

Antti Hautamäki

*Samuli Paronen:  
Finland is a Welfare State –  
the Finns are an Ill-faring People*

# FINLAND IN THE FACE OF CHANGE

## A Report on Finland's Challenges

- Sitra reports series 19



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# FOREWORD

*Finland in the face of change* is a report on the challenges that lie ahead of Finland. It was originally drawn up for planning Sitra's strategy and it was discussed by Sitra's Board at a strategy meeting in March 2001. An analysis of the report was used in establishing the emphases of Sitra's strategic period 2002–2004.

The report analyses the global and local changes taking place in Finnish society and its operating environment. It also discusses the main challenges that Finland will have to face in the future.

The choice of themes in the report are indicative of its author's personal concerns, especially in that it raises values and cultural and social capital to a level on a par with the economy as factors in the development of society. On the other hand, the report ignores many other interesting issues, including the European Union; however, Sitra is currently running a project entitled *Europe 2020*, which tackles questions concerning the fate of the EU in detail.

This is a report of few words and with a solid foundation in fact. It is based on the latest statistics and on plentiful literature. In numerous instances, I have been able to make use of Sitra's own research and the publications of Statistics Finland. Many people at Sitra have commented on the different versions of the report; I would like to take this opportunity to express my gratitude to Peter Ekholm, Timo Hämäläinen, Kari Kankaala, Osmo Kuusi, Pia Mero, and Kari Tolvanen. I have also had useful discussions on the themes and content of the report with Pekka Himanen, Matti Kari, Ari Lindeman, Mika Mannermaa, Ilkka Tuomi, Teppo Turkki, and Pekka Ylä-Anttila. The analyses and opinions provided by the report are its author's, however, and must not be considered to represent the official position of Sitra.

I want to express my gratitude to President Aatto Prihti for the extraordinary encouragement and backing he has given me. This report would never have come about without the three-month research leave I was granted, during which I was able to continue teleworking.

It is my hope that this report will help its readers to understand the great transformation process which we Finns are currently going through.

Helsinki, June 17, 2001  
Antti Hautamäki  
Research Director  
Sitra

# 1 THE REPORT AND ITS APPROACH

## Summary

The basic message of the report is that the success of a society does not depend solely on economic fundamentals but also on social capital – cooperation and trust. As society is becoming increasingly individualistic and pluralistic, the future of social capital is all but certain. While Finnish society is more affluent and competitive than ever before, social problems are mounting and the people are not faring too well. People are also worried that society will divide into the haves and have-nots. The big issue is what will happen to social capital. The significance of this issue is amplified by the interdependency of the welfare state and social capital. The former may both strengthen and weaken the latter, while weak social capital will degrade the popularity of the welfare state. This report is based on the theory of modernization, according to which the existing complex society is the result of a process of differentiation. As the significance of traditions weakens and pluralism gains more ground, modern society matures into late-modern. Changes in the economic environment will be discussed against this backdrop of modernization. Topics will include globalization, new technologies and the new economy, social risks and social capital. The latter two have in fact received much too little attention in public debate.

The theory of modernization and the changes occurring in the economic operating environment offer a rewarding approach to the Finnish situation. Finland boasts excellent competitiveness which can be further improved with information technology. Nevertheless, Finland is troubled by major structural social problems, including ageing, unemployment, regional development and the transformation of family structure.

In the following I will identify and analyze the ailments of the welfare state. I will pay special attention to social cohesion, as seen through the role of NGOs and the widening incomes gap. New phenomena in working life and their impact on families will also be discussed. Finally, I will take a look at the changes taking place in the values and attitudes of the Finns.

From the viewpoint of its members, it is foremost task of society to promote a good life. In fulfilling this task, it should recognize that people are different and that they have responsibility for their own lives. The report will end with an overview of one of the most difficult problems faced by Finland, namely regional development. Central to solving this problem is the reinforcement of local initiative and creation of well-functioning connections with the centres. In the conclusions I will summarize the report and highlight the themes to which we in Finland – and at Sitra – should give more attention.

