



Citizen-Centered Approaches
to State and Market



The Case of Finnish Transformation : Balancing Growth and Equity

2010

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I. Introduction

Finland was a conflict-prone, poor, and divided nation less than a century ago. For most of its history it was not even a country: from the twelfth century it was part of Sweden, until 1809. It continued as a grand duchy under Tsarist Russia, gaining its independence in the aftermath of the revolution in 1917. Independence simply ushered in Finland's own civil war, 1917-18. Finland's sense of nationhood, however, developed in the inter-war years. This was demonstrated by the extent that it was able to hold the might of the Soviet Union at bay in two successive wars between 1939-1944, and for good measure drive German troops out of northern Finland (into then occupied Norway) in the Lapland War of 1944-45.

Since then Finland has consolidated its growth, and position, joining the European Union in 1992. Finland has achieved a remarkable transformation from the backward, agrarian, feudal state of a few generations ago. Finland's economic success and high quality of life often put the nation towards the top of indices measuring comparative achievement in areas from education to innovation. An examination of the process of system building is vital to understanding and explaining the interplay of complex factors which have transformed Finland. Finland is, in many areas, now considered a leading example in terms of government outcomes.

II. Background

Incremental and prioritized policy reforms have allowed for functional and durable national institutions, a political operating environment that generates consensus, a robust welfare society, accountable government serving the needs of citizens, innovative planning for development, and sustainable market-based economic growth. This was built by a series of transformational elements, ultimately centered around utilization of consensus, citizenship, and accountability of government in the construction of institutions that facilitated processes of future visioning of state and market success.

III. State Transformation

A series of key elements are important when considering Finnish development. These include:

- i) **Institutional Development.** The preservation of respected and functional government institutions has been important as a precondition for economic and social policy in Finland. Institutional dynamism- through the ability to accommodate government service expansion and maintain contemporary relevance- has been achieved through targeted reforms, administrative flexibility, and strong leadership. The decentralized nature of the Finnish system - namely the involvement of the municipality within the development of institutions and administration of core government services - has also been integral in aligning purest citizen interest at the local level with decisions on the delivery of core state services. Leadership has reinforced the prominent role of institutions rather than undermining it, providing for the functionality of the state to be determined outside of personality-driven considerations by depoliticizing core state functions.
- ii) **Consensus Building.** Finland was founded in a distinct sense of self-awareness which solidified a nationalist identity despite post-Civil War tensions. A negotiated political process is evident in the political culture of government- indeed, it has been called a "contract-based society".¹ A multi-party structure has characterized Finnish politics from the early days of independence, which has led over time to a process through which policy consensus has become the outcome of

¹ Discussions with parliamentarians in Helsinki, December 2010.

negotiation between groups with different political backgrounds.² Most Finnish governments have consisted of 4-5 parties and no single party has held majority for over half a century.³ More importantly, however, is the fact that the culture of consensus extends beyond traditional political structures- antagonistic relations are scarce between labor and the employer, the firm and the state, and the state and civil society. Elites within each of these groups are considered to be a vital to the formation of the Finnish interest as part of a “tripartite” bargaining system and an “elite compact” that has underpinned stability in Finland for many years. Moreover, the government, and society as a whole, have understood the importance of network building and the need to create the cross-cutting ties that underpin citizenship and a shared sense of nationhood. A common understanding of Finnish identity, national vision, and mediated interests for the collective good have proven important to political and economic development.

