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Finland: an industrial nation on the move

by John Hardwick

The author, who is editor-in-chief of the Swedish magazine Energi och Utveckling *(*Energy and Development*), recently toured Finland.*

Expanding trade with the East, productive young industries, and an offensive industrial policy and a spirit of growth, are the factors accounting for the Finnish economic upswing that has begun to attract international interest.

Soon, however, Finland will have to take another step forward. To continue its present pace of development, Finnish industry will have to expand to other areas of the world, especially into the Third World. And, while its trade with the East is growing, Finland is beginning to put out feelers toward Western Europe. In the view of many industrialists, Finland will not be able to afford to remain outside the European Monetary System and the European Monetary Fund, because its industry needs the new markets offered by the developing sector, and export financing is already felt as a major bottleneck.

Finland, with the highest rates of GNP growth for the second year in a row, industrial production growing at 7 to 10 percent a year, low inflation and manageable unemployment, has attracted the interest of economic observers throughout the world. What accounts for the Finnish boom?

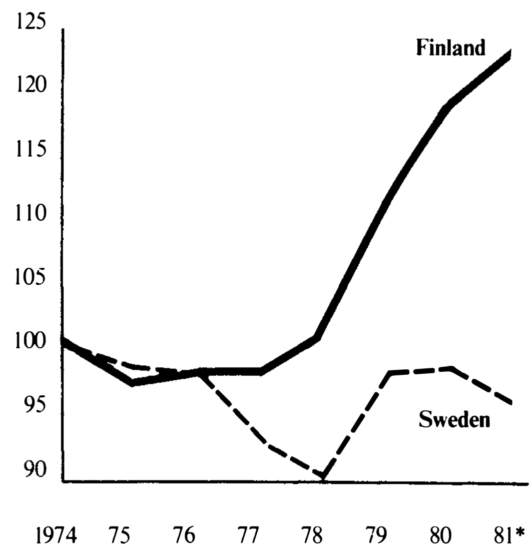
Figure 1

Consumption trends in Finland and Sweden

	1976	1977	1978	1979
Private consumption				
Finland	+0.9%	−1.4%	+2.6%	+5.0%
Sweden	+4.0	−0.9	−0.7	+2.3
Public consumption				
Finland	+5.6	+4.1	+5.0	+3.7
Sweden	+4.4	+2.6	+3.1	+3.9

Figure 2

Industrial production in Finland and Sweden



1974 = 100 * estimated

One myth in widespread circulation gives credit for Finland's recent upswing to a tough austerity policy which the country allegedly sustained from 1976 to 1978. However, the facts belie the argument. A comparison between Finland and neighboring Sweden illustrates that both private and public consumption during this period actually grew much more in Finland than in Sweden, where there was no industrial growth at all.

In truth, Finland has thrown out the austere Keynesian and monetarist policies and has, instead, staked out a course which bears a strong resemblance to the "Japanese model." Industrial development has been assigned first priority. The Finnish government has outlined a program of general corporate tax relief and investment subsidies, while giving special emphasis to the pioneering role of state-owned industries.

One example of a state-owned corporation taking the lead in advanced areas is the large Valmet Company. Valmet initiated a large part of the automation drive in Finland, and it has been a leader in starting up operations abroad. A Valmet tractor plant in Brazil, for instance, is the second largest such factory in Latin America. Similarly, Valmet's high-technology paper machines are currently in use throughout the world. Given Valmet's role, it is interesting that its president, Matti Kankanpää, has expressed a great deal of interest in the prospect of Finnish membership in the EMS.

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Finland's achievement of an ideal neutrality has been decisive in the country's economic performance. President Urho Kekkonen has developed very profitable relations with the Soviet Union. The respect that Kekkonen has won internationally for his policy is something that Finnish industry is prepared to capitalize on in its new export drive.

Trade with the U.S.S.R.