## Framework

Future studies are multidisciplinary and multidimensional. It is essential that no single way of looking at society – e.g. ecology, sociology or economics – is allowed to dominate. In general terms, this report is 'socio-philosophical' as its focus is on the changes in social structure and values, and economy. The report seeks out points of view that permit new perspectives in human psychology, values and culture (social capital, good life). To understand the social changes currently taking place, we must first understand what has brought us to where we are now. This is why I have chosen social modernization and its changes as my point of departure. Pluralism is a necessity, especially to ensure an openness of mind. Oiva Ketonen has aptly written: "Predicting the future is difficult especially because when one makes a prediction, one always establishes specific goals that reflect upon the tacit hopes and fears, and the requirements that one considers self-evident but that have not been verified." (Niiniluoto & Nyman: *Tulevaisuus*, p. 17)

The framework of this report is a 'social diamond' formed by four basic factors (Figure 1). These are culture, economy, politics and technology:

- values and culture: values and attitudes; creation of meaning; transferring traditions (families, religion, education);
- politics and the state: democratic institutions, legislation, public administration, the judicial system;
- economy and the market: national economy, business, competition, internationalization; and
- science and technology: (national) innovation system, R&D.

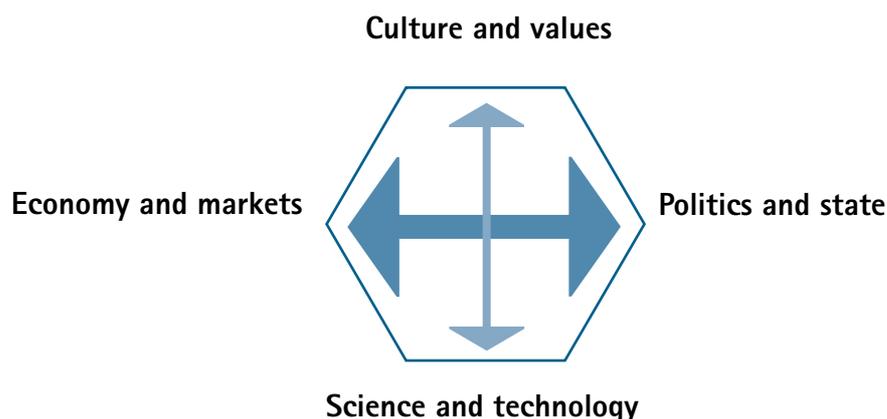


Figure 1: The framework of the analysis

These factors are interdependent and form an interactive structure. According to the traditional Marxist understanding of history, technology (means of production) and its ownership are the dynamic foundation of society that defines how advanced an economy is, the political

organization of the society and, finally, its values and culture. In the preface to his "A Contribution to The Critique of Political Economy", Marx wrote:

*"In the social production of their life, men enter into definite relations that are indispensable and independent of their will, relations of production which correspond to a definite stage of development of their material productive forces. The sum total of these relations of production constitutes the economic structure of society, the real foundation, on which rises a legal and political superstructure and to which correspond definite forms of social consciousness.*

*The mode of production of material life conditions the social, political and intellectual life process in general. It is not the consciousness of men that determines their being, but, on the contrary, their social being that determines their consciousness."*

Culture in a wide sense is the factor by which society is understood and 'constructed'. Culture lends significance to phenomena and defines the norms that sustain society (see Durkheim). Culture must not be equated with how individuals understand values and meaning; instead, people live in a world of meaning that they understand in their own subjective way.

The most immediate and obvious interaction takes place between the economy and politics. Their relationship is, to a large degree, a struggle for dominance.

# 2 MODERN WORLD

This approach of this report is based on a particular view of modernization and the changes taking place in it. Modernization is the grand narrative with which the social sciences explain the emergence of the complex 'modern' society and its progress. Modern society is undergoing change, however. In fact, it may well be at a crossroads. Social sciences speak of the late-modern or "the other modern" to emphasize the significance of the changes currently taking place. The purpose of this chapter is to undo this late-modern stage typified by pluralism and individuality. The traditions that sustain societies have grown weaker. At the same time, changes are occurring that affect the important aspects of society, such as the economy, nation-state and the relationship with the environment.

## Modernization

One of the basic outcomes of research on societies is the view that present society came about through a process of modernization (see Heiskala, 1996). Modernization here means the differentiation of society. Modern society evolved from the pre-modern by way of a deepening division of labour (Adam Smith). Independent professions, institutions, organizations and businesses emerged to carry out specific duties. Society began to grow more complex and, concurrently, its unity began to weaken. This took place in the dawn of modern time, as an industrial society began to emerge around the beginning of the 19th century.

