



Different countries, different stories? The case of Finland

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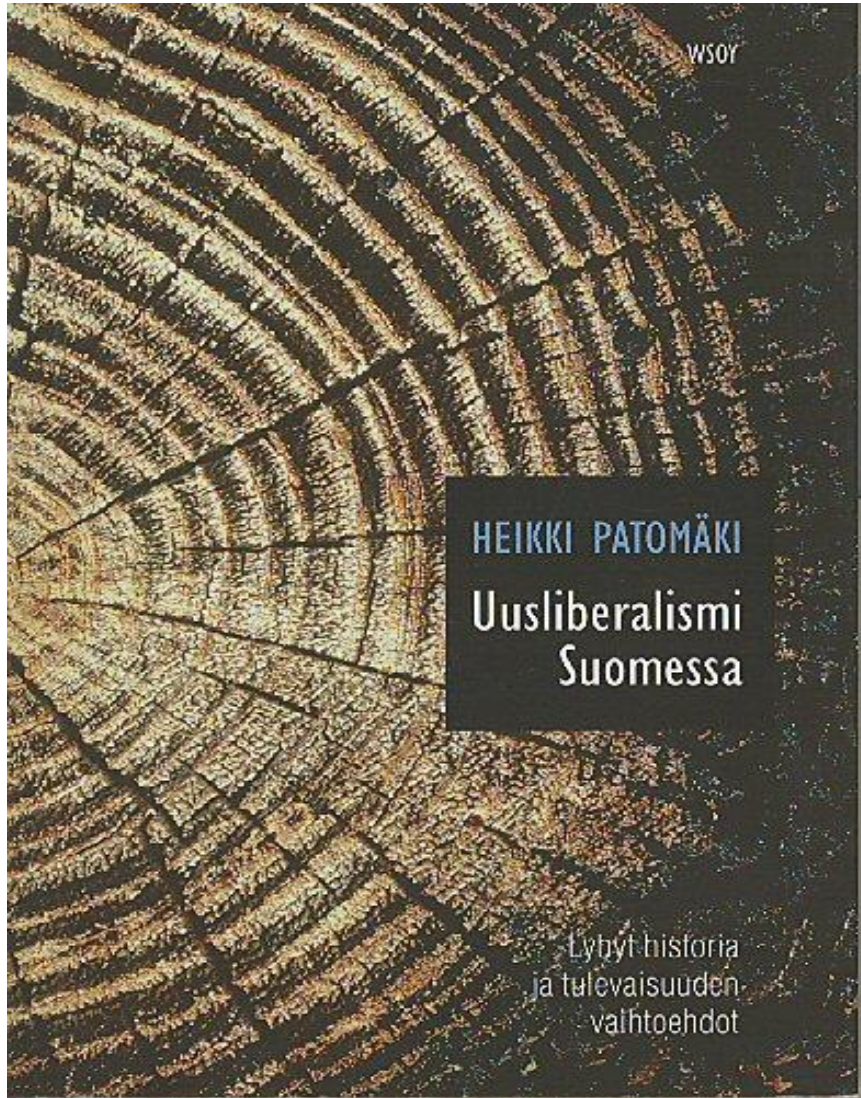
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Finland as a "success story"

- ▶ Finland's growth performance looked exceptional between 1995 and 2007.
 - ❑ it was fueled by Finland's long tradition of investing heavily on human capital and education.
- ▶ It was also one of the best performing countries in the global competitiveness rankings
 - ❑ between 2000 and 2006 Finland ranked consistently as no: 1 or no:2
 - ❑ even in 2015 it is still the 8th most competitive country in the world, according to the World Economic Forum, ahead of Sweden, UK, Canada and Australia
- ▶ The best known aspect of the Finnish success story: the education system
 - ❑ in 2003, 2006 and 2009 Finland scored no:1 in PISA tests (PISA = the Programme for International Student Assessment), although in 2013 it fell to the 6th place
- ▶ When the euro crisis started, Finland , with Germany and Netherlands, was one of the main surplus countries of the EU – with relatively low levels of public debt.