It is the stable and expanding trade with the Soviets that has served as the engine for Finnish growth, especially in shipbuilding and metalworking. The Soviet Union is Finland's biggest trading partner, with about 20 percent of its shipments going East.

Ironically, it was the Finnish reparations deliveries after the war which gave birth to the modern Finnish iron and steel industry. By the time these deliveries were ended, relations with the Soviets were firmly established, and normal trade began to satisfy many of the Soviet economy's requirements.

One outcome of this relationship is the Finnish-Soviet agreements to exchange Soviet oil and natural gas for Finnish technology, something of an Eastern mirror of proposed EMS-OPEC trade arrangements. Finland is highly dependent on foreign oil, importing some 60 percent of its needs. Two-thirds of that oil—and a full 100 percent of its natural gas—comes from the Soviet Union. Under the provisions of Finland's contract with the Soviets, these oil imports are to be paid for, not with foreign exchange, but with technology: more ships, paper machines, and electrical equipment.

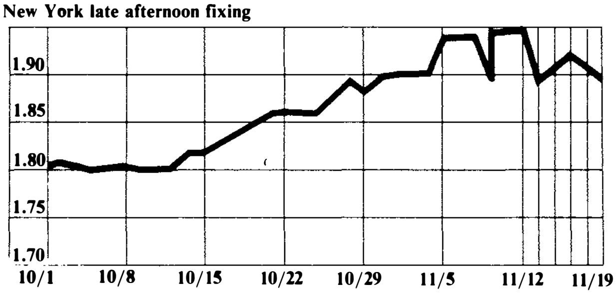
For Finnish industry, therefore, every increase in the country's oil bill means guaranteed additional orders for its industry. The result is a climate for stable investments.

Cultural climate

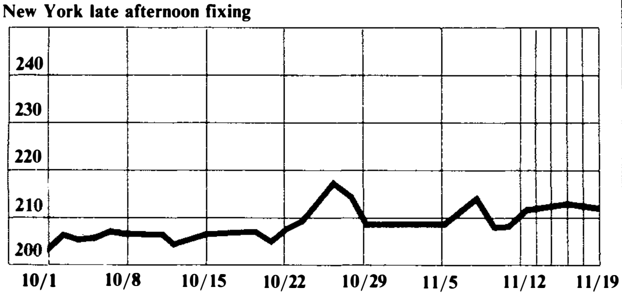
Finally, there is one feature of the Finnish scene which, although difficult to measure, deserves to be mentioned among the reasons for Finland's successes: the country has preserved a moral sense of purpose. Problems that afflict other Western nations—drug abuse, pornography, youth counterculture, environmentalism—are relatively absent in Finland. It has not been easy for Finland to avoid these afflictions—understandable with liberal Sweden next door. But, as the president of a large private Finnish corporation explained, the Finns have learned to "sort out" the mixed flow coming from Western Europe and the United States. "We take the good—your technology and so on," he said. "And throw away all this 'new age' nonsense. There is only one big mistake we made. We imported the Swedish 'comprehensive school' system. But now we're in the process of getting rid of that."

Currency Rates

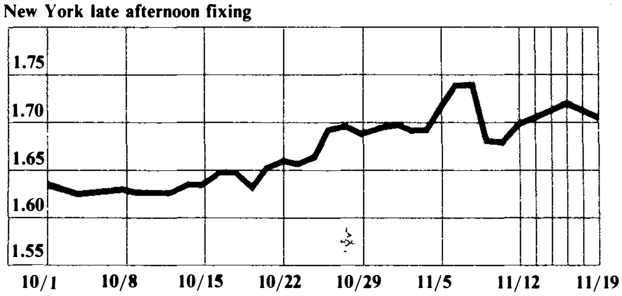
The dollar in deutschemarks
New York late afternoon fixing



The dollar in yen
New York late afternoon fixing



The dollar in Swiss francs
New York late afternoon fixing



The British pound in dollars
New York late afternoon fixing