Social differentiation gave rise, however, to the problem of cohesion. In a differentiated society, the spheres of economy, politics, religion, education, culture, family, etc. grow apart and compete for status and standing. In terms of systems, more and more subsystems emerge from the social system and they in turn develop their own subsystems. The dilemma of modernization is integration and coordination; what keeps society intact, what is the cement or binder? Scholars disagree on the integrating factor. The French sociologist Emile Durkheim assumed it to be a collective consciousness. Another important theoretician, Talcott Parsons, believed that a society may be considered as a whole through its cultural system. Niklas Luhman's view is more sceptical: there is no centre in modern society and its constituent systems interact only to serve their own interests. In this case 'integration' relies on connections between uncontrolled subsystems.

Modern society is thus a differentiated one. A more profound understanding of modernization is available if we pay attention to the development of the various elements of society. According to Risto Heiskala (1995, pp. 12–13) the more modern a society is, the further the following have developed:

- industrialization;
- differentiation of the spheres of economy and politics;
- market orientation of the economy;
- rule of law;
- bureaucratic government;
- structural change of communication environments;
- nation state;
- democracy;
- individualization;
- secularization; and
- urbanization (NB! Added by AH).

These features aptly describe Western industrialized societies.

## Late-modern Society

In the last few decades, the development of Western industrialized societies has brought to light attributes on the basis of which we speak of a late-modern stage. Ulrich Beck ( ) has said that collective lifestyles, full employment, nation states, welfare states and exploitation of nature have been characteristic of modern societies. The emerging late-modern societies are characterized by ecological crises, reduced availability of paid work, individualization, globalization and a gender revolution. Views differ on the nature of the late-modern, but many of the different theories are based on similar notions.

But what is causing the transition from modern to late-modern? According to Anthony Giddens ( ), the director of the London School of Economics, lists accelerating differentiation, globalization and new technology. He elaborates, however, that underlying these are three fundamental processes of social change

- . the confusion of distance in time and place and the way they are linked together;
- . the disassociation of social activity from its contact with locality; and
- . life's release from the shackles of tradition.

Giddens ( ) describes present society as post-traditional. In modern societies, continuity was sustained by various 'modern' traditions that had to do with nation, science, enlightenment, class, religion, the nuclear family, etc. Traditions are repetitive models, enduring interpretations of phenomena. The shrinking of distance, mobility, increasing interaction, new media and means of communication shatter traditional communities and weaken the traditions that sustain them. In a post-traditional society traditions are no longer accepted at face value; they are forced to justify themselves and compete with other interpretations and traditions. People's sets of values differentiate. According to Beck there no longer is a normal. Traditions no longer are the binder that holds societies together. We have to consciously look for new binders, weighing alternatives and making decisions (hence the term 'reflective modernism'). Thus social integration must be sought through dialogue and justification.

Based on his research on the post-traditional society, Giddens proposes a new kind of social policy, which he calls life policy. In it the main emphasis is not on public social policy controlled from above but on a life policy, which is built on decisions concerning life (see Roos and Hoikkala, *Elämänpolitiikka*). Life policy focuses on individuals' capacity to choose their values, consider options and prepare for risks. It centres on the selection of life styles and individuals' striving for happiness and the good life. In the post-traditional society, the individual is in charge of himself and life management becomes the fundamental problem of social policy, i.e. how do people manage the changeable conditions of life?

## Late-modern Culture

In 1979 the French philosopher J-F Lyotard published the famous report *La Condition post-moderne: rapport sur le savoir (The Postmodern Condition: A Report on Knowledge)* in which he proposed that the grand narratives are dead. The modern world was characterized by narratives about enlightenment, science, progress, dissolution of social class, etc. that proposed to be the truth. Those who told them neglected to mention that they are indeed stories; instead, they were given as the truth. Gradually their status degenerated and they lost convincing justification. In late-modern (post-modern) societies, people are doubtful of narratives, which become replaced by 'small stories' connected to our own communities and identity. Lyotard believes society will split into subcultures separated by mutual misunderstanding. The notion of a single reality provided by science or some other institution has become impossible; people no longer seem to live in the same world. Lyotard does not believe in the power of dialogue like Giddens.

The British sociologist Zygmunt Bauman (1996) has proposed an interesting analysis of the late-modern. According to Bauman, the transition from modern to late-modern has confused our sense of direction and made it impossible to steer society. People are increasingly aware that great achievements will never be made. The enduring resoluteness of the modern world is replaced by turbulence, uncertainty and chaos. The great social projects fail and are replaced by smaller ones. Life can no longer be managed; instead, it is defined by chance and spontaneity. Life projects amount to navigation on a sea of opportunity. In such a situation, the only sensible rule to live by is *carpe diem* – seize the day and exploit every opportunity.

