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GLOBALISATION AND SOCIETAL POLICY IN FINLAND

Summary of the research programme Globalisation, welfare and employment

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Foreword

This report is a brief summary of the research programme *Globalisation, welfare and employment* carried out by the Finnish National Fund for Research and Development (SITRA) from 1997 to 1999. The aim of the programme is to look into the globalisation of the economy which gained momentum in the 1990s, and particularly its impact on economic activity, welfare and culture in Finland. The findings show that globalisation has occurred in many ways, albeit often indirectly and on a long term basis. It is not a matter of fate, but is part of the new international reality, where success entails knowledge and flexibility as well as new solutions in social policy in general, and employment, welfare and regional policies in particular.

The findings of the research programme have been published in various reports and they have been compiled into an extensive final report, *Suomi avoimessa maailmassa* (Finland in the open world) (Taloustieto, Sitra 223). The present synopsis does not refer to any details given in the report, which includes a wealth of empirical facts and outlines future social policy. The aim of this summary is to raise discussion about the central themes of the research programme. It does not, therefore, include a detailed bibliography, but merely references to the publications of both the globalisation project and other relevant SITRA publications.

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I GLOBALISATION AND ITS IMPACT IN FINLAND

1. The essence of globalisation[1]

Globalisation means such close interlinking of different parts of the international economy that they form a global entity which influences the development of societies. Its evolution is manifested in the opening up of economies and growing interdependence, as well as in the birth of a global awareness. Globalisation is made possible by a freer international mobility of capital, the rapid progress in information and communications technologies, and the lowering costs of interaction owing to progress in traffic and communications and to the diminishing significance of national borders. Globalisation is accompanied by the lessening of political and economic obstacles to interaction and by closer links between international and local development.

Economic globalisation is driven by multinational economic actors and by states which support an open world economy. Nevertheless, none of them can control this progress towards a global market, which proceeds under its own steam through economic and political changes. Globalisation could be defined as the expansion and deepening of market relations at the national and international levels, especially propelled by business activity. Being market-driven, it boosts the privatisation of economy and culture, on the one hand, and undermines centralised control and hierarchic structures in societies, on the other.

With globalisation comes a new, American-style corporate governance, which differs from the European and Japanese communal models and aims at rapid results. This form of governance stresses generating a profit which satisfies the shareholders by using the necessary means, including layoffs, constant mergers and incentive schemes for management[2]. Globalisation creates transnational, cross-border networks of corporations and organisations which interconnect different national economies and societies. Networking corporations must compete with efficiency, speed and flexibility, and their

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[1] This chapter is mainly based on the publication Raimo Väyrynen, *Globalisaatio: uhka vai mahdollisuus?* (Globalisation: a threat or an opportunity?). Jyväskylä: Atena 1998. Sitra 183

[2] Mikko Leppämäki, *Johdatus Corporate Governance-teemaan* (An introduction to the Corporate Governance theme). Proceedings of Sitra the seminars on Corporate Governance in September 1998. Helsinki: Sitra 1998 (Sitra 209).

management requires specific qualities, such as cooperation skills and intellectual capital[3].

This juxtaposes the views of two different worlds: the world of sovereign nation states and the world of international network corporations - the flag and the logo. Notwithstanding globalisation, the majority of international corporations in fact still operate regionally and even have specific national characteristics. The corporations that have progressed furthest in globalisation are knowledge-intensive but produce relatively standardised commodities, and in which information is largely an endogenous factor of production.

As a market process, globalisation intensified the use of resources, boosts productivity and thereby accelerates economic growth. However, these positive effects only concern economic units which can offer the production factors needed for success in competition: technology, knowledge, labour and energy, as well as access to the market. Since all units cannot be above average, the positive upshot of globalisation tends to concentrate both in the world economy and in national economies. In the international perspective, the main beneficiaries are industrialised countries capable of renewal and, outside of them, open, growth economies. Economic growth is weakest and the standard of life lowest in closed and isolated economies.

Globalisation is thus a selective development, which heightens the polarisation of the international order and societies. Whereas 1.3 billion people have to subsist on a daily income of one dollar, the combined annual wealth of the dozen richest individuals in the world amounts to the same annual sum. Long-term unemployment and exclusion in general and the increase in capital income enjoying lower taxation rates than earned income add to economic inequity in most societies. Especially when economic crises due to globalisation or any other reason involve polarisation, the result is social opposition and instability, as several Asian countries have recently come to realise.

As economies keep opening up, the mobility of capital increasing and the corporate governance model spreading, capital will seek the highest and fastest possible returns. This leads to a situation where international capital gravitates towards countries or sectors which are growing faster than others. Direct investments and financing capital crowd into growth areas, creating a boom, as happened in Asian countries before the present crisis and to the "Internet" stocks towards the late 1990s. As certain institutions in growing economies, such as the banking system and its regulation, were not strong enough to bear this influx of money, the upshot was a bubble waiting to burst. Investment funds seeking strong growth by risky means, as well as the unrealistically high market quotations of the "Internet" bonds, also add to instability in economic life.

The instability inherent in globalisation requires counterbalance in the form of different control mechanisms which re-establish the market as part of society. Then again, it is not possible to create a centralised international mechanism for the purpose, but global governance has to be based on commonly accepted norms and their management. Accordingly, avoiding future financial crises

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[3] Martin Ollus, Jukka Ranta & Pekka Ylä-Anttila (eds.): *Yritysverkostot - kilpailua tiedolla nopeudella ja joustavuudella* (Corporate networks: competition with knowledge, speed and flexibility). Helsinki: Sitra 1998 (Sitra 201) and *Verkostojen vallankumous. Miten johtaa verkostoyritystä?* (The network revolution. How to run a network enterprise?). Helsinki: Sitra 1998 (Sitra 202)

requires more efficient international banking control and better means at the disposal of the International Monetary Fund for monitoring the movements of international capital and taking measures to root out any instability at a sufficiently early stage.

Simultaneously, the activity of the IMF has to be more transparent and controllable: what is needed is more public information and better chances for the governments to influence matters. The international monetary institutions must also pay more attention to the social consequences of their actions in order to alleviate the inequity and instability they have created. Macroeconomic stability and social safety nets must be introduced as part of the overall strategy. Globalisation will bring itself down if the forces bearing it cannot keep negative, often unintended, consequences in check.

The international corporate interests inherent in globalisation demand a more rigorous budget discipline from the governments than before: the public economy deficit must be contained. The governments are also expected to keep inflation pressures and their trade balance in check. This does not, however, mean that the state would lose its role as an economic policy force. On the contrary, the sovereignty embodied in the state is still a powerful force and expected to make a continuing contribution for instance to safeguarding welfare and promoting education and training. The most significant change is probably that the governments increasingly have a role in promoting competitiveness and generally advancing economic activity rather than constraining it.

2. From a closed to an open society

Finland has traditionally been a fairly closed society on the European periphery. Industrialisation in Finland started relatively late and reached its peak as late as the post-war decades. Almost immediately a transition to public services and the construction of a welfare society began, although Finnish society preserved its rural character well into the 1960s. In a country poor in capital and refining raw material, the state for a long time played a central role in promoting industry and later welfare policy. In ideological terms, this prominent role manifested itself as nationalism, in political terms as the president's central role, and in administrative terms it was reflected in the strong position of civil servants. The policy line has been shaped by the Agrarian Party (later called the Centre Party) and the Social Democrats through their mutual rivalry and cooperation. The foreign policy line has consisted of neutrality of different shades.

After World War II, Finland's position was established by what was regarded as a defensive victory in the Continuation War, stabilised relations with the Soviet Union and rapidly growing affluence in society. During the "golden age" of the Finnish economy from 1950 to 1974, the GNP rose by five per cent annually. The rapidly growing industrial production clamoured for access to the world market, which made free trade another imperative in foreign policy alongside relations with the Soviet Union. An associate membership in EFTA was negotiated to this end, followed by a free trade contract with the EEC.

In other respects the Finnish economy remained closed, which often resulted in an ineffective use of capital, and the decision-making was in the hands of a small inner circle. The liberalisation of the capital market begun as late as the mid 1980s and proceeded quickly; too fast for the liking of many, because it led to overheating and subsequently to a deep recession in the early 1990s. The structures of the Finnish economy were not ready to handle foreign loan capital, nor to use it productively. Foreign ownership was heavily restricted in the name of self-sufficiency and the protection of the domestic market up to the time when new legislation came into force at the beginning of 1993. Today, foreign investors can purchase Finnish enterprises and real estate and invest in Finnish securities almost without restrictions, and vice versa.

The opening up of the Finnish economy is linked not only with a similar development on the global scale, but particularly with a growing commitment to European integration, first as a party to the European Economic Area and, from the beginning of 1995, as a member of the European Union. Consequently, Finland is a full participant in the EU single internal market, which among other things means the free mobility of all factors of production. Within the Union, capital, as well as people and information, are free to move largely heedless of national borders and can seek the most profitable base for their operation. Accession to the European Monetary Union and Central Bank means the adoption of the common European currency (Euro) and thus more efficient financial exchange and reduced risks in the Euro Area.

Demands for a low rate of inflation, a small budget deficit and uniform financial policy inherent in the monetary union restrict the state's opportunities to regulate the economy by manipulating these variables. It follows from this that any rise in the standard of living can only be based on a real increase in productivity, which cannot be achieved, nor the profit divided, without some social regulation. Although globalisation favours competition, private enterprise and flexibility, an efficient, centralised bargaining system between the state, employers and workers often offers a significant advantage, whenever coordination is needed in financial decision-making. The challenge in an open society is how to reconcile these concurrent demands for decentralisation and centralisation in the labour market and in other areas of decision-making.

At present a transition is evident in the industrial countries from traditional industrial production and public services to private services and a market-based society, which in turn is closely linked with the world market. Limiting the growth in public expenditure and the demand for its cost-effective use will mean that this sector cannot employ a much larger force than now. On the other hand, the rapidly increasing productivity in industry will mean that growing production and exports will not create jobs in most sectors: this has resulted in "non-employing growth", as it were. In Finland, new jobs are now practically only created in the sector of telecommunications, which demands higher qualifications than the traditional sectors.

In fact, new jobs can be created only in the private service sector, where they are either international tasks requiring skills or less demanding home market services. Clearly, it is not possible to pay the same wages for the production of these services as for productive assignments which bring success in the world market. The result is a growing disparity in income distribution, the acceptance of which may even be a prerequisite for job creation in an open economy. What further adds to the inequity in income distribution is the low income of the long-term unemployed and the growing share of capital income and low taxation on it. These were the reasons why in Finland the combined income of the wealthiest ten per cent of the population grew from 17.8% to 20.2% between 1987 and 1996.