Neoliberalism in Finland

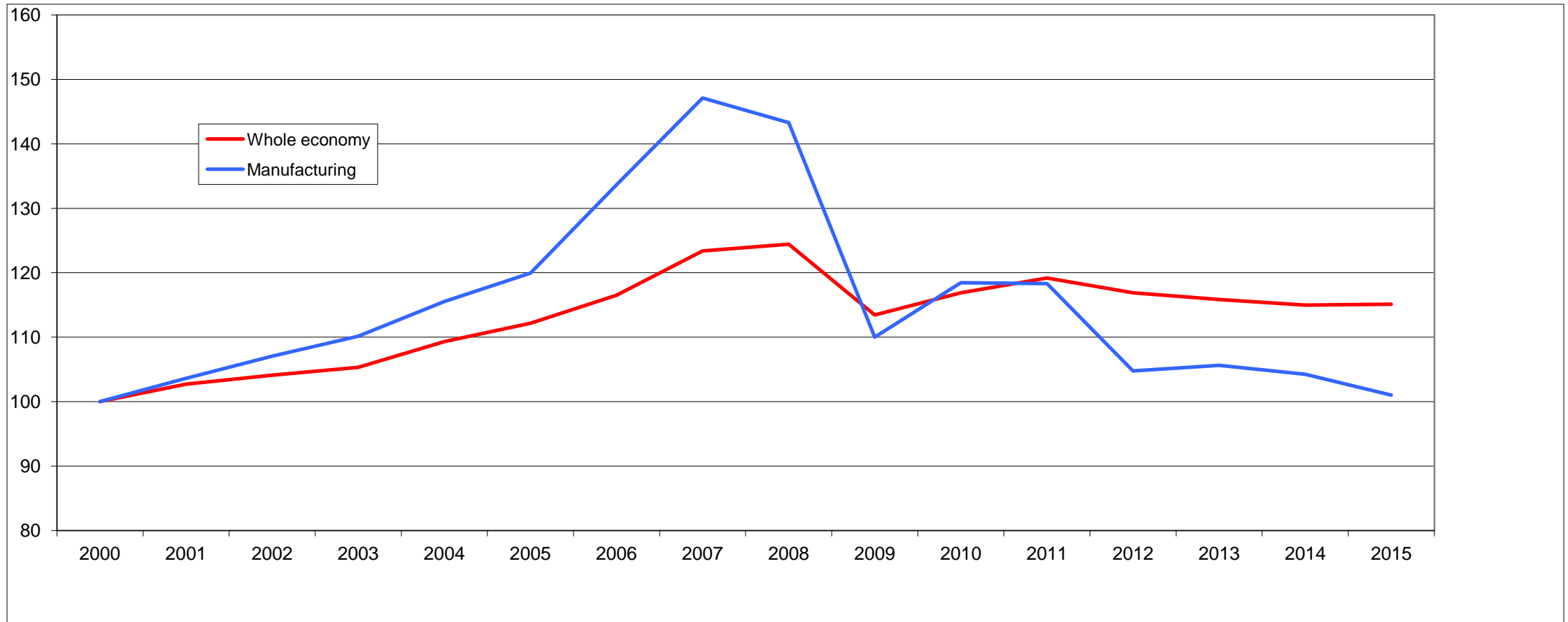


- My 2007 controversial bestseller
- The "success story" reframed and relativised.
- Among other things: a critical analysis of transnational management class's "beauty contests".
- Investments at historically low levels, educational systems gradually eroding, inequalities rising...

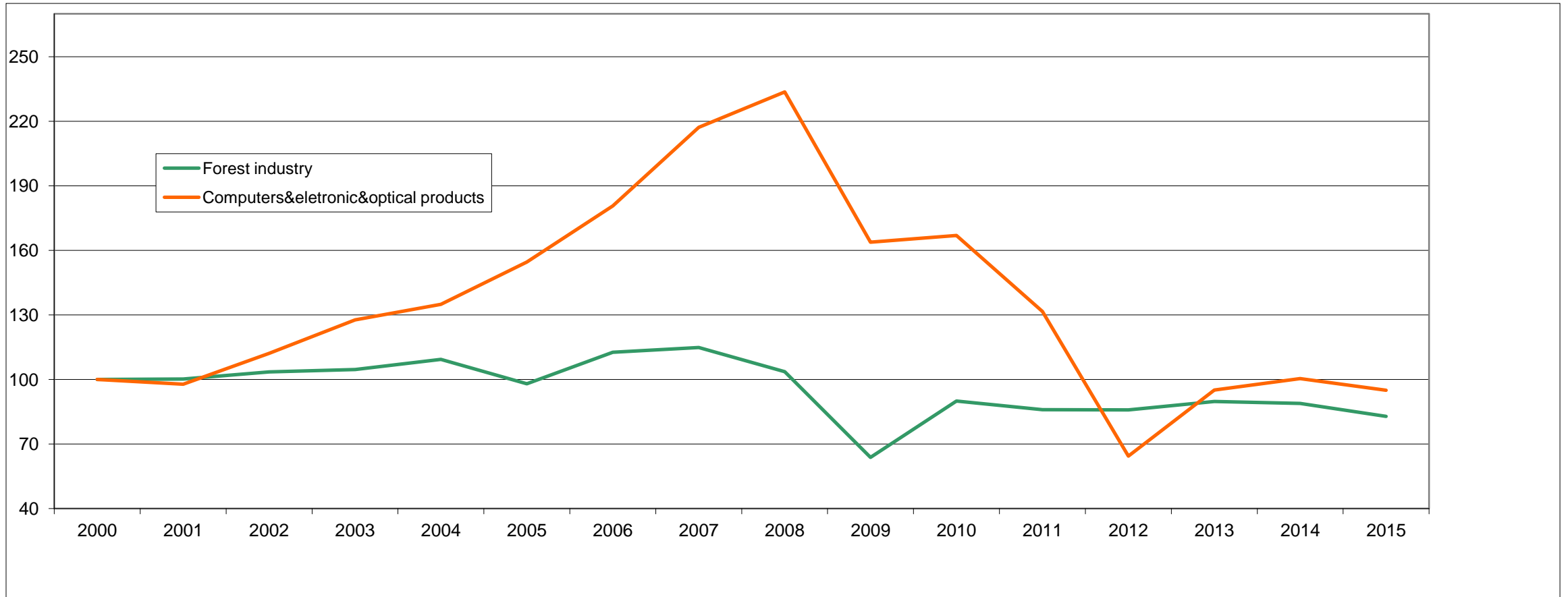
The global financial crisis and its aftermath

