacy and, ultimately, weaker services. The bad news for Finland is that reform is not spawned from Consensus. In a consensual society, no one is to blame or named the culprit. Problems cannot be discussed frankly, or openly.

”One might think Finland had travelled back to the 1950’s, shedding hot tears by a cooling pulp mill.”

The Finns’ relatively lousy wages, weak purchasing power, expensive housing, and a business life marred with lack of competition are still taboo topics of conversation. Consensus, in its wisdom, has resolved that Finland’s success is to rest on cooking wood pulp. The decision-makers discuss government subsidies when they should be talking about deregulation and promoting competition as well as entrepreneurship. Problems are attributed to neoliberalism, while in reality the lack of economic liberalism is itself the problem.

Who is discussing why Swedish concepts, from the likes of IKEA to Hennes & Mauritz, were not devised by the Finns? Or why LIDL emerged in Germany, and not Finland? Consensus does not encourage such ideas. It is by definition a conservative, not a progressive force.

Finns tend to think that domestic brands from Marimekko to Iittala, Fiskars, and Suunto are examples of similarly expedient Finnish design and know-how. In truth, they are mere minnows compared to the leviathan of the Swedish conquest.

Critical self-assessment and attitude change, however, seem unlikely, especially judging by the public debate in 2008. Hot topics included the ‘141’ farm aid; the crisis of the forest in-

dustry; the destructive effects of timber tariffs. *Keskusta*, unsuccessful in the autumn's municipal elections, swearing in the name of the old regional policy. One might think Finland had travelled back to the 1950's, shedding hot tears by a cooling pulp mill.

A still greater deviation from the reality is indeed hard to fathom.



Martti Häikiö

DO WE LEARN ANYTHING FROM CRISES?

Governmental, Economic, and Political Turning Points in Finland

To define an historical turning point depends on the point of view. In the following pages, I shall analyse the most critical incidents in Finnish government, economics, and politics. In this way, I am trying to create a perspective on some of the crises of recent times and make some sense of them. I shall also comment on the points made in this pamphlet about the nature of Finnish democracy.

The greatest changes in the status of the Finnish government have always been connected with pan-European transfor-

mation. The rise and fall of superpowers can be seen as both threats and opportunities for small nations. As Napoleon rearranged the European map, Finland's 600-year connection to Sweden ended: Russia conquered the Eastern provinces of Sweden in 1809.

To secure the conquest and to appease the area, separate and autonomous government institutions were created in Finland. It was, however, a pseudo-autonomy, a mere shadow of a real government, because ultimate power remained in the hands of an autocrat Russian tsar.

The fall of the Russian and Austro-Hungarian empires during the First World War opened a path to independence for smaller nations in Central and Eastern Europe. Finland was separated from Russia in 1917. Eviction of the Russian army from Finnish soil meant a *de facto* war of freedom. In a way, this battle continued into the Second World War, when the Finns prevented the Soviet effort to reconquer their land. The socialist revolution and the civil war it sparked added more drama to Finland's new independence.

The third turning point is connected with the fall of the Soviet Union, the resultant end of the Cold War, and the reunification of Germany. It was no longer necessary for Finland to strike a balance between East and West and strive for neutrality. The neutral stance was a kind of make-believe, anyway; Finland, a democratic country connected to the West in terms of both economy and politics, had made a security pact with the Soviet Union. George Maude aptly dubbed the arrangement the "Finnish dilemma": Finland had a security pact with the country she considered her biggest threat.

Finland joined the European Union in 1995. Enlargement of the European community and the deepening of this integration have created yet another international context, and started a new era in the history of Finland's government. By joining the

European Monetary Union and adopting the euro, Finland is in the very nucleus of economic integration. But by keeping herself outside NATO, Finland is, in terms of foreign and security policy, in the margins of the EU.