The equation operating in the open economy is one determined by productivity, employment and equality, but all three objectives are difficult to advance simultaneously. In the circumstances of globalisation and integration, productivity and competitiveness are prerequisites for success. In the light of recent experience, however, it seems evident that job-creation can be based on these factors only if a greater economic inequity, which in Finland so far has been one of the lowest in the industrial countries, is accepted.

Inequity, however, is a poor solution in economic as well as ethical terms: it tends to create a group of marginalised people in society and decreases consumption, which in turn feeds the deflation crisis. The social quality of a society can indeed be judged on how it treats its weakest members. Since it is no longer possible to use the public expenditure to invigorate the economy and since exports do not always expand, it is essential for economic success to maintain domestic demand. Controlling the risks involved in globalisation entails that someone assumes social responsibility, and in the final analysis that someone can only be the state. Its priorities include providing welfare services within the resources available, on the one hand, and investing in the knowledge and skills of its citizens, which promotes the creation of reasonably well-paying jobs, on the other.

In the global economy, there is thus a growing tension between efficiency, employment and equality. A knowledge strategy alone is not sufficient to ease this tension, but needs to be complemented by a comprehensive approach based on social policy, which includes lower taxation on earned income and the targeting of welfare services to those who really need them. The financing of these measures in turn requires as stable and productive a taxation base as possible.

The competition in taxation between different states, which comes with globalisation, is a fact, even though it is all too often exaggerated. Research shows that the internationalisation of capital actually sets new limits on taxation policy, but does not directly steer it. The location of enterprises is influenced by many other factors besides taxation. Nonetheless, it is worthwhile to seek to restrain this international tax competition by means of harmonised statutes and practices in different countries. Recent experiences in the European Union show that this is by no means a simple task. Opposed are the state's interest in stable and productive taxation and the enterprises' interest in flexible international tax planning.

3. Finland's international status

Finland's current international status has been chiefly influenced by the membership of the European Union and the dissolution of the Soviet Union. The EU is the central channel of action for Finnish global policy, enabling Finland to influence international trade policy, the regulation of direct investments and the international finance system, as well as international human rights and environmental issues. Globalisation and regional integration are not in conflict, regional and global economic cooperation are rather seen to proceed side by side, although occasional trade disputes between regional groupings do occur.

The main trend in the internal development in the EU is directed towards a more comprehensive liberalisation of the economy, but at the same time this gives rise to national reactions at the level of both governments and voters. The Union does not have a particularly strong policy on globalisation, and the priorities also vary between Member States.[4] In practice, there is constant balancing between economic liberation, demanded by the EU internal market, and the control of its impact (for the liberalisation of the market requires new steering, e.g. by means of competition policy).

For Finland, the market-orientation in the European Union does not present any particular problems, for its own policy has proceeded in the same direction throughout the 1990s. The principle of subsidiarity in turn decentralises power and gives latitude for sovereignty, so cherished by the Finns. Social and regional compensation, which is central to the activities of the Union, helps to level out the inequity created by globalisation and integration. Alongside the construction of a welfare society, they form part of the European social model, which in return for its price offers certain assets in international competition, such as political stability and skilled labour.

The essential thing for Finland is that the membership in the European Union and the European Central Bank provide protection against international economic crises, on the one hand, and a channel leading to multilateral international cooperation, on the other. Finland should not, however, rely solely on the Union, but should also develop relations of its own, notably with North America and Eastern Asia (especially Japan, China and Korea). It is also worthwhile to bear in mind that globalisation is not exclusively an economic process, but also has many dimensions relating to security, the environment and culture. The United Nations still plays an important part in managing these dimensions globally.

Finland continues to have good bilateral relations with Russia, although their nature has essentially changed from the earlier relations with the Soviet Union. Today, Russia is a cooperation partner which has no right of veto in Finland's decisions. On the other hand, Finland, together with Sweden,

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[4] On this point, see Jussi Raumolin: *EU ja globalisaatio. Reunahuomautuksia ranskalaiseen ja saksalaiseen keskusteluun* (EU and Globalisation. Remarks on the German and French debates). Helsinki: Sitra (176) 1998.

increasingly represents the EU in Northern Europe. Finland's initiative for a Northern Dimension in the Union shows an aspiration to integrate the Russian economy, notably energy cooperation, into the European totality. Finland's geographical situation and EU membership offer an opportunity to develop Northern Europe into a new regional business centre. Benefiting from this "time of opportunities" requires, however, that strategic goals are set and initiatives taken at many levels.[5]

[5] Aarne Nurmio: *Mahdollisuuksien aika. Suomi uudessa Pohjois-Euroopassa* (Time of Opportunities. Finland in the new Northern Europe). Helsinki: Sitra (179) 1998.

4. Internationalisation of the economy[6]

The change in the Finnish economy and its internationalisation over the past decade has been a radical transformation from the de-industrialising and closing economy of the 1980s. At the time, the GNP share of export was 18% at its lowest, whereas in 1998 it soared as high as 40%. This "neo-industrialisation" has given the economy a new growth potential, but also made it more vulnerable to changes in the international market. In addition to the increased dependence on export, the economic structure has become much more versatile, which in turn has alleviated its propensity towards changes in demand and prices.

As a result of the change in the export structure, the share of the paper industry fell by more than 15 percentage points between 1960 and 1998, settling at a quarter of the total export. The export of the basic metal and engineering industries also represents approximately a quarter. In 1998, for the first time, electronic industry export exceeded the combined share of these other two central sectors. This reflects the profound structural change that has taken place in Finnish industry from capital-, energy- and raw material-intensive production towards technology- and knowledge-intensive activities. Finland, together with Sweden, is the most specialised of all the OECD countries in tele-cluster commodities. In the background is the rapidly growing investment in R&D, which raised its GNP share to three per cent in 1998.

In practice this success in export has been largely due to Nokia, which constituted 15% of the total export in 1997 and closer to 20% the following year. In other respects, too, Finnish export is strongly concentrated in terms of business enterprises. In this respect, the internationalisation of the economy still rests on a narrow basis. The four largest companies (Nokia, UPM-Kymmene, Enso and Metsä-Serla) represent almost half of the entire Finnish export. In these companies, exports represent between 50 and 70% of the turnover. One indication of the strong internationalisation among major business enterprises in Finland is that in 1997 the trade of the ten largest corporations' subsidiaries abroad almost equalled their export from Finland (ca. FIM 90 billion vs. FIM 125 billion). These figures are significantly higher than the domestic sales of these companies (ca. FIM 26 billion).

Finnish enterprises did not begin investing abroad on a larger scale before the mid eighties, when it became evident that an internal market would be established in the EU. In 1996 the EU countries represented two thirds of all direct investments abroad, whereas North America represented one fifth. In 1997 the stock of direct Finnish investments abroad was FIM 110 billion, which means that the figure has tripled over the nineties. Up to now, investments in Finland and abroad have been mutually complementary, but recently they

[6] This chapter is largely based on the following publications: Mika Pajarinen, Petri Rouvinen & Pekka Ylä-Anttila, *Small Country Strategies in Global Competition. Benchmarking the Finnish Case*. Helsinki: Taloustieto Oy (Sitra 203) 1998 and Mika Pajarinen & Pekka Ylä-Anttila, *Ulkomaiset yritykset Suomessa - uhka vai mahdollisuus?* (Foreign companies in Finland - a threat or an opportunity?). Helsinki: Taloustieto Oy 1998.

have also become rivals. This has slowed down the improvement of the employment rates in low-skill fields. About half of the work force of the ten largest industrial enterprises work abroad, whereas the corresponding figure was only 15% in 1983.

Direct foreign investments in Finland have also grown quite fast, although more slowly than Finnish investments abroad. In 1996 the stock of foreign investments amounted to some FIM 50 billion, 70% of which came from the EU countries and 12% from North America. In terms of international comparison, the share of foreign capital in Finland is still among the smallest in the industrial countries: of small countries only in Portugal the share is less. Nevertheless, the multinational corporations have a growing role in Finland: one third of the 500 largest companies are in foreign ownership. These companies are the most conspicuous in knowledge-intensive and service sectors and in construction. Foreign-owned companies, such as Kvaerner Masa-Yards and ABB, are also important in terms of Finnish exports. Altogether these companies employ some 100,000 people in Finland.

Foreign investors do not establish new production plants in Finland; instead they purchase operating productive enterprises with knowledge capacity. This is partly why these enterprises have had better success in the market than companies with Finnish ownership, where capital is often used unproductively. In view of the fact that they tend to boost the domestic market, these investments have mostly been positive and manifest an appreciation of Finnish know-how. On the other hand, the issue acquires a different dimension if it turns out that Finnish knowledge starts to drain out of Finland to a harmful extent through foreign investments.

There has been a lively debate on foreign ownership in Finland in recent years. It does not, however, concern all of the 1700 foreign enterprises operating in Finland, but focuses on a few large purchases and the activity of the Helsinki Stock Exchange. Major business arrangements have been made between Finland and Sweden (Merita Nordbanken and StoraEnso), in which domestic mergers have prepared the ground for creating a Nordic basis for participation in international competition. Arrangements in the banking and insurance sectors (Skandia, Pohjola and Sampo) have also been central in shaping the international and national ownership of Finnish industry. Any stand-taking on foreign ownership has to allow for the fact that the deals are generally made through the stock exchange. In other words, restricting it would require interfering with the public and free exchange of securities, which in turn is an essential part of globalisation.

The Helsinki Stock Exchange is today one of the most international stock exchanges in the world, when measured by the relative share of foreign ownership. It is also a small stock exchange where one single company (Nokia) has inordinate weight. Together with internationalisation, Nokia tends to boost its turnover and stock values, but also its volatility. One third of the stocks in Helsinki Exchange are in foreign ownership, but they represent about half of the market value. By contrast, in the Oslo and Stockholm stock exchanges foreign ownership represents one third of the market value, and in Frankfurt one tenth.

According to the Bank of Finland, Finnish listed securities were in foreign ownership to the tune of FIM 425 billion at the end of 1998, whereas the corresponding figure a year earlier had been FIM 172 billion. The purchase of new securities for FIM 47 billion meant an annual value increase of over FIM

200 billion. At the same time, Finnish ownership in foreign listed companies rose from FIM 17.5 billion to FIM 28.8 billion. The creation of the Euro Area and the dispersal of risks will probably mean that Finnish institutional investors in particular will increasingly concentrate on foreign securities. In spite of this, there will be a considerable imbalance between inward and outward investments, at least while the Finnish economy keeps growing and yielding extremely high profit for foreign investments in the international perspective.

So far, Finland seems to be at the receiving end of globalisation in economic terms. It has succeeded in diversifying its industrial structure and creating relatively more jobs in technology- and knowledge-intensive sectors than in the traditional ones. The rapid growth in exports based on domestic technology and the free mobility of capital have generated an economic dynamism which could not have been achieved in a closed economy. Globalisation, technological progress and economic growth have consolidated each other. On the other hand, the dynamic part of Finland's economy operates under insecure and unstable conditions: its success is highly dependent on the overall development of the world economy, which is currently in a crisis, and its ability to stay in the vanguard of technological development.