A key characteristic of late-modern culture is the increase of doubt and criticism. The increase in criticism is clearly in evidence in the way the status of authorities is changing. Teachers, priests, judges and other authorities have earlier represented tradition and handed it on to the next generation. In late-modern society, their unquestioned status weakens. They are still needed as much as before because life is so uncertain and unpredictable. The problem is that we shall have to decide for ourselves to which authorities we will turn.

In late-modern society individuals are responsible for formulating their own ethical positions. Traditional ethical authorities are no longer convincing. An ethical ambivalence dominates and no unambiguous answers exist to problems of ethics. For instance, what to think of such issues as genetically manipulated food, nuclear power, abortion, euthanasia, use of mild narcotics, same-sex marriages, cloning, stock options, refugees, humanitarian interventions, etc? Ethics used to be externalized and relinquished to authorities but has now returned to

the people. While our responsibility over the choices we make and our pain grow, Bauman and his colleagues consider this a positive development since it increases freedom, that is, it offers a better opportunity for unrestricted creativity and innovation as authorities and supervision weaken. According to Vattimo, the late-modern development is liberating if and when it creates a world that is less uniform and more uncertain (Vattimo, p. 36). It may well be the case, however, that the man in the street will have a different opinion of the blessings of increasing freedom and weakening traditions. Uncertainty and lack of security also make people seek refuge in traditions and lead to fundamentalist extremism.

## An Example: Story Economy

An interesting sequel to the late-modern and the small stories is offered by Rolf Jensen's book *The Dream Society*. According to Jensen, a dream society of imagination and dreams will evolve from within the information society. In the dream society the driving force behind business, communities and individuals will include stories, not only data and information.

Without imagination organizations (or individuals) cannot successfully prepare for the future. The future is made with dreams. Hard work makes dreams come true. Behind all technological breakthroughs there is a dream, vision or new idea (flying, speed, automation of information, mobility, health, etc.). Organizations express their dreams in their mission statements and visions.

Businesses must envision their futures just as good authors use their imagination to envision their stories. Storytellers are among the most important resources of the new economy. Stories sell products and lead organizations. For the economy of the future, the most important raw materials are images, legends, myths and stories. A product is an attachment to a story that sells well.

Stories are (linguistic and visual) constructs loaded with values. They appeal to the emotions, not to the intellect. Stories sell and markets are defined on an emotional basis.

Business segments central to the world of imagination are:

1. adventure (testing of limits);
2. togetherness and friendship (love);
3. care;
4. identity;
5. piece of mind and continuity; and
6. conviction (what to believe in).

## Identities, Meanings and Communities

The fragmented nature of the late modern world, the plurality of its values and the weakening of communities founded on tradition place the individual in a precarious position; what should

one's life be based on, what is valuable. Identity becomes a problem and it is sought through trial and error. People join all kinds of communities, try different ideologies, practise extreme sports, test their limits or protest against authority. Above all, however, the question about identity is a question about meaning. How should I interpret myself and my surroundings, what kinds of meaning should I give to things, how do I see the meaning of my life?

The search for meaning and respect is also a bridge that connects individualism and communalism. The identity of an individual is a social phenomenon that is dependent on the community's values and respect (there is no self without others). Every person seeks respect for his or her humanity. Thus increasing individualism does not necessitate a separation of individual from community. When local communities no longer exist or have become weak, symbolic and virtual communities take their place, linked by fashion and trends or by the Internet. For many people their chat pals are closer than their relatives and neighbours. Instead of removing the dependency between increasing individualism and the formation of communities, this reinforces it.

## An Example: Experience Economy

Some scholars have even begun to talk about an experience economy (Pine & Gilmore: *The Experience Economy*). According to Pine and Gilmore:

- even good commodities, goods or services do not by themselves guarantee competitiveness in the new economy;
- the greatest profits and the best increase in prices is gained by offering experiences;
- the economy has evolved from agriculture to a service economy and is now about to become an experience economy;
- while industrial society was about manufacturing goods and service economy about providing services, the experience economy is about offering stages;
- in industrial societies the economy offered something tangible and in service societies something intangible; in an experience economy what is offered is memorable, not transient as in services;
- in the experience economy the seller is a set designer and the buyer is a guest; and
- in the experience economy demand is based on sensational experiences (not the qualities of a product or benefits of a service).