The Nineties Crisis Was the Worst

From an economic point of view, Finns have experienced several deep crises. According to the Director Emeritus of the Research Institute of the Finnish Economy *ETLA*, Professor Pentti Vartia, the worst blights on our economy, measured by loss of production, have been the following eight:

- 1) A crisis of famine and disease, caused by exceptional circumstances in the climate. One of the last of its kind in Europe.
- 2) A major European recession at the end of the 1870's
- 3) Civil war at the end of the First World War (1918)
- 4) The Great Depression of the 1930's
- 5) The Second World War (1939-1945)
- 6) The first oil crisis of the mid-1970's
- 7) The economic depression in the early 1990's
- 8) The global financial crisis started in 2008

Of these, Vartia believes - somewhat surprisingly - that the depression of the 1990's was the worst. This is his conclusion when the crisis is measured in terms of loss of production. If

human suffering was used as the standard, the civil war of 1918 and the war from 1939 to 1945 would undoubtedly rate much worse.

The end of the most recent global crisis, started in 2008, has yet to be seen. Chaos in the financial system, the collapse of big banks, the over-indebtedness of states, and other upsetting factors in the world economy have now been causing insecurity for a long time, and the full extent of the damage is probably still unrealized.

It seems like the deregulation that started in the 1980's has reached its peak, and the new megatrend is "reregulation", or the tightening of regulation. The faith in the ability of financial markets to curb and fix their own excesses is long gone. There is no longer any trust in the evaluation and management of risk by the banks themselves. Even the market powers seem to be missing a "benign dictator" to restore order and discipline.

Vulgar Keynesian thinking has come to the end of its life. We may no longer indulge in the fantasy of public government being infinitely capable of boosting an economy on borrowed money when times are bad or bolstering public services when the going is good. The limits of fiscal expansion have been reached, necessitating a reassessment of old systems of thought and their associated imbalanced structures.

We now face the paradox of simultaneously longing for both a stronger and a weaker state. On the one hand, the government's financial stake in the economy should be reduced; on the other, a stronger public authority should set augmented controls on the overall economic system.

Finnish Democracy

Turning points in history can also be assessed from the development of the democratic process. Popular rule in Finland has been built on three cornerstones:

- 1) Everyone in Finland is middle class. The Lutheran Church established popular education, promoting early and widespread literacy, as well as the equality of people based on the Church's doctrine. The absence of serfdom secured the freedom of the peasantry, dating back hundreds of years. An independent judicial system, too, hails from the days of Swedish rule.

- 2) Representative democracy is well-established. The four-estate parliament has convened regularly since the 1860's, consolidating parliamentary practice at state level. At roughly the same time, municipal-level democracy and municipal self-government started to develop.

- 3) A universal and equal suffrage, along with a single-chamber parliament, was introduced in 1907. Similar fundamental rights of democracy have been in effect in municipal elections since 1918.

Finland is, by European and global standards, one of the world's most stable democracies. Its core structure and institutions have survived two world wars, the coming of independence, coup attempts from both the right and the left wing, and periods of economic depression.

Every leading political party, whether left, right, or centre, has its roots in these early years of the 20th century, with the exception of the Green Party, which was born in the late 1980's. The currently emergent right-wing populist movement can be traced back to the old parties and similar experiences in the past.

Challenges of Parliamentarianism

Finland has had one president, Urho Kekkonen, who was elected into office five times in a row, and once without an election or rival candidates by virtue of a special act of parliament in 1973.

This manoeuvre, as alien to democracy as it may seem, was nevertheless allowed without change or breach of the constitution, as the motion was carried by the required five-sixths majority of the parliament. Kekkonen, the strongest politician in Finnish history, ruled as president for no less than a quarter of a century, from 1956 to 1981, and prior to that, five times as prime minister.

After Kekkonen, the constitution was changed, and the number of presidential terms allowed one person was limited to two. Presidential powers have been considerably narrowed, most remarkably by abolishing the president's right to dissolve parliament. Parliamentarianism has been advanced by increasing the role of both the prime minister and the cabinet in – among other things – international issues, which had been mostly the president's responsibility. In EU affairs, Finland is represented by the prime minister.

From 1983, Finnish democracy has also gathered strength in the equality of political parties. Every party elected to parliament has had a chance to join the cabinet, and has done so accordingly. This was preceded by a time when the National Coalition Party, the Christian Democrats, and the Rural Party were predestined to exclusion when it came to forming a government. Kekkonen's successor, President Mauno Koivisto, put an end to discrimination between parties.