In sectors based on immobile production factors, such as agriculture and domestic market industry, the growth has been slower and the number of jobs has fallen, in places even drastically. These sectors are characterised by a low level of education and the ageing of the population, which will add to the cost accruing to society from unemployment benefits, public health costs and pensions. It seems that in low-skill and slow-growth sectors the problem of unemployment is permanent. This in turn adds to the polarisation of society and subsequently to exclusion, insecurity and potential instability.

5. Finland in the international competition for jobs[7]

The new global division of labour has intensified the competition for jobs between states and regions. They seek to create a combination of competition factors which will attract mobile international capital to invest in permanent business activities where wages are as high as possible. Although jobs too in this sense have become internationally mobile and are no longer nationally obedient, this competition should not be exaggerated: in the early 1990s international corporations had 75 million employees outside their base country, which amounts to only 3% of all the active work force in the world. The relative importance of the high-wage industrialised countries is constantly declining: in 1965 they represented one fifth of the global workforce, but the estimate for 2025 is only one tenth.

This means a rapidly growing supply of labour especially in low-wage countries, which already make up 60% of the global labour force. The consequence will probably be a growing pressure to transfer jobs into these countries whenever labour there is productive enough for the difference in wages to constitute a real asset in competition. The greatest pressures will no doubt be on the traditional sectors in the industrialised countries and on their low-trained labour. In some cases, even better-trained employees in the service and technology sectors may feel that their positions are threatened. The example often given in this context is Indian programme analysts.

As such, the question of how globalisation affects employment is a controversial issue, and there are no easy answers. However, studies agree on the whole that international trade has not significantly cut labour demand in the industrialised countries, nor transferred jobs to developing countries. Instead, as regards direct investments, there are examples which show that production and jobs are transferred to countries where the competence-costs equation is profitable. This is why part of Finnish textile and electronics production has been transferred to Estonia. Another question is whether the jobs would have remained in Finland if Estonia had not attracted these investments, or whether the jobs would have been established in a geographically more distant country.

Then again, the opening up of the Finnish economy has not led to the same kind of exodus of labour as feared. On the contrary, the growing number of immigrants and refugees makes Finland a country of positive net immigration. At the end of 1997, there were some 80,000 immigrants living in Finland, 22,000 of them in Helsinki; this Helsinki figure being the same as the total immigrant

[7] This chapter is based on Antti Kasvio's and Ari Nieminen's publications *Kilpailu työstä. Tutkimus maailmanlaajuisesta työpaikkakilpailusta ja Suomen mahdollisuuksista* (Competition for work. Study on the worldwide job competition and Finland's chances). Tampere: Tampere University Press (Sitra 221) 1999 *and Globalisaatio, työpaikkakilpailu ja Suomi - uuteen kansalliseen strategiaan?* (Globalisation, competition for jobs and Finland - towards a new national strategy?). Tampere: University of Tampere (Sitra 168) 1998.

number at the beginning of the nineties. Having been received more for historical and humanitarian than economic reasons, most foreigners have not been integrated very well into the labour market. The largest immigrant groups are from Russia, Estonia and Somalia.

Generally speaking, Finns are fairly competitive in the world economy: labour is still available, it is well-trained on the average, the basic structure of the economy works well, the political system is stable, and the economic legislation and its implementation are largely in order. Even the labour market is not as rigid as has been claimed, and the well-functioning tripartite collective bargaining system prevents negative surprises. Finland's membership in the European Union and the European Central Bank guarantees equal treatment of foreign enterprises, lowers transaction costs, and enhances predictability and stability. The fact that Finland was saved from the very worst impact of the recent economic crisis in Russia is one example of this.

During the recession, the employment rate even plummeted below 60%, but has now risen to 65%. Lower birth rates, the *de facto* decrease in the retirement age, and longer educational careers will decrease labour supply in the future. What complicates the issue further is that the gap between labour demand and labour supply is widening: the demand focuses on well-trained labour in the south, whereas unemployment is mainly a problem among the poorly trained and in the eastern and northern parts of Finland. If the economy continues to grow, Finland may soon be faced with concurrent labour shortages in some key sectors and a high overall unemployment rate. The present immigrant policy is no solution to this labour shortage.

In international terms, the level of education and knowledge among the Finnish workforce, especially the younger generations, is satisfactory. On the other hand, the level of education among the older age groups is not high. The financial input into education in Finland is among the highest in industrialised countries, although it is now on the decrease. A recent OECD comparison shows that the relative share of education in the Finnish public expenditure has fallen from the 1988 figure of 17.3% to 14.2% in 1990 and to 12.2% in 1995. This downward trend has dropped Finland from first to fifth place in the OECD. If the total financing allocated to education and training in Finland in 1990 is given the index 100, the 1995 value was 96. In basic education the same figure was 86 and in university education 123, which shows that higher education funding had grown in relation to basic education.

In both productivity and the quality of work organisations, Finland has traditionally been behind most industrialised countries, although the Finnish work ethic is high. In recent years, both productivity and knowledge have been growing rapidly, though this mainly concerns major export companies. The means to this end have often been to cut back the less productive workforce through redundancies, which has kept the unemployment rate high, and to make growing demands on the rest. In the circumstance of globalisation, there is really no other solution than to try to upgrade the qualifications of the less productive workforce and to lower the threshold for hiring new employees by means of fiscal and other social policies.

Labour costs are no longer the biggest problem in Finland's international competitiveness. They are only slightly above the average in the industrialised countries, this largely due to high indirect costs. One contributing factor is the judicious incomes policy, which together with a low rate of inflation has meant modest wage drifts. In the future the level of labour costs may also be influenced by the availability of cheap labour in areas adjacent to Finland. In addition, the slow-down in the growth of the world economy will probably enhance cost awareness. The adoption of the Euro may in turn facilitate the comparison of wage and other costs in the Euro Area. The most efficient and acceptable response to these pressures is to lower indirect labour costs, keep the employment rate high and differentiate the factors influencing labour costs in the different sectors of the economy.

This relatively reassuring summary does not, however, mean that Finland's position in the international competition for jobs is stable and predictable in every way. Competition in the world market is dynamic to such a degree that the situation of a state, a region or a business enterprise can change very rapidly. The inference from all this is that globalisation is not coming to a halt in the late 1990s but is about to enter a new stage of development. The international competition for jobs will continue and keep testing the institutions of Finnish society and labour market. This is why all the parties concerned will have to keep re-examining their position and to be on the lookout in regional and global markets for a combination of production factors which will guarantee lasting success. In this aspiration it is important for the private and public partners in a given area to be able to engage in cooperation which will generate technological and social innovations and interaction networks, as well as social capital in the form of mutual trust.

6. Regional development and migration[8]

Globalisation highlights regional factors and their ever closer linkage to the world economy at the cost of national considerations. The success of regions in international competition is largely based on their ability to attract production and services related to the networked information economy, as well as those generally competitive in the international market. Since it is not possible for all to do better than average in the market, the opening up of national economies, globalisation, will enhance competition and disparity between regions, which will distance and differentiate the nodes and peripheries of the economy from each other. This trend will naturally vary between geographical areas and production sectors. It is up to social policy to determine to what extent and by what means this inequality should be levelled out.

The status of Northern Europe in the international transformation of the regional economy is by no means unambiguous. On the one hand, there are indications that, with the enlargement of the EU, Northern Europe is becoming increasingly integrated with the rest of the continent. On the other hand, the economic centre of gravity in Europe as a whole is shifting southwards, although this trend is counterbalanced by the constantly improving means of transportation and communications between the north and the south. The unrelenting economic and social crisis in Russia complicates the development of wider regional cooperation, which is one of the points in the initiative for a Northern Dimension in the EU. Hence, it could be said that Northern Europe can develop a distinctive profile of its own in the economic competition by creating an advanced export industry of its own, on the one hand, and by providing a gateway for Russian energy and other natural resources into the EU market, where the demand for them is growing.

One manifestation of globalisation in regional development is the emergence of transnational economic zones across national borders. In the case of Finland, such contacts have emerged between southern Finland and Estonia, and at the northern end of the Gulf of Bothnia from Raahe on the north-western coast of Finland to Piteå, Sweden. Corresponding contacts exist across the southern Gulf of Bothnia from the Turku region to Stockholm and far up in the North Cap area. It would be crucial for the development of the eastern and north-eastern parts of Finland to get Russia on its feet, which would give a boost to the already significant cooperation with the populous St Petersburg area.

The long-term trend in Finnish regional development has been towards smaller differences in development, while the population has concentrated in southern Finland. True, not all the poorer regions have yet been able to catch up with the richest regions, which in the nineties have been Åland and Uusimaa. The poorest have been Kainuu, Southern Savo, and North Karelia in the east, and southern Bothnia in the west, which have largely had to rely on agriculture

[8] This section is partly based on the publication Paavo Okko, Asko Miettilä & Jari Hyvärinen, *Globalisaatio ja aluerakenteen muutos* (Globalisation and changes in the regional structure). Helsinki: Sitra (177) 1998.

and the public economy for their income and where, like in Lapland and northern Savo, the welfare ratio, i.e. the number of those depending on welfare in relation to the employed, is less favourable than elsewhere.

Thus, regional inequality has demographic dimensions as well, which have recently been aggravated by growing migration. Over half of the interregional migrants are young people between 15 and 29 years of age, who move to national or regional centres to study, work or seek jobs. From 1993 to 1997, only Uusimaa, Varsinais-Suomi and Pirkanmaa in the southern parts of Finland have experienced positive net migration, while Lapland, Kainuu and central and southern Bothnia have been faced with the largest exodus. Helsinki, Espoo, Tampere, Vantaa, Turku and Oulu have been virtually the only cities to have positive net migration.

On a more general level, the migration has been towards cities which have versatile production and service structures and towards university towns, whereas the populations and economies of municipalities with one-sided industrial structures have declined. A versatile production structure correlates with the distribution of R&D funds in the country: in 1997 Uusimaa received nearly half of the R&D input and Pirkanmaa 13% (Pirkanmaa in particular has gained owing to Nokia), while Varsinais-Suomi and Bothnia both had 10%. This being the case, the rest of the country was left with one fifth of the R&D funds. Uusimaa has the benefit of housing state research institutes, whereas the other major recipient regions gained relative advantage from the higher education institutions situated there. A good R&D and technological basis is virtually a requisite for efficient participation in economic and cultural globalisation.