Since the concept of experience as such is thin, Pine and Gilmore include the concept of transformation in their theory. The actual business will involve helping people transform and to become different. Put in socio-philosophical terms, this concerns reinforcing the process of becoming an individual; businesses will succeed if they manage to help people build their identity and distinguish themselves from others. Thus the transformation economy can encompass many 'painful experiences', including fitness, health care and psychoanalysis and different self-improvement programmes. The concept of experience economy seems an easy target for criticism, especially since it appears to do an injustice to basic human needs. Even when surrounded by experiences people need nourishment, clothing, places to live, health care, sports equipment, etc. Moreover, such communal needs as safety and care are not about to disappear. Extensive industrial sectors and public services exist to satisfy these needs. It is nevertheless

justified to claim that the status and significance of basic needs have diminished in contemporary society. This is partly because most basic needs are satisfied and no longer require much attention. People use an increasing share of their resources on building an identity, and on experiences, fitness, sport and entertainment. Indeed, hedonistic values that suggest pleasure and vitality values that suggest drive and vigour have equalled and even surpassed rational values. This provides the experience economy with rich soil.

## **Balance Sheet of the Late-modern Society**

The ideas presented here justify the following conclusions. Modernization makes society more differentiated and fragmented. Differentiation is caused by increasing division of labour fuelled by technological progress. The great challenge is the integration of society, the binder that holds society together. Most scholars believe that cohesion is, to a large extent, dependent on cultural models and ways of perceiving society. In modern societies, traditions and the grand narratives provided continuity and uniformity. Continuing differentiation and the liberation from the restraints of time and place that is occurring concurrently have raised criticism against authorities and traditions. The thought of a single truth and system of values has been abandoned, and replaced by a plurality of narratives from which each of us has to select his or her own values and narratives. We have made the transition to a society of plural values. But people are also becoming increasingly unconfident and thus still turn to authorities (family counsellors, real estate brokers, psychiatrists, lawyers, fashion consultants, etc.) or cling to the past. Differentiation has turned society into an extremely complex and unpredictable system. This is further enhanced by technology (ICT, biotechnology, energy technology, etc.) and globalization. Society has also become more open. We have more opportunities than ever. It seems that future can be moulded freely; the future can be made and everything is possible. The consequences of the choices we make are more difficult to predict, however. Openness means bigger risks, which are increasingly difficult to control. Because of the plurality of values and distrust toward authorities and control, it is difficult to rally people behind great political programmes and visions. Consequently, as global competition and growing economic and biological risks demand a united political will, its requisites wane.

This obviously is but one narrative – we all have our own. The narrative of the philosopher Marja-Riitta Ollila is that the "post-modern world is a small privileged part of the world". It is an notion of Western middle-class scholars leading protected lives and it forgets that morals are about the "pain and happiness of real people" (Ollila, 1999).

# 3 CHANGES IN THE ECONOMIC ENVIRONMENT

In this section I will discuss new economic phenomena that have radically altered the economic sphere during the last 10–15 years. Most important are undoubtedly advancing globalization and the rise of information and communications technologies to spearhead progress. The new economy is the outcome. At the same time, technology and globalization have heightened social and biological risks to the extent that old mechanisms of responsibility have lost their meaning. Opinions have also changed about what are the driving forces behind economic development. Research has revealed that social capital plays a key role in the success of regions and national economies.

## Globalization

In addition to information and communications technologies, globalization is a driving force effecting a massive change in the structure of societies and economies. It gained momentum from the liberalization of markets and deregulation in the 1980s. The deregulation of capital markets was especially important. According to studies conducted at Sitra, globalization has the following general features:

- dependency: regional economies are heavily dependent on each other's development and business cycles; and
- mobility: people, capital, goods and services move regardless of borders.