- iii) **Citizenship and the Welfare Society.** Though the Civil War of 1917 was decidedly won by the anti-communists, the result did not lead to zero sum outcomes or mindsets. What emerged was a return to the national unity experienced prior to the war, and a negotiated process through which many socialist demands were accommodated into the democratic republic. This laid the foundation for a welfare society with extensive citizen benefits funded by a capitalist economy with strong private property rights. A balance of growth and equity in a consensual political climate was created out of deep commitment to incremental movements toward the collective good. Government provision of high quality education, health, and gender equality policies reflected this commitment to citizenship, and social rights have now become as binding in Finland as civil rights. What has been demonstrated, through simultaneous prioritization of equity and sequenced welfare policies along with those of growth, is an investment in social progress as a whole and a commitment to transferring the benefits of wealth to all citizens.
- iv) **Governance and Accountability.** Functioning accountability systems are a critical component both of effective governance and of trust-creation between a state and its citizens. Finland has the sixth highest taxation rates of the OECD countries mostly due to a virtuous cycle of trust that has been created: the government can deliver services efficiently with tax funds, because the Finnish people are willing to entrust it to do so.⁴ Indeed, a deep mutual trust has been generated between the state and citizens because of economic development, social solidarity, equality and high-quality service delivery. As a result of both formal and informal demand and supply-side accountability mechanisms, Finland perennially tops a variety of transparency and anti-corruption indices, including Transparency International’s Corruption Perception Index.⁵ While relationships between all relevant stakeholders facilitate decision making within government, a critical mass of interests are represented in the consensus-building process so that there is a balance among incongruous priorities. At the crux of accountability is trust in the “embedded” state as developed through sound policy and performance as well as government action consistent with Finnish ideals. Accountability systems evident in public service processes and role, legal assurances of transparency, and recourse for maladministration via technology, reinforce commitments to efficiency and clarity.

IV. Market-Building

Beyond the construction of effective institutions for governance, a number of policies also laid effective grounding for a flourishing market environment. Finnish standards of living and economic policies have

² Discussions with Ministry of Finance in Helsinki, December 2010.

³ Ibid.

⁴ Finnish Ministry of Finance, *Taxation in Finland 2009*, (Helsinki: 2009), accessible at: <http://www.vero.fi/nc/doc/download.asp?id=4151;1035296>

⁵ Transparency International, “Corruption Perceptions Index 2010”, accessible at: http://www.transparency.org/policy_research/surveys_indices/cpi/2010

become models for adaptive and innovative economies. A few of these commercial and growth-oriented policies are worth noting:

- i) **Focusing on the Whole of Market.** To operate in a competitive global environment, Finland has developed a future-oriented and market-focused economic strategy. This strategy has not focused on white elephants or piecemeal, industry-specific reforms but on broader growth and its necessary components. With an open economy (trade flows in 2008 were a value equal to 90% of GDP), vulnerability to the demand patterns of other nations is inevitable and the differentiation of Finnish products is essential to navigate the vicissitudes of globalization.⁶ The expansion of a knowledge-based economy and efforts to “nation brand” have done much to underpin market-building efforts in Finland as it attempts to create a competitive global economy. A balanced, high-growth economy has emerged as a result of these efforts.
- ii) **Innovation and Future Visioning.** A clear national vision and the use of innovative tools to support movement towards this vision have been a critical component of Finland’s development, particularly in recent times. The Global Competitiveness Report Index for 2010-2011 places Finland seventh due to the sophistication of the nation’s institutions, infrastructure, human development, and macroeconomic climate among other indicators.⁷ Maintaining this competitiveness means creative public and private mechanisms that go beyond mere efficiency or technology-bound gains. Systemic considerations in public and private competitiveness have been at the heart of innovation strategy, and Finland has sought to conceptualizing future opportunities and constraints through convening functionally oriented, multi-stakeholder working groups, the development of formal and informal future planning, innovation policy and public action plans to encourage R&D spending, best practice adoption from abroad and across sectors, and a focus on energy and the use of clean technologies.

V. Key Factors

There are certain generalized principles to be drawn from the case of Finnish development over the last century. These include:

- i) **Consensus Building and National Leadership .** For Finland, the issue of consensus focused on issues of balancing economic growth and social equity. The Finnish case demonstrates that there is no fundamental tension between economic growth and equity for citizens. Incremental and sequenced approaches for growth combined with carefully structured policy reforms have allowed Finland to overcome economic constraints and societal disparities. The inclusion of the firm in the design and progress of the welfare model can overcome traditional barriers to the integration of private and public sector interests. The benefits of early focus on areas of social provision, rather than post-growth redistribution are evident in the trust, consensus, and self-awareness produced in Finland. At certain points, most developing states face the need to prioritize growth at the expense of equity or vice versa, creating winners and losers within society in a zero sum struggle for resources. By pursuing a balance of these two goals, conveying this priority to the public, and involving key stakeholders in the process, governments have a much better chance of attainment on both fronts.
- ii) **Utilizing Existing Assets.** While the legitimacy and trust of institutional continuity provides myriad benefits in terms of state functionality, the adaptive quality of these institutions is essential in the maintenance of core mandates. Finland’s durable and functional institutions have origins in hundreds of years of history yet have maintained contemporary relevance and met the