The recession in the early nineties hit the regions in different ways. Åland, Kymenlaakso, Southern Karelia and the coastal area around Vaasa emerged almost unscathed as regards gross product, while Häme suffered relatively badly. Recovery has also been uneven, which has further added to the disparity between regions. This is especially evident when measured by market income, but still true when different income transfers are taken into account. The regional inequality does not follow any clear-cut line of demarcation; the critical determining factors are the unemployment rate and the location of export industry. Places like Oulu and Salo have had considerable benefit from the link provided by Nokia to the world market, but the relative income has also been growing in regions of traditional export industry, such as Jämsä and Raahe, but falling in areas which have been losing industry and export, such as Lahti.

The growing inequality does not only exist between large regions or provinces, but can also been seen for instance in the income distribution in the Helsinki metropolitan area. The difference in income between wealthy and poor residential areas has been growing in all the four cities there. This is due not only to an uneven distribution of unemployment and families with children, but also to different links to the knowledge-intensive and internationalising economy. Globalisation in fact adds to the polarisation of societies in that those who have production inputs good enough for the international market will benefit and those who lack them suffer.

On the whole, the Helsinki metropolitan area is the only region in Finland which has intense and versatile contacts with the global economy. In 1995 it had 42% of all the jobs in the information sector and 48% of the turnover of the businesses in this sector, while the corresponding figures in all the sectors were 27% and 29%. The position of Helsinki is still stronger in strategic management services (50-70% of the whole country), such as ICT, advertising, corporate law and consultancy services. It is obvious that what this indicates is accumulating development: international corporations and the services they need seek each other out. On the other hand, it is worthwhile to note that regional centres which have succeeded in specialisation, such as Oulu and Tampere, may also have direct and useful global contacts.

An examination of regional development in the light of several economic variables shows at the same time that in the nineties the regions fall roughly into three different groups. First, the success stories are, as noted above, Uusimaa, northern Bothnia, Pirkanmaa, Varsinais-Suomi and the Vaasa region. One point worth making here is that besides their knowledge capital, most of them are situated in coastal regions and are thereby more open to external interaction. Secondly, Lapland, Kainuu and southern and central Bothnia have lost in nearly all respects. Thirdly, the rest of the regions fall in between, manifesting both positive and negative development.

A region's relative share of high-technology and net migration seem to be the factors that best explain success in interregional competition. To put the role of internationalisation in the right perspective, we should point out here that growth in industrial export does note correlate very well with other success factors. In other words, regions can also achieve economic growth by "exporting" to the domestic market.

7. Politics and culture[9]

Closed societies tend to be hierarchical and bureaucratic and to believe in authority - hence they are likely to be conservative. They are governed by a centralised, either autocratic or half-democratic machinery, which also has a strong grip on the economy. The opening up of a society promotes pluralism, because under its influence group interests diverge and new intellectual stimuli come from the outside. This evolution is also accompanied by privatisation, which entails different ways of interpreting reality and thereby replaces the absolute with the relative. The demands for expertise and knowledge challenge the traditional bureaucracy.

This trend is not, however, fast and linear, but on the contrary slow and meandering. Finland has long been a state-centred society characterised by both national and cultural protectionism. This has been complemented by a focus on rural values and the notion of social custodianship inherent in the welfare ideology. The aim of protecting citizens and the idea of state-led activation have been reflected in the social steering of the arts and mass communications as well as alcohol consumption. This trend gained more impetus from the planning ideology of "grand schemes" in the sixties and seventies, which was predominantly a foreign import. Globalisation - the lowering of material and intellectual boundaries, a market-driven economy and progress in ICT - has now cut the ground from under social patronage and protectionism.

As a result, the unified culture is disbanded, and the Finnish national self-image has become more positive, because there is no longer need for the powers that be to stress shortcomings in order to justify patronage. The change has also been influenced by the rise in the level of education and opening up to the international community, which is seen in the gradual liberalisation of the immigration policy. The decisive factor was the dissolution of the state monopoly in electronic communications in the eighties and its subsequent opening to market forces. Civil society is also breaking away from the grips of the state; this is manifested in the emergence of global movements like the Animal Liberation Front in Finnish society.

Subservience has been replaced by clientship. The citizen is no longer subject to patriarchal patronage according to socially defined educational, cultural and behavioural ideals, but can choose the "cultural products" he or she wants from the markets, into which the state makes its own input. Although social services are offered in the market only to a limited extent and the public authorities are still in a dominant position in their provision, here too clientship is gaining ground from subservience. Clients no longer see the state as an authority but consider themselves entitled to services and their appraisal: the welfare state has

[9] The publications underpinning this chapter are Pertti Alasuutari & Petri Ruuska (toim.), *Elävänä Euroopassa. Muuttuva suomalainen identiteetti.* Tampere: Vastapaino (Sitra 210) 1999; Pertti Alasuutari & Petri Ruuska, *Post-patria? Globalisaation kulttuuri Suomessa.* Tampere: Vastapaino (Sitra 224) 1999 and Väyrynen, *Globalisaatio ja Suomen poliittinen järjestelmä.* Helsinki: Taloustieto Oy (Sitra 222) 1999.

become an acquired right. In return, the state stresses the need for personal initiative: in the final analysis it is the individual that has the responsibility for acquiring the education and training and other tools needed to earn an income. As society keeps turning into a network of client relations, it becomes a sort of bargaining system between producers and consumers.

Citizenship and nationality are also changing in Finland. The era of economic and cultural protectionism, which strengthened national factors, is over and is giving way to gradual de-nationalisation. This development has given rise to opposition, which is reflected in the political debates concerning the membership of the European Union and the Monetary Union and foreign ownership of enterprises. As a counterbalance to globalisation and integration, emphasis has been given to the importance of national sovereignty and identity and "blue-and-white" capital. Nevertheless, no political anti-globalisation movement or grouping is in evidence; opposition surfaces separately in different political parties, interest organisations and smaller groupings. The demarcation between the national and the international clearly divides the Finnish political system into two.

Opinion polls conducted among party sympathisers indicate that the strongest accent on national aspects is found in the Christian League and the Centre Party, whereas the Coalition Party and the Progressive Finnish Party take a more positive view of globalisation. The Social Democrats seek a balance between the national and the international, and for the Swedish People's Party sympathisers, 'international' mainly means 'Nordic'. The Left Alliance and the Green League give more stress to environmental and social considerations and thus cannot be pinned down on the international-national axis.

These observations indicate that attitudes to globalisation do not follow the traditional right wing/left wing perspective, the explanation must rather be sought in the history of the party ideologies, as well as the parties' commitment to different industrial and social groupings. Research into the internal impact of globalisation on states shows that the attitude of political parties and interest groups is influenced by their material status. Globalisation benefits those that have mobile production factors under their control, whereas groups dependent on immobile specific factors suffer economically. In this light, it is fair to assume that the attitudes of the Coalition Party and the Social Democrats are influenced by their association with export industries and banking capital, while the Centre Party and the Left Alliance, being closer to the home markets and agriculture, take a more critical view of globalisation and integration (even though the Centre may be swayed in the other direction by its links with the forest industry).

The opening up of the economy also has more general consequences for the Finnish political system. The closed economy was characterised by the emergence of inner circles both in the world of business and its relations with policy-makers. In business enterprises this easily led to decisions made on grounds other than purely economic, and to an unproductive use of capital. Policy-makers, on the other hand, had their own established relations with interest groups, which contributed to election funding and to other purposes. In return, the policy-makers dealt out the benefits of the regulation and subvention economy. Similar action is not possible in the open economy, nor is there a need for it. Its business enterprises expect the political decision-makers to come up with solutions which ensure a stable cost level, a balanced national economy and competitive labour, as well as an efficiently working economic infrastructure. This change in the relationship of the economy and politics has not been easy in Finland, but has created tensions between the proponents of the "old" and "new" models.

These tensions are seen, for instance, in the parliamentary debates on the foreign ownership of real estate and business enterprises in the nineties. Whereas in 1992 the main concern was the German ownership of lakeside areas, the discussion about the Stora-Enso merger in 1998 was much more comprehensive, manifesting both analytical and populist tones. These were heard in the opinions in favour of markets-first and those advocating "strategic Finnish ownership". The representatives of the Coalition Party were most consistently ready to allow foreign ownership, whereas the Left Alliance saw this as a threat to employment and regional policy. Those affiliated with the Centre Party and particularly the Social Democrats were split into different schools of thought, but the strongest opposition to foreign ownership was found in the Centre. These parliamentary debates, as well as the accompanying lively public discussion, show that foreign ownership crystallises the Finns' attitudes to economic globalisation.

With globalisation and integration, economic and other social policy has internationalised and also internalised part of foreign policy. This change has undermined the President's influence while increasing the Government's weight, which was subsequently also recorded in the Constitution. It also highlighted the autonomy of the Bank of Finland in monetary policy up to the point when this autonomy was handed over to the European Central Bank in Frankfurt. The fact that decisions have become increasingly complex and real-time has further added to the significance of civil servants in the preparation and implementation of matters. This in turn has to some extent taken place at the cost of Parliament, although it has sought to renew and intensify its working methods in order to ensure its influence and thereby democratic substance in the open economy.

The internationalisation of the economy provides a basis for demand for flexible arrangements in the labour market and for transferring relevant decisions to individual production sectors and enterprises. The question of the general validity of collective agreements is connected with the attitude to these demands. On the other hand, the need to maintain a stable price level and a balanced fiscal policy speak for tripartite cooperation between the state, employers and employees, because it promotes a moderate wage policy and productivity. Studies indicate that the best end-result in economic terms can be achieved by means of either a centralised or a purely market-based labour market model. Considerations of social stability and equal opportunity speak for the centralised bargaining model. However, this model cannot work in the circumstances of globalisation unless it allows for sufficient flexibility within individual sectors and enterprises.

II HOW TO RENEW IN A GLOBALISING WORLD

1. Reform principles

Finns are faced with the question of how to renew a welfare-oriented, contract-based society in radically changing international economic and political circumstances. The renewing society cannot be built on growing pubic spending in the manner of its predecessors; the changes must be qualitative rather than quantitative. One such qualitative element relates to a more extensive use of the market in an effective mobilisation and division of social resources. Globalisation and the market go together, but they also need to be counterbalanced by the communality generated by the civil society and the state's contribution to the reform policy. To be sustainable, the market must be internalised as part of the structures and objectives of society. The economy and society go together: the market as such has no morality, it must arise from society itself.

Globalisation and integration mean that all the sectors of society are drawn to the international competition and regulation. The borders of the nation state no longer make protectionism possible, but have to yield to participation, interaction and interdependence. In this new situation, it is vital to agree on the rules to be applied in society to keep it operational, coherent and democratic. The rules must be based on the objective of keeping and renewing Finland as a welfare-oriented contract society of equal opportunity. This entails socially and regionally balanced growth, a smoothly running and coordinated labour market system, competent participation by citizens in economic activities, and collaboration between the public and private sectors. These rules cannot be devised by a one-man committee, they have to emerge from social debate and even from conflicts.