- ▶ When the effects of the global financial crisis began to appear in Europe during 2008, Minister of Finance Jyrki Katainen assured that the situation is under control.
- ▶ Finland, however, suffered from the 2008-2009 global financial market crisis a lot
 - ❑ in 2009, GDP contracted by around eight per cent
- ▶ The euro zone drifting into recession again after a short “recovery” turned Finland's economy into a new long recession as well.
- ▶ In 2016, Finland has resumed growth, but again only at the level of 1% or less
 - ❑ the economic sanctions against the Russian weaken trade prospects
 - ❑ overall, there has been no economic growth since 2006

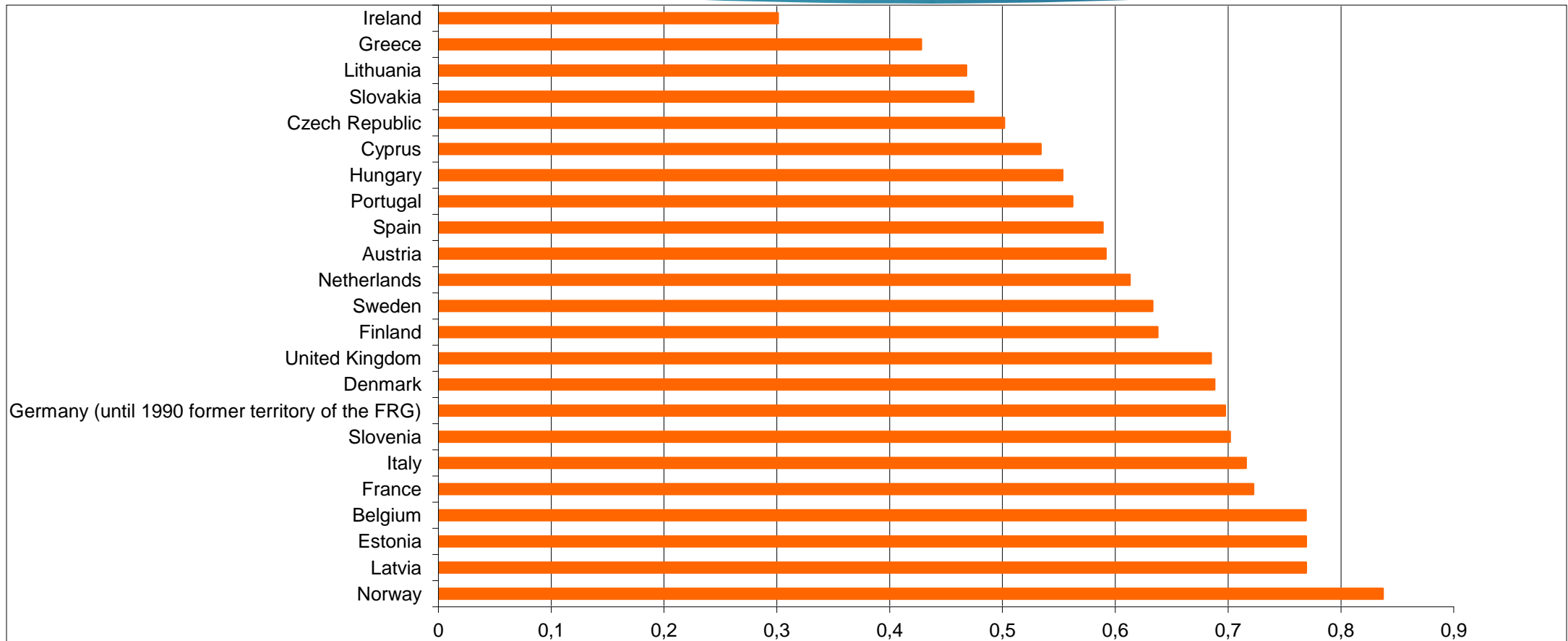
The development of Finnish GDP and manufacturing