Globalization appears as:

- direct investment growing faster than international trade; since 1985 direct investment by businesses has grown six-fold while global trade has grown 150% and global manufacturing output 100%;
- decentralization around the globe of multinational companies' production processes based on the needs of the various links of the value chain, with coordination based on information technology;
- the shift of competition to the so-called production factor markets, especially to competencies. Nation states take pride in their production factors, especially their skilled labour force. Businesses force countries to compete in offering the most favourable conditions for investment;

- the success of businesses depends on their innovation, competence potential and high productivity. New innovations emerge from the combination of different competencies and by crossing the boundaries separating industrial sectors;
- businesses concentrate heavily in certain metropolitan areas that have an ample supply of competencies and services required by companies. Regions outside these centres are completely dependent on them and lose labour force to them;
- real-time share and currency trading made possible by computer networks. The value of daily currency trading is USD 1,200 billion, bond trading USD 200 billion and the total daily volume of all stock exchanges is USD 25 billion.

In his three-part work *The Information Age*, Manuel Castells calls the global economy a network economy. His basic theses are:

- we live and will live in the foreseeable future in a global information-based network society;
- economy is fundamentally global and driven by financial markets;
- knowledge and competence concentrates in cities and the importance of a city depends on its position in information flows and the information space;
- population everywhere is dividing into networkers, flexi-timers and the jobless;
- the state will become a negotiator-state which must use its skills in negotiation to secure investment, jobs and tax revenue;
- there is a fundamental conflict between the global network and local cultural identities;
- identity movements emerge, some of which seek a (project-like) resistance identity;
- political movements become global and cooperate over governments' heads; and
- there is a pressing need to find new means of global control.

In his book *Globalisaatiokritiikki ja kansalaisliikkeet* (Critique of globalization and citizens' movements), Professor Raimo Väyrynen analyses the problems of globalization. In his opinion, globalization is a contradictory process that has turned into a pivotal ideological dispute. This dispute culminates in the poverty of the developing countries. Those who take a positive view on globalization consider it an inevitable development that will create a global market and bind economies together tighter than ever. In their opinion, the worst obstacle to conquering poverty is that poor regions are not integrated with the global economy. Such regions remain outside modern technology and health care. Thus a key means of supporting the developing countries is to close the 'digital divide'.

The most visible criticism of globalization has come from NGOs, as in Seattle in autumn 1999. Their criticism has targeted especially the International Monetary Fund IMF, the World Bank and the World Trade Organization WTO. They are considered to promote mainly the interests of multinational companies, which the critics say are insensitive to the poverty of developing countries and human rights. The IMF is criticized for its restructuring programmes, which many fear make developing countries prisoners of their debts and force them to implement harsh economic restructuring. Writing off the debt of developing countries has indeed become a central demand, pressed by for example the Jubilee 2000 movement.

In his book *The Great Transformation*, Karl Polanyi describes the market economy as a system that is controlled, guided and managed solely by the market. Economy and politics grow apart; in a market economy the idea of political control, based on for example customs and morals, has been abandoned. The market is the only controlling principle in the sphere of

economics. Polanyi wrote his book in 1944 when the market economy was not as widespread or influential as it has become. Polanyi defended the idea that proclamations of an unconditional break between economy and politics were based on illusion. In Polanyi's opinion, the fact that the market economy lacks regulation – causing market disturbances – or critical national needs demands government intervention. On the other hand, regulation leads to other disturbances that require intervention. The division of labour between the state and the market is subject to constant redefinition. This creates an undulation between market regulation and government regulation – between economy and politics. In Polanyi's spirit it is topical to ask whether politics and regulation will follow on the heels of globalization. Various NGOs, such as Attac, are examples of the politicization of globalization.

## New Technology

Technology is the engine that powers societal progress. Investment in technology is one of the surest ways to guarantee a competitive economy. Today, all industrialized countries develop the competencies required by technology. The big question is which technologies warrant investment on a national level – especially if the goal is to be ahead of others. Answers are sought from technology forecasts. According to the survey made by RandEurope for Sitra, dozens of industrial countries have implemented forecasting projects of varying extent and methods (Hjelt & Luoma, 2001). The purpose of these projects is to provide outlines for innovation and technology policies and investments in technology. As such, the projects are massive processes comprising hundreds, even thousands of experts. Their benefit is that they offer a forum where various stakeholder groups can cooperate and enter a dialogue. In recent years, technology forecasts have begun to lay emphasis on the well-being of the entire society and the social impact of technology. At the same time, emphasis has also shifted to the development of the innovation system as a whole instead of particular key technologies. Forecasting is evolving into a tool for recognizing and meeting the challenges faced by society.