In the globalising world economy, success is only possible for a critically self-conscious society. Consensus about the rules of the game need not mean unanimity about every single objective, only about the basic principles underlying society. One manifestation of the need for rules is the various and conflicting economic and political interests involved in the privatisation of state enterprises. In fact, the rules of the game gain more significance as political instruments are being discarded or they lose their effect owing to globalisation.

2. Working life in transition

In international terms, the structural change in the Finnish economy during the nineties has been rapid. The transition reflects the opportunities opened up by globalisation and the new demands issuing from it. In the global competition, Finland has opted more clearly than others for a knowledge strategy. It is in fact a natural choice for a small country in the face of globalisation: to specialise and try to allocate resources where the growth in production and income appears to be strongest. Finland is fairly well equipped to pursue this policy: human resources, education and training, and knowledge are available in society, even if the ageing of the population creates new problems and there is room for improvement in the allocation and cost-effectiveness of educational investments.

The productivity of labour has clearly grown faster in the private sector, which operates in the international market, than elsewhere in the economy. Furthermore, Finland has made progress in the modes of operation used by work organisations, although inflexibility at many levels remains. The competitiveness of labour costs is one aspect to which Finland must continually pay attention, even if our prices have been more competitive than the long-term average in the past few years.

On the threshold of the 21st century, working life is undergoing sweeping changes. As the progress in information technology proceeds and the global competition intensifies, many old jobs are disappearing and new ones emerging. Jobs are vanishing in recessive, low-skill sectors, whereas new jobs often demand specialised knowledge and skills, which makes it difficult for the poorly trained to find jobs. As a result, the income differences keep growing, and there are concurrent labour shortages and unemployment. The knowledge strategy provides no answers to the unemployment of the poorly trained, and this problem seems to be here to stay. Work itself is more and more project-like: employees are required to produce results constantly, but employers do not readily commit themselves to permanent employment.

Citizens must increasingly assume responsibility for their own employment, this is one feature which comes with an increasingly market-driven and individuality-oriented society. Individuals must constantly upgrade their knowledge capital in order to keep up with the rate of change throughout their work careers and thereby succeed in the labour market.[10] The growing stress on individual knowledge and skills raises the interesting question of who owns information and in what way. Since the knowledge capital and those who carry it are both nationally and internationally mobile, it begs the question of how

[10] These and relevant considerations have been extensively discussed in Sitra's information society projects; see e.g. Quality of Life, Knowledge and Competitiveness. Premises and objectives for strategic development of the Finnish information society in Sitra (211) 1998 and Johanna Korhonen & Hannu Sokala (eds.), Tietoyhteiskunnan arki. Tiedon ja taidon tie (Everyday of the information society. The way to knowledge and skills): Helsinki: Sitra (207) 1998

their commitment to their employer can be ensured, on the one hand, and to what extent they are entitled to the proceeds of the enterprise and to influence its decisions. Finding answers to these questions in fact requires a new kind of employment relation ethics and its institutionalisation.

Economic specialisation has brought with it a new kind of dependence on information and communications technologies, which are progressing more rapidly than any other sector in the world economy. At the same time, it also involves a number of risk factors relating to uncertainty and eventual technological discontinuity. The growth prospects of ICT are still excellent. However, the strong concentration of resources makes the development of other potential growth sectors vulnerable and may even harm them. The concentration of resources into one field locks progress onto one track and increases the risk that advanced production factors needed in other sectors are not generated to a sufficient extent.

3. Decision-making in the economy

The rapid technological progress in the global economy is accompanied by an ever closer integration of capital markets and mobile investments seeking high profits. Ownership has become increasingly international in Finland, going in two directions. Major Finnish companies have invested abroad and international capital investors have directed their funds here. An efficient use of Finnish know-how will continue to require that foreign capital keeps flowing into Finland: in fact, input into knowledge and the economic potential generated by it will attract money interested in such qualities. From a wider perspective, what is involved here is the competitiveness of Finnish production, which also motivates potential buyers. In this respect, the influx of foreign capital into Finland can be considered a vote of confidence for Finnish know-how and competitiveness.

Problems arise, however, if the power to decide on the utilisation of Finnish know-how and the use of the economic values it creates begin excessively to drain out of Finland with foreign ownership. In this case, decisions concerning Finnish work and know-how could be based on foreign shareholders' short-term profit expectations, and Finnish business and industry could even be used as a resource to finance operations elsewhere.

Hence, an essential component of the Finnish knowledge strategy should be to encourage the emergence of sufficiently strong owner groups, who could take strategic action when important reorganisations in production and ownership are made. Finland also needs more venture capital. These questions cannot be solved at the business level alone; what is needed is the contribution of the actual investors. National commercial banks or insurance companies will no longer take on this task, as they did in the times of the closed economy. Rather, it is increasingly evident that they will sell their strategically important investments in Finland after international mergers.

The largest mergers have so far been intra-Nordic; in fact, a very strong Finland-Sweden axis is emerging in the economy. Unlike some of their Swedish counterparts, Finnish companies have not merged with companies outside the Nordic countries. It is probably a question of time, however, before it turns out that the basis provided by the Nordic arrangements is too narrow, and larger European solutions will have to follow.

One important consideration in the ownership of companies is how the pension funds are invested. This concentration of assets is already being rearranged on a stock basis, after the relaxation of norms made this possible. With hindsight it is easy to say that the regulation should have been dismantled before foreign ownership was allowed, because this would have strengthened the Finnish ownership base. The corporatist pension system was not, however, able to pursue this option. The essential question in the present situation is how rapidly and to what extent it is possible to buy stocks with pension funds without raising stock prices to an unrealistic level. Another source of financing could be to convert household savings into stocks to a larger extent than is now the case, although fiscal policy and the risks involved speak against this solution.

Another thing to be taken into consideration is that Helsinki will probably remain a small local marketplace, and globally operating corporations will make their financial transactions elsewhere. One indication of this is the growing cooperation between the Helsinki and Frankfurt Stock Exchanges and the decisions of international Finnish companies to transfer part of their financial activities to international centres. Furthermore, stock exchange transactions increasingly take place electronically, which means that the physical market place has less and less importance.

Corporate governance is moving towards the American style in Finland, too. This makes the short-term development of stock values the guiding objective of operations. At the same time, the corporate leadership have more say in decision-making and reap more personal benefits, though their position simultaneously becomes more precarious. In terms of efficiency, this has certain positive sides, but problems emerge if regulations on insider trading are not respected or if key groups, including corporate management, are able to promote their own interests at the cost of the stockholders. The mergers and demergers inherent in the American model also impair the employees' position because of the threat of redundancy involved in them.

The stock options offered to the corporate leadership in Finland are a concrete manifestation of Americanisation. As such they are an acceptable way to commit the management to a knowledge-oriented and internationally mobile corporate capital, but they cannot exist in isolation from the social and corporate culture of the country where the company operates. Entrepreneurship is part of society, and there is no way around this fact. The question is not only whether the options are legal, but whether they are just and fair. If they are generally seen as unfair, they will undermine mutual trust and norms in society. As a consequence, people assume that, given the chance, they can act just as self-servingly in their own affairs as the "option millionaires".

As a result of the ongoing transformation, the corporate executive boards will increasingly include representatives of major institutional stock investors, who will thereby wield power and have an important role in overseeing corporate leadership in the global capital market. Whether they will be foreigners or Finns will largely depend on how the Finnish financial institutions and market develop. (Both have traditionally been small and weak, and mistakes have been known to go unpunished.) Failure in this respect will mean that international investors lose their confidence, and capital flows start to ebb. The need to enhance credibility may in turn add to the pressures for major Finnish companies to transfer some of the operations of their headquarters to European business centres.

One possible scenario is that Finland must respond to the opportunities and threats inherent in globalisation at three different levels. First of all, social institutions must be rendered more capable of operating in an open and global world economy. The institutions, which are a legacy from the closed economy and politics, must be put to the test of feasibility and functionality. Secondly, a country like Finland cannot do well in the global world economy without strengthening its human capital at the level of the population as a whole and not only among the élite. A knowledge strategy entails a society of equal opportunities where exclusion is kept in check. But since the accelerating market competition limits the resources and even the means available for social policy, a new concept of welfare state and welfare policy is needed.

4. Renewal of the relations between politics and working life

Globalisation means growing market-orientation in society, which requires lighter and more flexible structures from its institutions. This demand comes above all from big international corporations, which do not want to be saddled with new costs by the country where they operate, nor to be regulated more than is absolutely necessary. On the other hand, the protective, guiding and coordinating mission of the state has lost none of its significance in the global world economy, not even from the viewpoint of big companies. On the contrary, it is obvious that public power is needed to the same extent as before, albeit in different tasks.

The open economy also needs the state to fill in the gaps left by the market and to determine the rules of the game. The market cannot operate without the institutions, rules and implementation mechanisms created by public power. In addition, the state may be needed in the capacity of a strategic owner, and in any case it can draw financial benefit from participation in the stock market. The government is losing some of its significance in the labour market, because it cannot afford to finance large-scale reforms or to influence the economy by means of currency policy. Yet the government would do well to cooperate with the labour market partners even in an open economy. The tripartite system may not be the ideal way to manage labour market relations, but, as far is known, nothing better has yet been invented to take its place.

Owing to the transformation in the labour market, the established social structures in the industrialised countries are facing new challenges. Their aim has been to build a coherent wage-earner society where collectively bargained terms of employment bind all the parties and to keep wage differentials between fields and occupational groups at a reasonable level. One important social policy objective has been to achieve full employment in which permanent full-time employment relations are seen as the primary form of participation in the labour market.

This line has helped Finland to achieve relatively good results. This can be seen in women's high employment rates and, up to the early 1990s, lower unemployment rates than in the other western industrialised countries. A closer observation reveals, however, that the jobs were mainly being created in the public sector, whereas in the private sector the employment threshold has risen to a very high level because of the broad tax wedge and minimal wage drift. This makes it difficult to employ less qualified persons, and is partly the reason for recent demands for larger wage differentials.

The demand has been that unemployment benefits and other social income transfers should be overhauled to give incentive for those living on social support to seek employment more actively. Another demand is that it should be possible to require those living on social benefits to take part in training, to look for jobs more actively or to perform different task for the public good. Following the British, Dutch and Danish models, Finland has been trying to create a national employment policy model which would allow more flexibility and incentive.

In other words, the globalisation of the market poses new challenges to social institutions; they have to become more flexible and efficient without increasing expenditure. Relating to this, the trend is towards increasing the citizens' duties and initiative. The demands issuing from the market-driven globalisation are, however, a moving target: reasons for relaxing social regulation and curtailing costs keep cropping up. Although it is expedient, and even indispensable, to adjust to globalisation, it is necessary to have the nerve to set limits to it. Otherwise it will lead to neo-liberalism of a kind that will undermine the position of citizens and the stability of society, and may even end up turning against the long-term interests of businesses.

