Egalitarian Finland most competitive, too

Despite hefty government spending on social benefits, Finland tops global economies. Second in a three-part series.

By Peter Ford | Staff writer of The Christian Science Monitor

HELSINKI, FINLAND - Fifty years ago, Finland was known for little more than the wood pulp from its endless forests. A poverty-stricken land of poorly educated loggers and farmers on the edge of the Arctic Circle, few paid it any attention.

Today, this small Nordic nation boasts a thriving hi-tech economy ranked the most competitive in the world, the best educated citizenry of all the industrialized countries, and a welfare state that has created one of the globe's most egalitarian societies.

Envious policymakers from far and wide are beating a path to Helsinki to learn the secrets of Finland's success.

"We have a saying here," chuckles Stefan Nygård, a university lecturer, as he swings his baby daughter gently, soothing her to sleep. "If you are Finnish, you've won the lottery."

But as the leaders of other European countries desperately seek ways to preserve their expensive systems of social protection in a competitive globalized world, Finland's circumstances and mind-set aren't easily copied. "Finland is an exceptional case Europe," cautions Riisto Erasaari, professor of social policy at Helsinki University. "We are a small homogenous country, heavily state-based, and our social model as a whole is so typically Finnish that it won't travel. But parts of it," - such as the government-funded focus on innovation and education, "are exportable."
Mr. Nygård and his partner, Minna Sirelius, have certainly enjoyed the fruits of Finland's exceptionalism.

Neither of them paid a cent for their university education, though they took seven years to complete their respective degrees in history and psychology. Ms. Sirelius enjoyed free healthcare throughout her pregnancy and the birth of their daughter, Emilia, and she plans to stay on leave from her job in IBM's human resources department for 11 months.

She can afford to: The government is paying her 60 percent of her salary to look after her baby. Next year Nygård and Sirelius will choose among the Finnish-, Swedish-, English-, or Spanish-language day-care centers in their neighborhood, and the state will pick up four-fifths of the cost.

If either of them loses their job, they will be able to count on unemployment benefits that range up to 70 percent of their salaries for 18 months. And when they retire they can look forward to generous pensions that amount, for the average Finn, to 60 percent of their last salary.

These benefits come at a cost, of course: Finland levies some of the highest taxes in the world, and if Ms. Sirelius does well in her career, she will pay more than 45 percent of her personal income toward taxes. But she does not object. "I feel that is what keeps our society and country running," she explains. "We can't keep the welfare state running unless everyone pitches in and helps with the costs."

In that she is like most of her fellow Finns, says Petri Rouvinen, research director for ETLA, a business-linked economic think tank. "The Finnish mindset is collectivist, with a very strong sense of fairness," he says. "It's that kind of mindset that makes it possible to have this sort of system."

But what Mikko Kautto, a researcher at the government's Welfare Research Center, calls "universalist thinking," goes further. Finns do not regard social spending as a drag on economic growth and job creation, he says, but as a positive force.

"The merit of thinking socially," he argues, "is that having everybody involved, with all our human capital working for the benefit of society, is part of the reason for our [economic] competitiveness." The World Economic Forum, which runs annual business summits in Davos, Switzerland, has ranked Finland the most competitive economy in the world, ahead of the United States, for four of the past five years.

Nowhere is this approach clearer than in Finland's schools, which at the end of World War II turned out some of the worst educated young people in the industrialized world, and now graduate the best, according to comparative
studies by the Organization for Economic Cooperation and Development (OECD).

Making sure that every Finnish child, wherever he lived and whatever his background, could get a decent education had a very deliberate goal, says Riita Lampola, head of international relations for the Finnish Board of Education, which oversees schooling.

"As a poor country with a small population, if we wanted to be a modern society and to develop our country, we needed everybody here," she says. "That meant everybody had to be educated."

High level education is the key to what Pekka Himanen, a brilliant young philosopher who advises the Finnish government, calls his country's "virtuous circle."

"When people can fulfill their potential they become innovators," Dr. Himanen argues. "The innovative economy is competitive and makes it possible to finance the welfare state, which is not just a cost, but a sustainable basis for the economy, producing new innovators with social protection."

Other European countries could copy Finland's efforts to improve its education system, Himanen insists, just as they could emulate Finland's heavy investment in research and development (R&D) - currently standing at 3.6 percent of GDP, the highest level in Europe after Sweden.

It is this approach that has fostered firms such as Nokia, the largest cellphone producer in the world whose spectacular growth has boosted the Finnish economy and carried many high-tech subcontractors on its coattails. The telecommunications superstar singlehandedly accounts for one-quarter of Finland's exports, 4 percent of its GDP, and 35 percent of business sector R&D.

Finland maintained high R&D spending even during the dark days of an economic crisis in the early 1990s that saw GDP fall 13 percent in three years and unemployment climb to 17.9 percent.