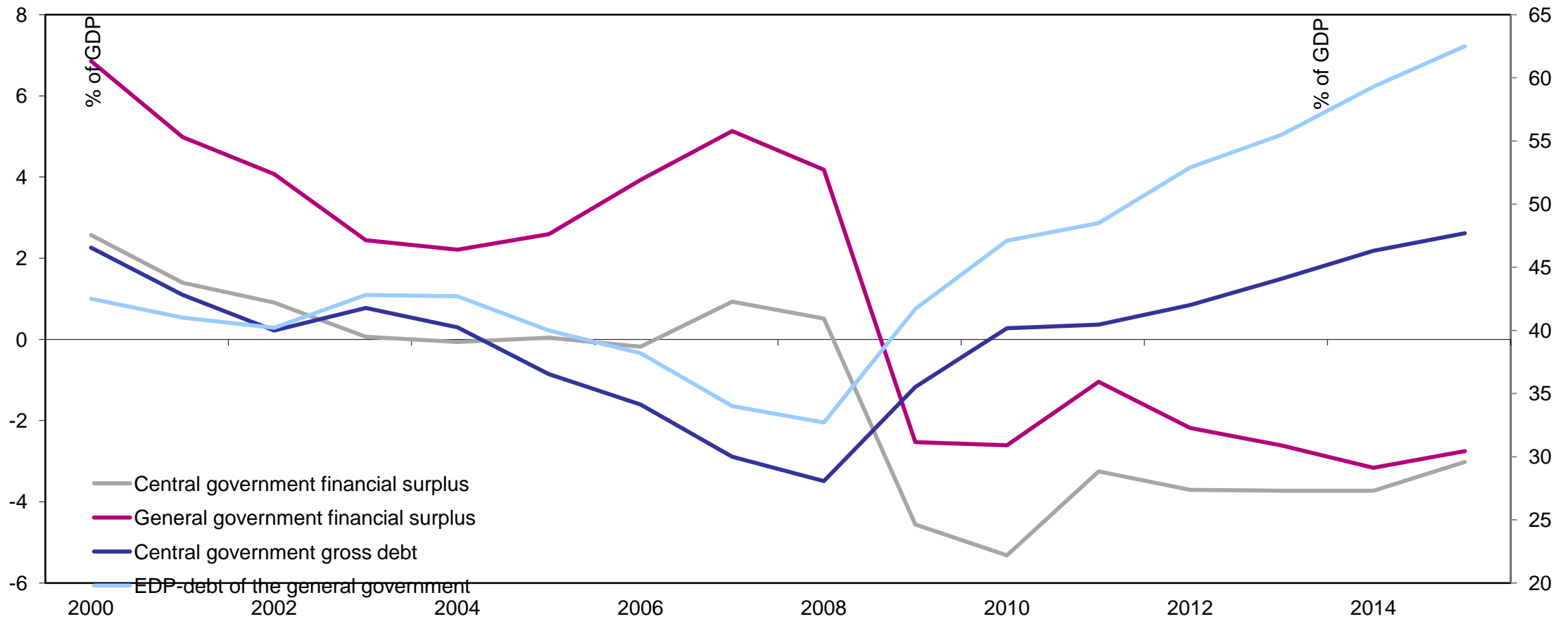
Forest industry & electronic etc



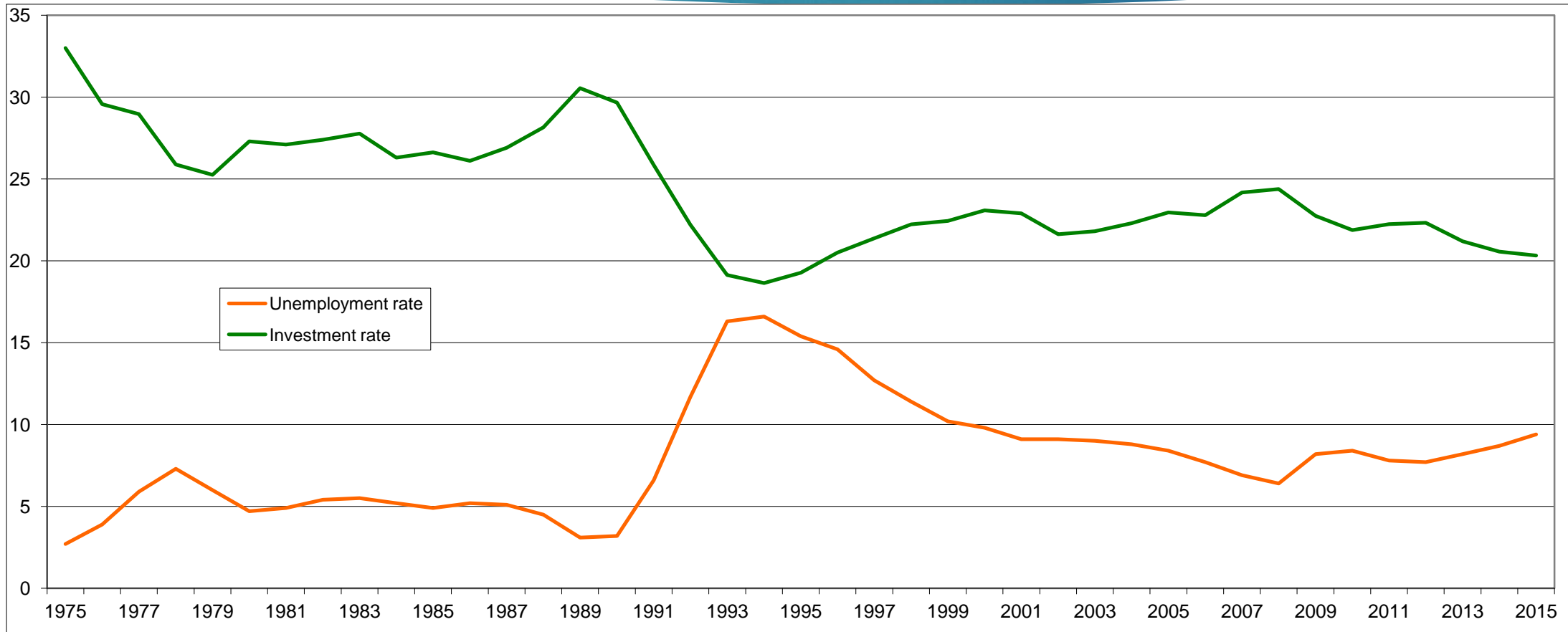
Manufacturing unit labor costs in some European countries in 2013