The desire to set such limits can be seen in the labour movement's staunch opposition to proposals for revoking the general validity of the collective agreements and abolishing earnings-based unemployment benefits. On the other hand, the labour movement has accepted flexible arrangements within the collective bargaining system. The defence of the collective bargaining system can be seen as an understandable response to the fragmenting and individualising forces in globalisation. On the other hand, if this policy boils down to defending specific benefits and prevents the mobilisation and productive use of economic resources, it will be against the interests of society as a whole. For instance, exclusive sector-specific arrangements may prevent resources from being transferred to new sectors of greater growth potential. In this respect, the centralised tripartite framework agreements appear to be a better alternative after all.

5. Challenges for democracy and individualisation

One important quality of the current social change is increasing individuality. The dissolution of traditional social ties and values, the rising level of education and knowledge, and the opening up of the world due to the media and opening borders enable individuals to orient themselves to their environments at first hand. Globalisation opens up opportunities, but also creates conditions conducive to social alienation.

These changes influence the citizens' attitudes to social institutions, be it the judiciary, the social welfare office, the army or the church. These institutions no longer have the same authority they formerly did. In Finnish society the shift has been from subservience to client relations in which people operate on a market basis, assessing the benefits and costs, rather than on the personal level. This kind of a change naturally also influences the conception and significance of citizenship.

Instead of a democratic and altruistic citizenship, this conception stresses a self-centred or even apathetic citizenship. They constitute a challenge to the coherence of society, because neither of them see collective commitment as necessary, albeit for different reasons. This cannot but render politics more complicated and tentative. It is probably against this background that we should see the stress given by the Parliamentary Committee for the Future to the need to maintain stability, coherence and mutual trust in society faced with change. Safeguarding trust within society is emerging as a key question in social development.

On the other hand, Parliament's concern reflects the fact that globalisation challenges the status and justification of the political élite by introducing new resources and principles into society. The cutback in the public sector erodes the opportunities to channel funds and allocate posts on political grounds. This diminishes material incentives, and the distribution of rewards increasingly takes place through the market. Many élites have lost some of their credibility in the eyes of citizens, and their word is no longer taken on trust as earlier. On the other hand, the civil service élite in particular has kept its strong grip on the administration. The state thus retains its administrative power, but is losing its role as an object of identification.

It is conceivable that by moving the point of gravity from the state to the individual and the market, globalisation has contributed to, although not alone caused, the crisis of rationality and motivation in society. With these problems, confidence in the state's ability to act in the best interests of its citizens has weakened. The upshot could ultimately be a legitimacy crisis, with which society economically divided by the global market starts to become politically and culturally fragmented. A legitimacy crisis of this magnitude is not a very likely prospect in advanced industrialised countries, but, as the examples of Indonesia and Russia show, we should never underestimate the pressures generated in society by an economic crisis and globalisation.

Other factors contributing to the loss of the state's credibility are the rising standard of living and the changing industrial structure, which have consolidated the position of, and identification with, the middle classes in all the industrialised countries. The fact that most citizens have relatively secure incomes has shaken the belief in the necessity of collective solutions and the relevance of the state in society in general. Globalisation may challenge this thinking, if it should weaken the position of the middle classes, add to job insecurity and increase social exclusion. On the other hand, this kind of a change may rekindle the middle classes' interest in the welfare state and the services it provides: the planning ideal of the sixties and seventies gave way to strong market-orientation in the eighties, and it is quite conceivable that in the new millennium people will again start entertaining certain expectations with regard to the state.

It is for these reasons that globalisation is a challenge to democracy. The autonomy of the market and growing internationalisation will chip away at citizens' political influence. The forms of democracy will prevail, but the running of society will in practice become more and more élite-driven, notwithstanding citizens' declining confidence in it. The forms of political management in the world economy are not only partial, but even more élitist than at the national level. The need to put democratic structures in place at the regional and global levels is as obvious as it is difficult to realise.

On the other hand, since the opening of the economy enhances the citizen's opportunities, globalisation clears the way for democracy, as has happened over the past two decades in Latin America, Central and Eastern Europe and Asia. In this way, globalisation appears to create a twofold movement in democracy: promoting forms of democracy in authoritarian societies, but in democratic societies undermining participation and influence, which are intrinsic to the very idea of rule by the people.

Trends of this kind are also visible in Finnish society. Citizens' participation in politics, even at the polls, is falling, and anti-political feeling, or at least indifference, is taking ever deeper root. A considerable number of citizens, especially the young and the poorly trained, are becoming passive and excluded from society. Another growing trend is an instrumental attitude towards the state: it is seen as a provider and distributor of public services and not as an object of identification. So far, these changes have not led to any serious consequences, but we cannot exclude the possibility that both the advantaged and the disadvantaged start making more clamorous demands for influence, especially if a recession occurs.

The political institutions must be ready for a change, but the problem is what form it should take and where the line is to be drawn. The foremost question is how to strengthen representative democracy. The Parliamentary Committee for the Future has aired its concern that Parliament is tinkering with small details, while the major policy lines are drawn by civil servants. This is no doubt as much a manifestation of the weakness of politicians as the strength of the civil servants. One possibility would be to apply the Committee's model of action to the work of other parliamentary committees, where applicable, so that, in addition to technically processing the Government's proposals, each committee would seek to determine the most serious problems in its sector and outline possible solutions to them. In this way, the committees would create a strategic frame of reference, including relevant objectives and means.

What globalisation and integration require from political decision-making is not only strategic thinking, but also efficiency and expediency. This makes special demands on those preparing decisions, who should be well versed in international developments, as well as having an understanding of Finnish social reality. The division into "international" and "national" officials is impossible and downright detrimental. What matters is their international experience and knowledge. Accessing information is not difficult, the point is how this information is put in the service of decision-making. Globalisation highlights the need for competence in the civil service. This is why special attention should be paid to its recruitment, training and salary practices.

6. Global governance

The market is a good servant but a poor master. Instead of autonomy, the market should be integrated into society in a way which allows its positive elements to be utilised and its negative effects, such as inequality, to be controlled. As the obstacles to, and the cost of, economic exchanges keep decreasing, globalisation enables ever larger international corporations to be created. The recent crisis in Asia is often thought to show that globalisation has slowed down or even come to a halt. This scenario seems unfounded. If anything, the trend in most sectors is towards global conglomerations which divide the market between themselves by regions and by commodity groups. The wave of mergers advancing in the automobile, oil and forest industries is one example of this. Furthermore, it is fairly certain that the leading international concerns in the financing sector will first integrate into vast financial department stores and then extend their operations to cover the whole world.

This concentration of business will create transnational giants whose operations require totally new rules. Global management must be intensified and renewed, for instance in the financing and telecommunications sectors. Practical experience indicates that globalisation enfeebles the norms formerly governing the market. The networking of international business and outsourcing add to flexibility, but these networks have no means of policing agreements and penalising those who break the norms. This task can ultimately be performed only by states and intergovernmental organisations, both of which are constantly needed to steer globalisation. At the same time, the tasks performed by the state become increasingly international and extend outside its borders.

New measures for controlling the impact of globalisation are also needed within societies. The crisis in Asia shows that local legislation and administrative supervision are not always up to standard in the industrialising countries. What is needed is more efficient bankruptcy legislation and banking control to prevent unsound business activities financed on political grounds. For example, the authorities in the countries currently in crisis had no actual idea of the extent of the domestic and foreign debts of businesses and banks. Globalisation also increases the need for comprehensive and efficient competition policy. Without it, it is not possible to prevent abuse of a dominant market position. Fortunately, European Union competition law seems to work very efficiently. Overall, deeper regional integration in particular tends to make the member states ready to develop a common competition policy. But then, creating a worldwide competition policy is a much more complicated undertaking.

7. Knowledge strategy

Finland has systematically sought to stress innovation, knowledge and skills as a means of finding its place in the globalising and liberating world economy. These overall objectives have been determined in various programmes devised by the Science and Technology Council of Finland and the Ministry of Trade and Industry, whose ideas and recommendations are largely based on OECD studies and programmes. Without exception, these programmes stress the role of knowledge as a production factor and as an indispensable element in effective participation in regional and global economic integration.

This again is connected with the need to strengthen the competitiveness of businesses and to create new production in Finland. The latter was examined in 1992 by a "neo-industrialisation" committee, according to which a competitive innovation system and an innovative atmosphere are prerequisites for successful industrial development and for making the country attractive to industrial investments - both domestic and foreign. Another view, with different priorities, was expressed in the national educational and cultural strategy devised by the Ministry of Education in 1994. According to this strategy, growing investment in education, training and research should not be seen too one-sidedly as a tool for enhancing competitiveness, but it should also promote educational and cultural quality in society.

Finland has intensified its scientific and technological cooperation both within the EU and with multinational joint undertakings like ESA and Eureka throughout the nineties. One in-depth report on the participation of Finnish businesses, educational and research institutions in the EU framework programmes shows that Finland is among the very top in relation to its relative contribution and somewhere midway in the number of research personnel. The financing received by Finland from the four framework programmes amounted to ECU 27 million, of which co-financed projects made up ECU 207 million.

On the other hand, the official Finnish programmes mentioned above hardly refer to the need for scientific and technological cooperation with Japan and North America. Just as globally operating businesses have come to realise that they have to be present in all the three corners of the world economy triangle, successful innovation strategy also requires cooperation with centres outside Europe. However, there are signs that Finland's scientific and technological cooperation with the leading centre, the United States, is declining.

The political élite in Finland has been unanimous about the central role of knowledge strategy in efforts to adjust to the globalising world economy, despite some individual differences. It appears that ever since the Holkeri Government (1987-91), both the Minister of Education and Science and the Minister of Trade and Industry have clearly been in favour of a research- and technology-driven knowledge strategy, whereas the Minister of Finance has been less enthusiastic. The difference appears to be institutional rather than party-political. In any case, thanks to the input of business enterprises and the government's interest, the relative share of R&D expenditure has risen to three per cent of the gross domestic product. This is also partly due to the additional funding allocated to the Technology Development Centre (TEKES) and the Academy of Finland.

Education and training is not doing very well in Finland, despite the political commitment. An examination of the development and distribution of educational funds in the nineties shows that only resources allocated to adult education and research have remained unchanged in terms of budget and GDP shares, whereas the resources allocated to general, vocational and university education have been falling in relative terms over the nineties. Higher education funding has taken an upward turn in recent years, it is true, but in basic education this has not happened yet. From the perspective of education and its funding, the bottlenecks in the Finnish knowledge strategy seem to be in basic rather than in higher education.