⁶ World Bank Data, “Trade (% of GDP)”, 2006-2010 selection range, accessible at: <http://data.worldbank.org/indicator/NE.TRD.GNFS.ZS>

⁷ Klaus Schwab et al., *Global Competitiveness Index 2010-2011*, World Economic Forum, (Geneva: WEF, 2010), 15-22.

needs of citizens through flexibility and adaptation which, in turn, reinforces the legitimacy of these institutions. While Finnish institutions top many global rankings in terms of efficiency, sustained innovation is driving future competitiveness and continual efforts to learn from elsewhere underpin administrative dynamism. Maintaining processes which work, values which are meaningful, and institutions which are useful are necessary in crafting effective government but are not, in and of themselves, sufficient. The acceptance of change to augment durable and working aspects of governance is key in long term efforts to meet citizen needs.

- iii) **Appreciate Roles and Responsibilities.** The maintained expression and inclusion of interests from across society were essential in shaping mutually-agreeable policies in Finland. The maintenance of roles and responsibilities for the state, firm, labor, and civil society based on clear understandings as to where comparative advantage lies and where collaboration is possible, has been critical to success. The maintenance of respective roles within constructive policy dialogue through formal legal channels, informal understanding, or natural antagonism resulting from divergent intentions (contained within formal structures) is key to avoiding groupthink and ensuring balanced development. The foundational trust of the Finnish system is directly related to both the formal and informal norms which partition appropriate positions for various actors.
- iv) **Building Systems.** The Finnish case demonstrates clearly the importance of understanding individuals, rules, and policies as part of coherent systems which support state functionality. Holistic approaches to national objectives and the conduct of functional improvements toward this end are vital in the formation of productive policy strategy. Finland's welfare state approach was certainly piecemeal- not all welfare reform was begun in the 1920s and 30s- but it was conducted in a prioritized manner in service of a larger ideal or objective for the state. This rendered costly change at the systems level affordable over the long-term while maintaining concentration on state-level outcomes. Envisioning the national objectives in a coherent framework of what the society wishes to achieve lends understanding of the interacting parts which build the fundamentals of effective states to be considered and their relative importance and cost toward national objectives. A buy-in by various stakeholders can thusly be created to center on functional areas of national importance. Similarly, facilitating institutions and flexible administration supporting this framework can be best mobilized toward productive ends.
- v) **Focus on Solutions Rather than Problems.** In a rapidly changing global environment, past success is not a predictor of future effectiveness or sustainability, and cannot be a substitute for critical thinking about prospective opportunities and constraints. If challenges, like those of Finland's demographic change or energy sourcing, are not accurately framed and expectations aligned, shocks may jeopardize past progress. The involvement of non-government stakeholders in the visioning process, and very tangible action plans which accommodate forward thinking adaptation, are particularly crucial. Though these processes require considerable investment and it is extremely difficult to conduct scenario planning with certainty, the avoidance of complacency and an acknowledgement of future challenges is the surest means by which governments can mitigate the high costs, risks to trust, and loss of status which can undermine long-run stability.

VI. Conclusion

Finland has clearly made significant progress but also faces ongoing challenges ranging from worries over path dependency, to resource scarcity, to the need for fiscal austerity, to demographic challenges, and continued competitiveness abroad. That being said, the view of the national future is quite hopeful and, promisingly, doubts stem more from the nature of challenges than from the ability of Finland to meet them. It was not necessarily national characteristics like demographics or income distribution which have made Finland successful in the past, but rather, the ability to understand and build policy around realistically-acknowledged strengths and weaknesses and adapt them to succeed within a given environment. The palpable humility concerning past successes, and a deep concern among policymakers

about the future viability of Finland will inevitably be assets expressed in future planning, policy and implementation. The welfare model in Finland is much older one might imagine and lean times have never meant a discontinuation of cost-effective and incrementally implemented social protections in the past. Indeed, there is no reason to believe that the model is unsustainable as a whole. Rather, it is reasonable to expect modified continuation and improvements of elements of the system to adapt to evolving realities. The Finnish mindset- pragmatic and serious, with an endearing modesty- explains the successes of the past and will continue to shape solutions for coming challenges.