The 1980's also brought an end to unstable cabinets, which had been a characteristic of Finnish politics since 1907. Up until this point, the average life of a government in power had been but one year; each successive government since the 1980's

has served the full term of four years. Moreover, they have all been political governments backed by a parliamentary majority, and none has been a minority, caretaker, or presidential government, as was so often seen in the past.

Regarding freedom of speech, Finland has long been a country of widely varying restrictions and inhibitions. During the Russian period, free speech in Finland was strictly limited, newspapers were being abolished, and dissidents exiled. During the Second World War, censorship prevailed; during the Cold War, a form of voluntary self-censorship was the *status quo*. This was called “Finlandisation”, and it implied a certain restraint in overly sharp criticism of the menacing superpower across the border, the Soviet Union.

In the Finnish media, a notable turning point occurred on September 1, 1981. That night, the first televised news by a commercial channel was broadcast, shattering the monopoly of the national broadcasting company YLE in electronic media. There had been a debate in Finland for over 10 years on whether or not to allow another channel to broadcast news on television.

During the 1970’s and the 1980’s, even the technical monopolies behind all electronic communications were broken. First, data transfer and radio phone traffic, and then the entire field of telecommunications, were freed to engage in market competition. With the coming of the Internet, the boundlessness of communication, perfectly free of inhibitions – quite literally – was realised in practice.

The duty of a majority government is to govern the country and assume the responsibility thereof. The task of the opposition and the media – without responsibility or consistency – is

”During the Russian period, free speech in Finland was strictly limited, newspapers were being abolished, and dissidents exiled.”

to criticise the government and reveal all possible faults. This is how democracy works.

It is very fortunate that pointed, and according to many, even one-sided arguments, are presented in this pamphlet. Its moral pathos of “secrecy prevails; nothing is done; the end of the world is nigh” is a refreshingly spicy part of the character of pamphlet literature. Once the arguments and the reasoning behind them have been presented, they can then be subjected to open discussion. Finland’s problems can be compared with those of other countries. Points of comparison may be found in history.

Lessons from Past Crises

We have learned from military history that some wars have had at least a partially rational explanation. The Second World War may be considered one of these: its aim was to stop Hitler and save the European balance of power. It was not to defend democracy and stop dictatorships, for Stalin was an ally of the Western democracies and allowed to continue his reign of terror.

Then there are wars that are impossible to understand. One such conflict was the First World War, which has since become a symbol of irrationality. It seems that there are times in the co-existence of both individuals and nations when irrational powers take control. The search for a reasonable explanation only leads us deeper into a riddle wrapped in mystery; “It is a riddle, wrapped in a mystery, inside an enigma”, as Winston Churchill said of Russia.

Accepting the existence of madness does not require intellectual surrender. One has to collect information, analyse it, and test the validity of different theories. One should try to understand history, as difficult as it often may be.

In my view, the most important task in outlining any history is to describe events in their correct chronology. The benefit of hindsight must be eliminated. One should strive to see *how* things developed, and only then can one try to answer *why* they happened the way they did.

First and foremost, it is necessary to measure success and failure against the circumstances and aims of each political era. Just as the net gains made by a business enterprise should always be measured in proportion to its budget, which speaks either of realism or its lack, only then can one comment on that company, or in this case, on the government.

To conclude, I quote from the list compiled by Pentti Vartia, *Ten Lessons from Past Crises*:

- 1) Crises are not just a part of economic history; one needs to be prepared for them at all times.
- 2) Crises often come as a surprise. Conventional economic forecasts need to be interpreted only as expected values for those factors that can be taken into account at the time. General preparedness in economic policy (for example) requires that debts are set at a reasonable level, and buffers are created in the good years. Enhancing crisis tolerance is connected with a clever structural policy: taxation, pensions, social security, raising effectiveness, and control of monetary markets are issues to ponder upon, especially while the good times last. In times of crisis, there is also a need for scenarios and plans regarding such items as the expected trajectory of public debt, and on restoring balance to the national economy.
- 3) Structural changes, such as institutional or technological changes, or the opening or closing of markets, can lead

to surprising consequences. The liberalization of money markets in Scandinavian countries generated a crisis in Finland, Sweden, and Norway. Big structural transformations took place when the trade in wood from Finnish forests expanded greatly in the nineteenth century, in reaction to a lowering of transportation costs and a general decrease in European forest assets. Another major structural change occurred after computer technology became common in the late twentieth century.