In the long run, the higher education system, in which overall funding has been on the increase lately, may have to suffer from the fact that its foundation stone, basic education, is not doing well. For instance, engineer education is already hampered by the relatively weak status of mathematics and the natural sciences at school. Faced with dwindling resources, the comprehensive school may not be able to keep up the interest of all the pupils, which in turn leads to a sense of exclusion and recoil in the form of poor knowledge and skills. According to some studies, educational investments have not yielded very good results measured by the criteria of growth and employment, but more facts are needed on this relation. One central challenge to the knowledge strategy is to ensure balanced and effective relations between education and industry.

One prerequisite for growing research funding has been that since 1997 funds accruing from the privatisation of state companies have been partly allocated to the promotion of R&D. This privatisation-innovation link has been an original Finnish - and obviously effective - way to respond to globalisation: the state relinquishes its majority shares, giving latitude to the market, but part of the funds thus gained are invested in the basic R&D structure and practical action. This creates a basis for new products and methods which can be used to pursue profits and market shares.

Although there is no formal link in the budget between the proceeds from the sale of state companies and the increase in R&D financing, it can be estimated that part of the increase of 3.5 billion over the period 1997-2000 is intended to come from the privatisation funds. For effective knowledge strategy, it would be justifiable to carry on this link between privatisation and the financing of innovations in the future, and perhaps even extend it to basic education, towards whose financing the Church could also contribute.

What limits are there to the knowledge strategy in Finland? The size of the country naturally is the first constraining factor. As is well-known, Nokia alone could employ all the experts who graduate in the electronics and telecommunications fields in Finland. Since there are other potential employers for them, education and training in these fields could be expanded substantially. The problem is, however, that the operational perspective of a business enterprise is a few years at most, whereas employees, even those ready for retraining, operate in cycles of ten to fifteen years. Should the market conditions or corporate strategy change, the result could be unemployment for a substantial number of employees in a formerly popular field. It is thus in the interests of society not to invest too much in one single field, let alone one single company.

This also shares out the economic risk and prevents one-sided dependency on the world market.

If the aim is to insure against the volatility of the global markets, it is necessary to develop a versatile industrial structure. In Finland, for one, measures are already being taken to create a cultural industry which has international demand and to develop relevant know-how into an export commodity. This trend has been promoted by means of a programme for centres of expertise launched by the Ministry of the Interior for the period 1997-2000, which also involves other areas than purely industrial undertakings, such as the Centre of Expertise on Tourism at the University of Lapland, the Centre of Expertise on Music in Kuhmo and centres on cultural industry in Uusimaa and Varsinais-Suomi.

Instead, Finland has not so far taken serious steps to develop a "university industry" for the international market, although, if successful, it would add to the domestic resources and bring currency in the form of tuition fees. Indeed, seeds of such activity exist, for instance in the Arctic University Network and in some technology fields. Developing a "university industry" would require a national strategy, in which the universities would agree on their respective areas of expertise and a division of work. Any international university provision should presumably include the centres of excellence appointed by the Academy of Finland, on the one hand, and disciplines in international demand and open-minded combinations of them, on the other.

The problems of a small country are also seen in the small size of age groups. Finland has set highly ambitious targets in higher education for raising the knowledge level. This has given rise to doubts that Finland is falling into the trap of over-education. Not all occupations by any means require higher education degrees. Even though education and training always pays, excessive investment in it may lead to a still less cost-effective use of the capital invested in education.

Even high-standard knowledge does not turn into profitable business without entrepreneurship, advanced business know-how and the capital needed to establish new business. The fundamental question is how Finnish business and industry can shoulder their responsibilities in creating the national knowledge strategy in response to globalisation. Success in this is by no means self-evident. The state and industry must also be able to cooperate in questions relating to knowledge. It goes without saying that education and research are not intended solely to satisfy the needs of business and industry, but nor can their needs be ignored.

8. Welfare state and its financing

The present Finnish welfare state grew out of the traumatic experiences of the thirties and forties, and the need to respond to the ideological challenge of the neighbouring socialist planned economy. It was emphatically a welfare *state*, because tax funds were distributed in the form of income transfer for the purposes of social equalisation. Another justification offered for the welfare state was the need to put right the failures of the market in the implementation of social aims (which indeed is not the market's job). As its name indicates, the welfare state is a national construction. However, with economic integration at least a Nordic, if not a European social model has emerged, which justifies us to speak of the welfare state as a regional concept relating to EU activities.

The Finnish welfare state will enter the new millennium saddled with the repercussions of the deep recession of the early nineties. A large public debt, unemployment and the comprehensive role of the public sector in society mean that nearly half of the domestic product is taxed away and used either to pay interests, to produce public services or to be redistributed through income transfers. According to a comparison made by the Ministry of Finance, the taxation of earned income is heavy in Finland and hampers participation in the international competition for jobs. On the other hand, income distribution in Finland is one of the most equitable in the world, and for instance poverty among senior citizens has been almost totally eradicated. The benefits offered by the state have a very broad-based backing among the citizens.

The population of Finland is ageing rapidly, as the large post-war generation is approaching retirement age.[11] Further, the average duration of retirement has multiplied with longer life expectancy. The corollary of ageing is a steep increase in pension and health care expenditure, as well as a fall in the number of persons defraying the cost. In anticipation of the increase in expenditure, part of the pensions have been consolidated, but the pension benefits have at least earlier grown more rapidly than the return on the consolidated funds, which takes away some of the significance of the funds in contributing towards the costs and highlights the importance of saving. But reduction in the benefits would transfer income from the present generations to the future generations in the form of lower contributions.

Economic growth is an essential factor determining the financial burden due to future social security. In a rapidly growing economy, there is less need for income transfers and it is easier to keep the promise of pensions. The earlier confidence in the state's possibilities to accelerate economic growth by means of extensive interventions has, however, gradually waned as the functioning of the

[11] The links between the financing of pensions and globalisation have been studied in Jukka Lassila & Tarmo Valkonen, *Globaalistuminen ja hyvinvointivaltion rahoitus* (Globalisation and the financing of the welfare state): Helsinki: Sitra (212) 1998. See also Jukka Lassila & Tarmo Valkonen, *Perusturvan rahoitusvaihtoehdot ja niiden vaikutukset talouden tehokkuuteen ja hyvinvointiin* (Alternative forms of financing basic security and their impact on the efficient functioning of the economy and welfare). Helsinki: Etla (B 145) 1998.

market has improved. As stated above, the focus is now on the competitiveness of such basic competencies as education, knowledge, and infrastructure.

The challenges facing the welfare state in the future relate above all to its financing. It is fairly commonly thought that the discipline which globalisation and the market forces demand in public expenditure is undermining the financing of the welfare state. In addition, the free mobility of capital across borders in search of the best profits, which is encouraged by the EMU for one, will make capital a low-paying tax base. The harmonisation of taxation within the EU will in turn diminish the revenue accruing from taxes on consumption, so that tax revenue will primarily have to come from income tax. It is not possible to extend the welfare state under the present circumstance by means of changes in the taxation structure or new taxes without simultaneously reducing incentives for and income from work.

In this context, the financing of the welfare state primarily means the financing of social security and pensions. There are naturally several alternative ways of doing this, anything from a purely private insurance scheme to a purely tax-based arrangement. The point of departure in this examination is the simplified assumption that in small industrialised countries like Finland, the welfare state has been mainly financed through taxation. The criticism levelled at this system is motivated both by appropriateness and ideology. The latter is largely based on the claim that owing to progressive taxation, the affluent have to pay for welfare cases, who then have no motivation to seek jobs. One solution offered to this problem is "workfare", i.e. work in return for public assistance.

This examination will, however, focus more on appropriateness than ideology. Financing the welfare state with tax funds involves two special problems. First of all, the high taxes this entails would soon lead to a narrowing taxation base and to tax evasion, which would add to the discrepancy between costs and income. Secondly, growing public benefits tend to increase the number of recipients, especially if they do not have sufficient incentive for entering the labour market. If public finances have their drawbacks, is it possible to create an alternative or supplementary system with fewer drawbacks but which would still keep welfare services at the former level? In the manner of the Economic Council of Finland, we could base the analysis on the finding that the welfare state supports economic growth and is therefore worth preserving, but its negative incentives are growing.

One key question is what opportunities and risks are entailed for the financing of the welfare state by living in a small open economy. One common trend is to rationalise pension benefits and to link contributions and benefits more closely. The rationalisation of benefits includes changes in indexes, which is typical of reforms, and a longer wage period for the calculation of pensions. The most extreme form of linking contributions and benefits is a totally contribution-based pension system of the kind adopted in Chile, where, it is true, 40% of the population do not have paying jobs, and are excluded from the pension scheme.

The three-pillar model put forward by the World Bank in 1994 is fairly generally accepted. The first one is a mandatory public pillar, the second a mandatory private pillar and the third a private pillar consisting of voluntary pension savings. Investing pension funds profitably in the market relates to the second pillar in particular, whereas the first pillar is typically pay-as-you-earn. The Finnish employee pension funds amounted to FIM 225 billion in 1997 and overall the pension scheme managed assets worth 280 billion. Roughly half of the employee pensions have been invested in bonds, only 11% in stocks.

In a reform of pension fund investments, it is helpful to specify how the profits are to be increased. It is useful in any circumstances to invest funds at a lower risk level. Instead, raising the risk level, for instance with increased investment in stocks, will improve the welfare of the pensioners unequivocally only when the fluctuation in profits can be totally eliminated. In the Finnish pension scheme, the risk is shared by the contributors collectively. The increasingly global financing markets and the transition to a common currency in the Euro Area both make it easier to disperse portfolios. On the other hand, the same phenomena heighten the interdependence of profits from different markets and thus take away some of the benefits of dispersion.

Integration and globalisation also create pressures for establishing international corporate pensions schemes which can be "carried" from one country to another. Within the European Union, a number of big companies have founded a Pan-European Pension Association with the aim of instituting a pension scheme covering the whole Union. However, the member states' governments have expressed their reservations concerning this initiative, afraid that they will lose tax income and that it will undermine the national insurance industry.

A new solution to the financing is a personal social security savings account, which is being discussed in an increasing number of countries. It is hoped that these accounts will alleviate the incentive problem without affecting benefits. The basic idea in the accounts is to replace part of the tax-funding with mandatory saving. For instance, in unemployment benefits, each new employer must save a sum corresponding to a few monthly wages into an account specifically opened for the purpose. This would take place over several years, with some contribution from the employer as well. When the needed sum has been saved, the saving continues, but the employee can draw our the sum exceeding the mandatory target at given intervals. If the employee becomes redundant, the unemployment benefit will be paid from this personal savings account. If unemployment persists for a long time and the account is empty, the person will be covered by a public benefit.