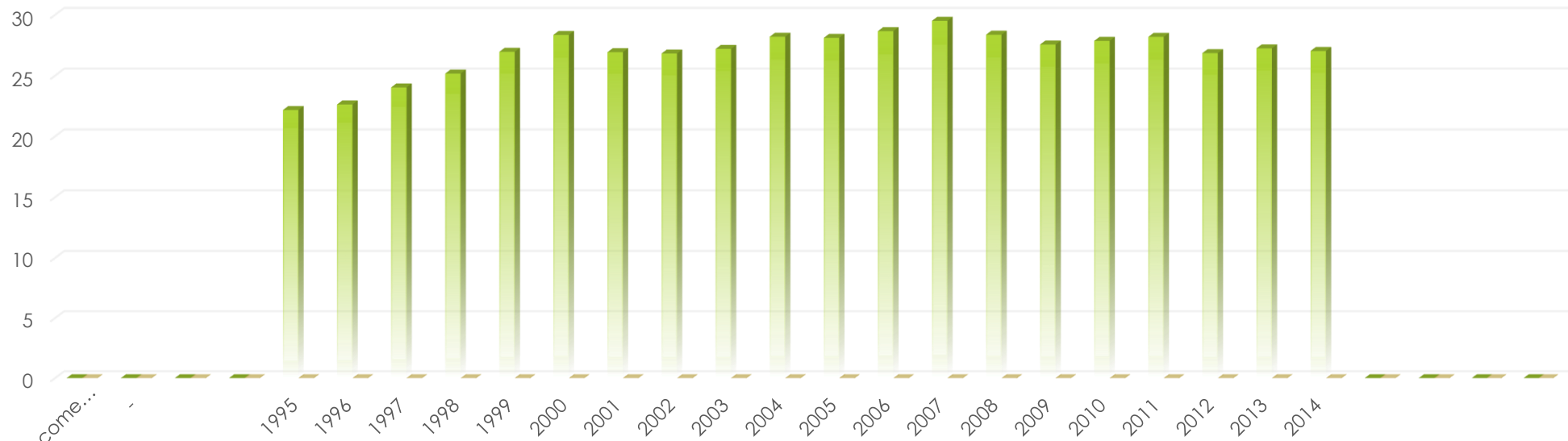
Public surplus and debt



Unemployment and investment rates



Gini-coefficient: disposable cash income in Finland in 1995-2014



Gini coefficient, disposable cash income...