- 4) Retrospective thinking based on old business models can lead to problems. The attempt to break free from the post-war circle of inflation/devaluation – well justified *per se* – in conjunction with an underestimation of its negative effects on the valuation of assets proved fatal in Finland and Sweden in the early 1990's. A dangerous example of retrospective thinking today would be to forget that under the EMU, price competitiveness needs to be redefined in a totally different manner from the time when Finland had her own national currency and monetary policy.
- 5) The cost of property and its effects on financial well-being are central to economic development: government needs to keep an eye on price changes in housing, shares, and land, for example. Normal indicators of inflation are not sufficient to guide economic policy. A rise in property prices is especially dangerous if it is connected with a strong increase in debt. It creates the prerequisites for debt deflation, which in turn can lead to a forced realisation of assets.
- 6) In crisis conditions, there is a need for preparedness to implement special measures. Governments, central

banks, and other economic actors need to prepare action plans for exceptional circumstances. Lessons can also be learned from best practices of the past: Sweden and Finland tackled the bank crisis which resulted from the economic depression of the 1990's reasonably well.

- 7) Past crises can offer valuable advice on how an economy behaves in a crisis, and on what might happen in an ongoing crisis. However, different conclusions can be drawn, even from similar crises. Therefore we should not try to learn “too much” from any single past crisis.
- 8) One needs to accept the fact that the opinions of economists, and of those in charge of economic policy, differ regarding the “correct” economic policy. Nevertheless, it is necessary to reach some sort of consensus amidst differing opinions in order to actually exercise policy.
- 9) After the industrial revolution, an ever-increasing number of countries has moved into an age of constant growth; even the worst crises have always been followed by a upturn. In economic policy, it is absolutely essential to enable and accelerate the post-crisis upturn.
- 10) It should be noted that, in economic policy, decisions must often be made without access to important information. Even rational decisions taken without some information (*ex ante*) can afterwards (*ex post*) seem foolish. Decision-making in uncertain circumstances involves a certain likelihood of error. At some point, decisions must be made, even if, in retrospect, they might not appear to have been in the best interests of the economy.

ABOUT THE AUTHORS:



Katja Boxberg (b. 1967) is a Helsinki-based reporter and writer. She has worked as a correspondent in Stockholm, Moscow, Brussels, Tallinn, and Berlin. Her first book, *Paavo Lipponen*, was published in 2004. Boxberg has a Master's Degree in Economics and has studied journalism in Paris.



Taneli Heikka (b. 1971) is a freelance writer and communications entrepreneur. He was Head of Political News at the Helsinki office of Finland's second largest newspaper company Alma Media for two years until stepping down in 2010 to establish his own business. He is former India correspondent for the newspaper Aamulehti and a regular commentator on media issues at the Press Club on Finnish national television. He holds an M.A. in International Journalism from City University London.



Martti Häikiö (b. 1949) is a full-time historian and Adjunct Professor at the University of Helsinki, Institute of Political and Social History since 1978. During the past ten years he has published six books about business history, including the history of the Finnish alcohol monopoly *Alko* (2007) and *Nokia: The Inside Story* (2002). Currently he works as President for the Academic Council of Toivo Think Tank and is also the vice-chairman of its Board of Directors.



What has created this culture of forced uniformity? We believe that the crisis has its roots in the era of so-called Finlandisierung, or Finlandisation.”

QUASI-DEMOCRACY

This book is the long-awaited abridged English translation of *Lumedemokratia* (Quasi-Democracy, 2009), which sparked a vivid debate about the nature of Finnish society, from recent history to the present day. It condemns the economic policy pursued during the great depression of the 1990's and Finland's continued failure to revamp its suffocatingly rigid labour market structures. The authors, *Katja Boxberg* and *Taneli Heikka*, claim that Finland still lacks essential elements that earmark a genuine Western democracy and true market economy; for this, they argue, we have to thank the ubiquitous Finnish consensus and the disgraceful era of “Finlandisation”. This is a book for anyone wondering why Finns “eat rubbery cheese, dull plastic-wrapped bread, and meat drowned in marinade”.

Professor and historian *Martti Häikiö* provides a concluding commentary.