The advocates of this savings account model argue that the employee does not feel that he or she is paying taxes, because the savings account is personal. The tax-funded public unemployment benefits would only concern the long-term unemployed and those who have not had time to save for the benefit. The savings account would guarantee unemployment benefit because saving is mandatory, but would not encourage abuse of benefits since the money for the first months would be drawn from the personal savings account. This is an application of the deductible principle, familiar in many insurance schemes. On the other hand, this savings system could be criticised for assigning the cost of unemployment insurance to the individual citizen, if there is no additional compensation in wages, especially to citizens whose situation in the labour market is already precarious.

The idea underpinning the discussion above is that it is time to move on from the welfare *state* to the welfare *society*. This means reconsidering the virtually exclusive role of the state in collecting the funding for and providing welfare services. On the one hand, this will mean an increasing role for the market: pension funds can be invested in domestic or foreign stocks, the mandatory public pension insurance may be financed through the market, and wage-earners can take private pension insurance. On the other hand, the market is only part of the welfare society; there are two other considerations to be taken into account: the civil society and the voluntary sector. The market and the civil society are naturally not opposites; for instance, transferring social insurance to the market would presumably create new services in the voluntary sector.

It is evident that higher profits and flexibility will be counterbalanced by the fact that the transferral of social insurance to the market will redistribute risks, notably owing to the potential insecurity and growing inequity. In the personal savings account model, the power and the responsibility typically lie with the individual into whose accounts the contributions are accruing. On the other hand, private pension and other social security savings accounts raise a number of practical questions: Who collects the money? At what point should decisions on investments be made? Who regulates the account system? How much will the management of the system ultimately cost?

The political opinions on the benefits and drawbacks of different pension schemes differ. As is well-known, at the time when the employee pension scheme was being created in Finland, there was a political conflict between the left and right wings. A poll surveying both popular and élite opinions from 1995 shows that 37% of citizens and 23% of MPs would keep the employee pension funds in the hands of the state, whereas 52% and 63%, respectively, would be ready to give some role to private companies "under strict control". Together, these two alternatives were supported by 80% of the administrative élite, 76% of the research élite, 74% of the media élite and 51% of the business élite. The alternative in which private companies would manage the employer pension funds "with a large latitude" was supported only in business and industry (45%). Both the general public and the élite appear to take a view that companies could be given a bigger role in the management of employee pensions, but only under state supervision.

The reform of the pension schemes also requires reflection on the ways in which the civil society could take part in the regulation of the welfare society. The demand for assigning a greater responsibility to the family is not enough in this respect. It is also worthwhile to reflect how citizens could contribute to the management of the pension funds invested in the market and the distribution of social services. Many scholars have stressed that the promotion of statistical equality is not enough, what is needed is empowerment. The same starting point provides the background to the opinion that there is a need for extending the ownership of companies through wage-earner funds or the distribution of stocks, in other words, for strengthening popular capitalism.

9. Regional policy

The traditional regional policy has focused on channelling public support to under-developed regions or regions suffering from structural change. This national regional policy is now losing its significance. Firstly, budget considerations put constraints on any larger-scale regional policy and secondly, at the moment investments are being channelled through the market rather than through the state. Most importantly, of course, EU membership has devolved regional policy on the Union. Agenda 2000 will evidently cut back regional policy subsidies and thereby give the market even more rein.

The implementation of the European Monetary Union has created a unique situation, in which Finland is part of the Euro Area and not a national economy in possession of a full arsenal of methods. In the EMU regional development can no longer be influenced by means of currency policy. Without exchange rates, the principles at work in the internal competition in the Euro Area are an "absolute" rather than a "relative" advantage, and their competitiveness will be reflected in wage differentials and different employment rates and in net migration. If the economic inequity thus created is seen as unacceptable, the loss of means of adjustment will have to be compensated with a transnational regional policy, as has happened in the EU. Hence, the integration of the market economy does not exclude regional policy, but in fact requires it.

Since the principle of absolute advantages is accentuated in regional development, the natural consequence is a proposal for strengthening these advantages. In the former system, national regional policy levelled out regional differences in competitiveness by subsidising costs, but this is no longer possible owing to the principles of EU regional policy. Hence, the objective is to develop factors at the supply end, such as access to and quality of labour, transportation, economic infrastructure and attitudes to business, as well as the public image of regions. The best way to create well-paid jobs in the global economy is to provide competent employees and organisations capable of adjusting to new circumstances and demands. It has been shown above how the regions relying on versatile centres of expertise have succeeded better in inter-regional competition than others.

In Finland, efforts to this end have been made since 1997 by means of the centres of excellence programme, currently comprising 11 centres. There are plans for extending the programme to 2006. The 11 centres house 130 businesses, which have helped create 8000 new jobs and preserve 7000 old ones. The total annual appropriation allocated by the Ministry of the Interior to the centres was FIM 260 billion in 1997. The programme falls somewhere at the crossroads of innovation and globalisation. Its aim is to identify regional strengths and increase the production of commodities and services based on know-how of the highest order by attracting international investments and know-how. Another goal is to enhance conditions and contacts, pass on information and exploit human resources. Overall, the funding comes from various sources: enterprises, the state and local authorities.

The programme is an excellent example of how the global and the local can be brought together through knowledge and innovations. The focus is on local activities. Different businesses and public partners are drawn together in cooperation geared to make use of special local competence and to put regional resources to efficient use, thereby helping them find their own niches in the international market. According to the programme of centres of expertise, the aim is to create two-way interaction with the international market: making local business increasingly attractive for international businesses and investors.

One characteristic of the new knowledge- and technology-intensive regional policy is initiative. The Finnish government and the European Union do provide some financial aid, but a great deal of local funding is needed. In fact, access to this funding is a prerequisite for success. The knowledge strategy is also characterised by widely based, networked cooperation, which brings entrepreneurs, authorities and universities together to implement regional policy objectives. This partnership often crosses established boundaries and behavioural models. What distinguishes it from traditional regional policy is that the knowledge strategy entails a certain degree of concentration, without which sufficient competence and social relations cannot be created. In this sense, urban policy forms an indispensable part of regional policy.

Thus, success in international competition entails creating regional and operational clusters and thereby economic accumulation, which in turn means growing inequity and migration. Renouncing this development model would mean falling behind in the international competition, which would hardly be beneficial to the peripheries, either. Although the need for concentration is undeniable, it does have its economic and social drawbacks. These can be alleviated by measures to promote the supply of quality production factors in the peripheries.

The programme for centres of excellence exemplifies a regional policy which has responded to globalisation. It recognises that the regions increasingly come into direct contact with the world market. The state can be expected to help only with coordination services and some economic support.

The only way to gain absolute advantages is to mobilise and strengthen local resources which help to produce competitive commodities and services. What is involved here is a new way to create a virtuous circle, which has always been the objective in regional policy, but now it requires input into quality and knowledge.

10. Challenge of globalisation

An analysis of the dimensions and impact of globalisation can easily mean the same as a hammer to a small boy: the whole world looks like a nail and there is a tendency to see all the changes in society as a consequence of globalisation. Globalisation is a powerful and effective force, it is true; it shapes the economy, society and culture, but it is not an external straitjacket constraining our whole life. Most social problems are still the outcome of internal factors, be it progress in technology or production, structural change in the industrial or regional structures, the ageing of the population or cultural de-nationalisation. These problems would exist without the opening up of the economy. It is true, however, that with its power globalisation shapes these problems and the solutions available to them. Although it has more than one recipe to offer, it does favour solutions of a certain type and complicates the implementation of others.

At its best, the external reality created by globalisation helps crystallise social policy action plans and the thinking behind them. Such plans in themselves provide no solutions, but they outline aims and means. Most strategy lines devised for the development of the Finnish information society also provide a solid basis for social policy geared to respond to the challenge of globalisation. This challenge impresses on us the fact that society cannot carry on in the new millennium with its present activities: it must develop more flexible and efficient institutions, citizens must constantly upgrade their own knowledge, their opportunities for participation and influence must be improved, and businesses must develop their internal and external management systems.

The open economy highlights the role of the market, competition and individuality. The likely outcome of change will be that the rate of economic growth will accelerate, the production and distribution of innovations will intensify, and international interaction will grow, get cheaper and diversify. On the other hand, this will make the economy more vulnerable and increase the risk of inequity and exclusion. The market, detaching itself from society, will create instability and bitterness. This is why social policy must guarantee internal and external stability in the country: without sufficient security there will be no sustainable change. This change must also retain the citizens' opportunities for democratic influence, which in turn will prevent the world from being taken over by corporations.

In a globalising world, it is particularly important to strengthen the civil society and the social capital it creates, which is based on diverse interaction and trust. Society must be able to agree on the rules of the game. These include accepting cultural diversity and tolerance. A critical, yet smoothly running civil society lowers the cost of interaction and helps reforms spread. The rate of reform is generally more rapid in centrally placed, networked communities. Creating them demands education, regional and industrial policies of a new kind, institutional reforms and active citizens.

On a more concrete level, the main focus in Finland should be on the state's role, on knowledge, on labour market institutions and on regional development.

We do well to recognise that the state will not lose its role in a globalising world, especially in providing collective services, the rules of the game and security. The state cannot steer the economy, but it has a legitimate role in the market, including strategic ownership. The state's complete withdrawal from the market would be just as undesirable as its dominant position as a creator and provider of resources.

In Finland, the internal renewal of labour market institutions has not yet been accomplished. The centralised labour market agreements based on the tripartite system apparently still offer the best foundation for economic development, especially since the adoption of the common currency will entail national economic obligations relating to inflation, debt and the budget. What is needed within this centralised foundation is more flexibility, opportunities for participation and rewards for competence. One means to this end is corporate stock funds, through which employees could benefit from positive outcomes and which would at the same time commit them to their employer.

Finnish know-how and its utilisation in the market have made giant strides. Input into a knowledge-based society offers the only true possibility to succeed in unrelenting international competition. Hedging bets means, however, that knowledge should not be concentrated into one field; the aim should be an economy based on diversified products, services and knowledge. In Finland, higher education and R&D are well-resourced in international terms, but there is a danger that basic education is given less attention and will become socially segregated. A balanced knowledge-based society can only be built on a well-resourced basic education which is capable of renewal.

There is no denying the fact that regional development in Finland is concentrating and diversifying. Knowledge-intensive, versatile centres of expertise which create human and social capital attract people and economic activities. As far as success in the international competition is concerned, this is a positive development, and there are no feasible alternatives, even if it has its price in terms of social adjustment. A suitable answer to the new regional structure created by the knowledge-based society is to stress the need for self-motivated development. This requires flexible cooperation between educational and research institutes, businesses and authorities in the creation, financing, production and marketing of new products and services both abroad and at home.

Finnish society must thus seek to combine plurality with knowledge and social engagement. Only a pluralistic and tolerant society is capable of learning from others and developing solutions of its own: plurality is a precondition for creativity. Despite their differing aims and means, the parties involved must maintain their mutual trust and interaction. It is only by doing so that they can create social capital, without which production, trade and administration cannot work for the best of citizens.