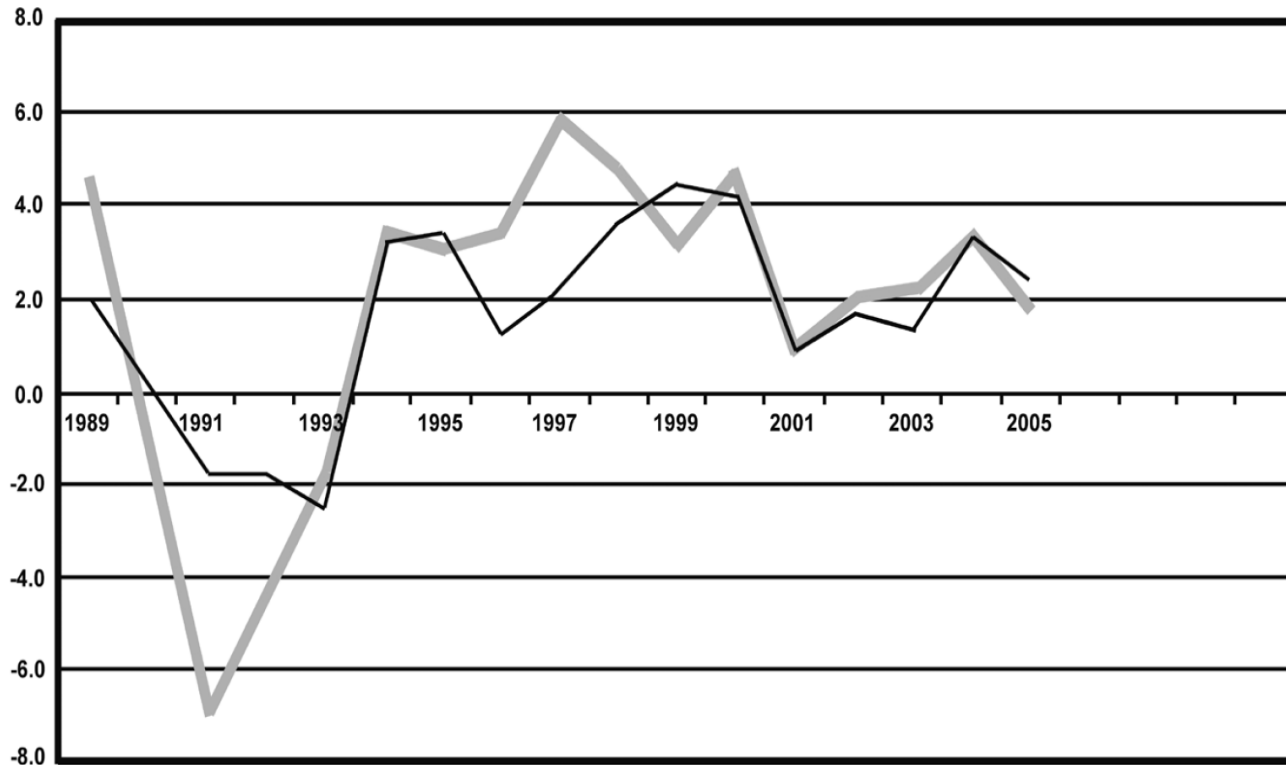
Towards an explanation of the decline of Finland

- ▶ The "success story" was partly, or largely, based on a misleading framing.
- ▶ Financialization and globalization have reduced investments in Finland.
- ▶ Many of those practices and institutions that used to work well until the 1990s or 2000s have eroded and/or been transformed (neoliberalised – angloamericanised).
- ▶ Since the GFC and beginning of euro crisis, the common currency € has started to work against the interests of the Finnish exporters
 - subsequent attempts at internal devaluation have only worsened the economic situation
- ▶ The combination of euroarea stagnation and austerity policies within Finland have reduced demand for Finnish goods and services.
 - also the economic sanctions against Russia have affected the Finnish economy

Misleading framing of Finland's success

- ▶ True: between 1980 and 2014, Finland's life expectancy at birth increased by 7.3 years, mean years of schooling increased by 2.9 years and expected years of schooling increased by 3.8 years; and Finland's GNI per capita increased by about 77.7 percent.
- ▶ An academic example of the story about Finland as a positive model: *The Information Society and the Welfare State: The Finnish Model* by Manuel Castells and Pekka Himanen Oxford: Oxford University Press, 2002
 - Finland as a hero, combining successful information society and welfare state...
- ▶ “The Finnish model” has, however, been to a large degree an optical illusion.
- ▶ The changes since 1990 are due to the almost unthinking desire to adopt all rules and models imposed by the neoliberal West, whether coming from Brussels or Washington; the result is more a temporary hybrid than anything else...
 - trends indicate that Finland is moving towards the models of California and Singapore, yet combining those with the Southern European “model” of deindustrialization

Finnish economic growth in the 1990s and early 2000s: nothing spectacular



- ▶ A model country = more rapidly Americanised than other social-democratic Northern European countries.
- ▶ Slower growth than in previous decades.
- ▶ In Sweden, in the late 1990s and early 2000s Finland was represented as a model to be followed – even though the rates of growth were the same.
- ▶ Most of economic growth since the great depression of the early 1990s has gone to the richest decile of the population.
- ▶ Criticism of GDP: in qualitative terms, decline rather than growth since the 1980s.