The legacy of that crisis disappoints many Finns: for the past 10 years successive governments have grown stingier than they used to be, and though social spending has held steady, services have not improved in the way they used to.

The public health system in Helsinki, for example, is overcrowded with older Finns. "You wait a long time to see a doctor, and then you don't see him for very long," complains Sirelius.
Pensions have risen by only three percent in real terms since 1993 - ten times more slowly than wages. Many jobs lost in the crisis have not been replaced, and unemployment stands at 8.6 percent.

"The cleavage between rich and poor is perhaps widening," says Jouko Kajanajo, the head of social research at the Social Security headquarters. "At any rate, the increase in equality has stopped."

"We are the poor little brothers" of neighboring, more generous Scandinavian countries such as Sweden, acknowledges Dr. Kautto. Indeed, Sweden's social spending, which constitutes 28.9 percent of its GDP - compared to Finland's 24.8 percent, enables it to provide more social benefits. "Finland did not restore social protection to pre-crisis levels... but we have not forgotten our Nordic heritage in our social policy," says Kautto.

That policy enjoys enormous public and political support across the spectrum, founded on the consensual style of Finnish life where governments, employers, and unions are used to making compromises with each other. It helps, of course, that Finland's population of 5.3 million is largely homogenous, with a 6 percent Swedish minority and no significant immigration.

The result is that even the opposition Conservative party supports the country's social model: Its most daring attack on the status quo was a recent suggestion that Finns should be made to pay a token fee for using the public library system.

Indeed, says Mr. Rouvininen, the challenges of globalization mean that "we specifically need our social model. As a small country on the edge of the world we will have steep ups and downs. We have to have mechanisms so that individuals won't suffer from that."

But Finland will have to adapt its model, as it develops what Dr. Himanen calls "the welfare state 2.0."

"It will have to become more innovative, more productive, more customer driven," he argues. And that may mean giving private companies a larger role in providing welfare state services, and encouraging a more entrepreneurial approach.

"Until now we have been a textbook case of how a country should advance," says Rouvininen. "Today we are at a crossroads, because we have been a catch-up economy, and now we are at the global frontier, which is a different ballgame. We have to lead the way."

That, he suggests, demands the sort of businessman who can "come up with radical new ideas and make billions, and the Finnish mind-set does not support that."
He remains confident, though, that so long as Finland can tell success stories like Nokia's in key global industries such as telecommunications, and improve its efficiency in delivering welfare services, it can go on offering economic growth and a social safety net.

After running budget surpluses for a decade, adds Dr. Kautto, "Finland is one of the countries best equipped to meet the challenges of an aging population, globalization, and so on. In economic terms we are doing extremely well."

In the end, says Jorma Sipila, the Chancellor of Tampere University, Finland's inclusive social model is its best guarantee for the future.

"The conditions for a flourishing economy are so demanding that the state has to make social investments to raise competent people and take care of dropouts so that they carry their share of the burden," he argues. "Marrying prosperity and social protection is the only sustainable future."

• Thursday: France looks at how to remodel its social model.

Finn facts

Land of Nokia

The world's No. 1 cellphone maker is based in Finland. It holds 32 percent of the global cellphone market.

Nokia started in 1865 as a forest industry company on the banks of the Nokia River. Today, it employs more than 60,000 people (about 24,000 in Finland) with factories in 10 countries and research and development facilities in 15 countries.

Nokia's share of Finland's:

GDP 4%
Business sector R&D 35%
Exports 25%
CEO Jorma Ollila's yearly pay: $4.64 million

Upwardly mobile society

In 1998, when some Americans were still getting funny looks for using cellphones, mobile subscribers in Finland already outnumbered land-line subscribers. In fact, 20 percent of households relied solely on cellphone service.

No censorship here
Reporters Without Borders ranks Finland (and several other countries) No. 1 for freedom of the press. The US ranks 22nd.

It has its challenges, too

Finland has some of the highest suicide rates in the developed world. For people aged 35-44, for example, the suicide rate is 29.9 (people per 100,000) in Finland, versus 14.4 in the US.

Speeding is expensive

A 27-year-old Finnish heir to a sausage business, Jussi Salonoja, was famously fined €170,000 (about $217,000 at the time) for going 80 kilometers per hour in a 40 kph zone. Speeding fines are based on the offender's income. Mr. Salonoja's reported earnings for 2002 were €7 million.

Linux is from where?

The open-source operating system was started in 1991 as a hobby by Finnish university student Linus Torvalds. But he wasn't the only entrepreneurial student: In 1992 (before Netscape came along), IT students at the Helsinki University of Technology developed the first graphic-based Internet browser.

Where Santa's sleigh garages

The residents Mt. Korvatunturi - in the northern part of Finland known as Lapland - claim this is the home of Santa Claus. Some 600,000 letters a year are sent there in the hope that it's true.

Sources: Yahoo; Harvard Business School; Morgan Stanley; Finnfacts.com; University of Lapland; BBC; World Health Organization.

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