Forecasting has been used to identify national priorities that are not available, at least not directly, from forecasts made elsewhere. Technologies important for Europe were the subject of the European Commission's Futures forecasting project in 1999. It pinpointed software development, wireless communication, sensor development, consumer electronics, digital television, pharmaceutical development, new combined energy production methods, waste management and recycling and traffic telematics as Europe's strengths. It also showed that greater effort was needed in, for example, food applications for biotechnology, imaging and visualization technologies and artificial intelligence applications. The United States was found to be ahead of or at least at the same level in technological progress as Europe. Similar lists have been drawn up in other forecasting projects. The United States has drawn the conclusion that in terms of the well-being of all society, the most critical technologies are biotechnology and technologies related to the environment and well-being.

RandEurope's report concludes, on the basis of several forecasting projects, that ICT and biotechnology are the key generic technologies. Let me add that in an international benchmark survey carried out by the Japan Research Institute, Japan lagged behind Europe and USA in technologies that are multidisciplinary, such as genome technology. In contrast, it is equal to or maybe even ahead in manufacturing electronic equipment and in communications technol-

ogy. Based on the R&D investments made by telecommunications companies and the government, it appears that Japan has no intention of losing the fight for domination of the third-generation Internet mobile phones.

It is likely that biotechnology will become the most important technological sector. This anticipates the emergence of a bio-society. In a bio-society biotechnology is used to produce functional foods that promote health, new medicines and types of treatment, new materials, and forms of energy production while paying more attention to environmental issues. But as we are still living in an information society, I will deal only with information technology in this report and the opportunities it offers for prosperity.

Information and communications technology (ICT) is today's basic dynamic technology. The term information technology is misleading since ICT is based on digital code and is not directly linked to actual knowledge and competence. ICT's key characteristics include:

- digitizing: digitizing of images, sound and text and their digital processing;
- convergence: the convergence of distribution channels (radio, TV, telephone, computer);
- real-time: fast online connections;
- shrinking: victory over distance, global contact networks;
- capacity: fast processing of large amounts of information and large databases;
- simulation: ability to generate virtual phenomena, locations, etc.; and
- integration: ICT is integrated with traditional technology and applications (cars, appliances, clothing, homes).

Using these and similar properties, different operators incessantly develop new products, services, organizations and modes of operation. The boundaries separating organizations, locations and states disappear. Wholesalers become virtual ordering and distribution programmes. Home appliances are automated and become robots. The mobile phone serves as a key, wallet, guide, book and record player. Home computers serve as television stations or virtual businesses. The wall in a home or an office turns into a classroom or a cinema. Beds turn into rehabilitation institutions or hospitals that diagnose patients at night and automatically administer treatment.

There is no end to such visions and many of them are quite feasible. We have no way of knowing which of them will become reality or what unforeseen applications will be invented. This will be dictated by the consumers.

The progress of ICT has an immense impact on the structural changes of the economy and society. It is possible that in the near future, ICT will:

- intensify networking;
- help globalization to advance despite difficulties;
- assist the new economy to make a breakthrough;
- increase the pressure on the old economy to transform;
- eradicate the traditional boundaries between sectors;
- improve productivity;
- radically change the communications and entertainment business through a convergence of media;

- make electronic commerce increasingly widespread;
- eradicate the various wholesale and other intermediate stages and hierarchies;
- change logistical systems;
- increase direct customer contacts, converge the roles of consumer and producer;
- increase the production and availability of information explosively;
- increase multiculturalism; and
- promote individualism.

New technology and globalization will together be the force that will break down traditional operating models and economic and social structures. An interesting example of this is the potential revolution of learning brought about by eLearning. This, however, is still a weak signal.

## Example: eLearning

Now that competence has become a key asset, learning will become a key skill. Continuous learning, learning on the job and a capacity to keep up with the times are critical qualities. When work processes become more individualized, i.e. people do independent telework (eWork) or as private entrepreneurs or subcontractors, they become responsible for their own learning. We have to actively up-date our competencies. On the other hand, teamwork within and between organizations is becoming more common and this demands the capacity to learn together. Every worker must be able to manage information and to produce it alone and together (see Nonaka & Takeuchi, 1995).

ICT offers the tools to develop efficient methods for electronic learning and teaching. The following are typical features of eLearning (based on a report commissioned by Sitra on a virtual competence school, see Vainio, etc., 2001):

- time and place do not restrict studying (24h learning);
- studying is learner-oriented;
- students are counselled over a computer network;
- a number of different methods used concurrently (virtual classrooms, simulations, teamwork, teacher-led, etc.);
- covers all aspects of the learning process (content, tasks, evaluation, possibly certificates);
- includes student administration (registration, fees and monitoring students' progress); and
- offers everyone an equal opportunity to learn, irrespective of age, gender, place of residence or wealth.