	Social-democracy	Neoliberalism
Economic policy	Demand management policies; stimulus by means of deficit and public projects, especially during downturns; high employment as the first priority; low inflation as a secondary target (some inflation good for growth, and money supply not the key issues); national finance.	Balanced budgets and external accounts; low inflation as the first priority; consistent control of money supply as the key to low inflation; supply side incentives key to growth; free markets should not be distorted; if stimulus needed, tax-cuts; global finance.
Regulation of public vs. private	Diversity of ownership of means of production (private capitalist, public state-owned, co-operatives etc); decommodified spaces (e.g. in health, education); public and corporatist regulation of the private sphere; private property is not absolute.	Privatisation; uniformity of ownership of means of production; commodification of new areas of social and natural life; deregulation and flexibility of labour markets; rule of law means consolidations and extension of private property rights.
Redistribution	Universal tax-and-transfer policies and public services to ensure Rawlsian principles of redistributive justice (equal real opportunities & remaining inequalities must benefit the least advantaged).	<i>Either</i> : free competitive markets guarantee Lockean principles of justice (right-neoliberalism); <i>or</i> : also social safety-nets, but no rights without duties & means-testing (left-neoliberalism)
Democracy	Parliamentary liberal democracy; welfare state increases political capacities and possibilities for socialist mobilisation through parties; experiments with democracy in new areas of social life.	Parliamentary liberal democracy; post-democratic political parties operating professionally through commercial media; limiting democracy to negative rights and municipal/state elections.
Public organisations	Weberian model of rational bureaucracy, based on the ethics of civil servants; principles of democracy applied in some public organisations.	Privatisation; outsourcing; new public management of simulated markets within organisations; line-management to replace elements of democracy.
Education	Free public education at all levels as a condition of equality and freedom; principles of collegiality,	Partly or fully privatised / commercialised education; markets and corporate governance simulated in

Institutional reforms: from social-democracy to neoliberalism

Erosion / transformation of institutions


- ▶ USAmerican style hierarchies and management-by-performance, in the context of a financialised economy, have replaced earlier paternalistic/planning-based/democratic practices and systems.
- ▶ Privatization, outsourcing, marketization, commodification, deregulation and application of new public management □ the moral basis of the “Nordic” institutions has eroded
 - in the context of rampant consumerism and effects of social media
- ▶ Tax cuts □ tax base has eroded □ public infrastructures have eroded
 - cuts in education, attempts to privatize education, customers’ “freedom-of-choice” ideology at schools...
 - universities have been privatized and turned into competitive management-hierarchies...
- ▶ Unemployment costly & social problems expensive □ increasing public deficits.
- ▶ Consequently, it should come as no surprise that Finland has declined in the rankings of (i) human development index, (ii) PISA and (iii) WEF competitiveness.
- ▶ There has been no economic growth for a decade; manufacturing has declined by 30% due to a crisis of qualitative competitiveness (price competitiveness is not the main problem).

The role of the European Union

- ▶ Since 1995, much of neoliberalisation has happened in accordance with the EU regulations and policies
 - Finland used to be the "model pupil" of the EU; the prevailing idea was to move into the "core" of the EU...
 - and yet, often the EU has just provided a pretext for the implementation of the hegemonic ideas
- ▶ Since the GFC and beginning of euro crisis, the euro has started to work against the interests of the Finnish exporters
 - especially in comparison to Sweden that is the main competitor for instance in forest industry
- ▶ Many of the main export countries are within the EU □ the overall consequences of EU-austerity have hit also Finland
 - sanctions against Russia have further worsened the situation
- ▶ Internal devaluation and austerity policies □ tendency to reduce domestic demand
 - actual policies have been rather contradictory, however

The Great Eurozone Disaster

Financialisation, 1973 -

Instability 
crises

European
Monetary
Union,
1988-2002

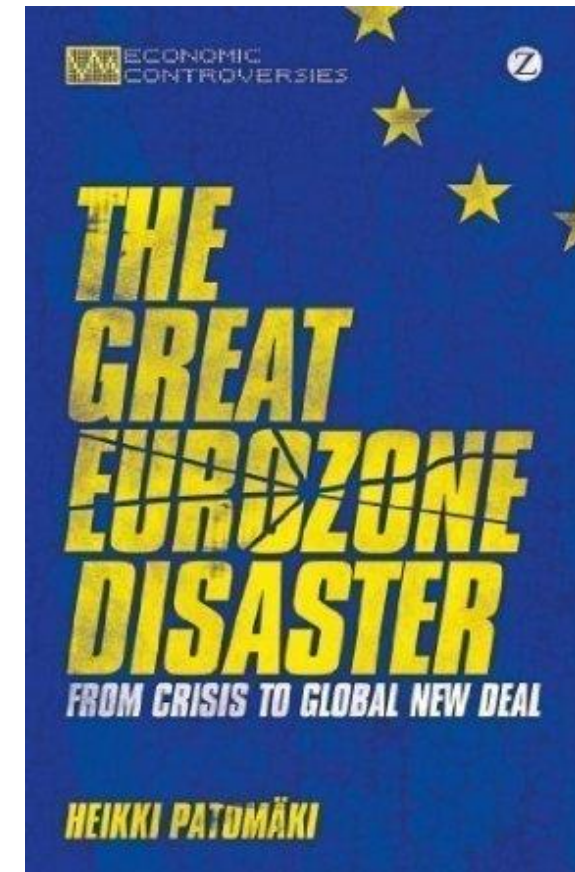
Global finance crisis, 2008–2009

EMU
design
flaws

Public debt crisis in the deficit
countries, 2010 -

Orthodox
answers

Ending the crisis:
disintegration or transition to
a European federation from
the 2010s onwards



Debates on the effects of orthodox responses

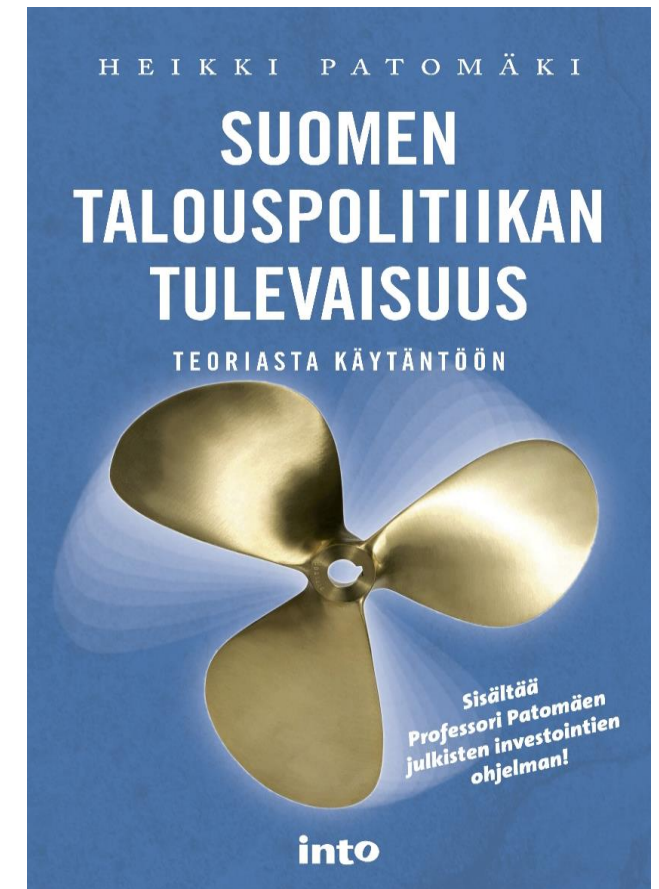
- ▶ When many EU countries implement orthodox deflationary policies, demand must fall across Europe and in the world economy as a whole
 - we should expect the effects to be strongest in those countries that implement the harshest structural adjustment programmes (the term comes from the IMF vocabulary)
- ▶ IMF confession in early 2013: “The results suggest that **fiscal multipliers were**, on average, **underestimated** for both sides of the fiscal balance (spending & revenue), with a slightly larger degree of underestimation associated with changes in government spending”.
- ▶ Paul Krugman on “cockroach” ideas: “The amazing thing is the way men who know neither theory nor the history of previous crises are utterly convinced that they know what to do in our current crisis; and how their confidence in their prescriptions has been unaffected by the fact that they have been wrong about everything so far.”
- ▶ Olli Rehn’s response: “IMF studies are not the Word of God, they too can be criticised...; it is better to continue on the chosen path...”

Fiscal multiplier

- ▶ Official / neo-Keynesian estimates very low ($FM < 1$)
- ▶ Keynes: for Britain in the 1930s, between 2 and 3
- ▶ Systematic historical evidence: an inverse relationship between expansive economic policies and public debt/GDP ratio.
- ▶ IMF has been revising its estimates (multiplier up to 3 under current circumstances!).
- ▶ The multiplier is especially high for investments in recession or depression.
- ▶ In addition to short-term multiplier, also **hysteresis**.

The multiplier effect in Finland for a change of expenditure at €5 billion (cuts or new loans)

Multiplier	Change in GDP	Change in tax revenue	Change in public debt	Change in GDP/debt relationship
0,5	2,5 billion euros or 1,2% of GDP	1,14 billion euros	3,86 billion euros	c. 1,2%
1,0	5 billion euros or 2,4% of GDP	2,28 billion euros	2,72 billion euros	c. 0%
2,0	10 billion euros or 4,8% of GDP	4,48 billion euros	0,52 billion euros	c. -2,5%



Conclusions

- ▶ Finland has been used as a positive model for ideological purposes
 - ❑ the point has been to show that a loyal implementation of neoliberal policies in a former social-democratic country can yield fantastic results
- ▶ The current government of Juha Sipilä – a coalition government of the Centre Party, Conservative Party, and the True Finns – is accelerating the decline of Finland.
- ▶ In Finland, the "learning" process follows the standard pathological scheme of that of neoclassical economics
 - ❑ every unintended consequence of one's own policies is taken as a sign that the policies have not been as methodical and harsh as they should be in order to have positive effects...
 - ❑ conclusion: more of the same...
- ▶ If anything, Finland is an example of how desperately changes in the basic orientation and policies of the EU are needed.