In addition, ICT has, of course, various 'super' capabilities such as personal information-seeking agents, management of meta information, virtual memories, mobile learning, etc. (see Mikkilä), but these are still far from practical application.

The United States and Canada lead the rest of the world in eLearning. All said, these two countries spent some USD 2 billion on education in 1999. The figure has grown by some 10% per annum. Most of the increase is invested in eLearning, which is expected to increase 80% within the next five years. In Finland, eLearning is being developed at all levels of education (from seven year-olds to universities and vocational training). A sparsely populated country

like Finland will find it difficult to offer high-quality traditional teaching to everyone and will therefore benefit more than most others from eLearning. But in addition to virtual schools and universities and virtual personnel training, Finland needs virtual adult education which offers the adult population an opportunity to improve their competencies, whether professional, general knowledge or manual skills.

## New Economy

Information and communications technology (ICT) has provoked a new industrial revolution. Fundamentally, this technology is about digitalization. It is claimed to alter the basic mechanisms of economy in such a degree that talk of a 'new economy' is warranted. According to Professor Matti Pohjola (2001), investment in new technology has clearly influenced the growth of the US economy, more than 50% of which may be assigned to ICT investments, which in the US have accounted for some 10% of GDP (Internet plays a substantial role). It is important that most of the impact ICT has had on productivity in the USA has come from applications, not ICT manufacturing. Only about a quarter of the growth in productivity may be assigned to the rapid expansion of sectors producing ICT products or services. In Finland and Sweden, however, it seems that better productivity is the result of the similarly rapid growth of production and productivity in the sector (see Koski, Rouvinen and Ylä-Anttila, 2001).

The new economy is not a stock exchange economy; only a fraction of the companies involved is listed. The rocketing of dotcoms' share prices in 2000 created the misconception that a company's value is largely dictated by expectations and that real profit had no significance. Castells quotes an American scholar who likens hype to confusing perception with reality.

While the new economy is more than the Internet, the Net does play a critical part. The Internet has become the first global marketplace with nearly a billion users. It is a reminder that the new technology is first and foremost a connection technology with which networks can be created and maintained. Its impact is greatest in B-to-B where electronic commerce is making rapid headway. Consumer ecommerce accounts for only a third of the total volume.

The Internet and other ICT have a substantial impact on the growth of productivity. However, Manuel Castells points out that better productivity is also based on knowledge and innovations and the capability to learn to learn. A new culture dominates in the centres of the new economy and it favours the generation and sharing of ideas. An organization's capacity to learn is becoming increasingly important to its competitiveness. In the work communities of the new economy working is characteristically flexible and multicultural; in Silicon Valley, Indian, Chinese and Korean immigrants play a pivotal role.

It is Castells' opinion that what is most important about the new economy is not the so-called dotcoms but the application of information and communications technology in new ways to all sectors of business and administration. Castells' motto is that access to networks means nothing, it is the ability to make use of them. In other words, the new economy will begin to have a real impact when the 'old economy' starts to transform and learns how to apply new technologies to reform itself. In their recent book *Transformaatio, suuri muutos*,

HM&V researchers Mäkelin and Vuoria consider the said transformation the biggest change facing humanity and put emphasis on the fact that it has multiple dimensions, levels and stages. Economic transformation is a relatively slow and broad process. It affects public administration and its activities as well as private businesses and industrial sectors. According to Mäkelin and Vuoria, a new global approach will emerge from the collision between the new and old economies.

In HM&V's book the new economy is given a broad-based definition:

new economy = new structure + new dynamic.

New structures include lower exchange costs, improved capacity to interact, new duties for midlevel management and decentralized structures. According to Castells, the new structure is built around networking. The new dynamic is essentially a positive recoupling. This refers to organizations' capacity to adjust and improve their operations based on feedback from the market. Dynamic is generated by innovations that complement and link each other.

Thus the new economy includes fundamental changes to the key production inputs of economy (knowledge and competence), organizational structures (networking, decentralization), the structures of the commodities market (re. supply and demand) and in internationalization (direct investments, corporate alliances). The new economy could be considered the third industrial revolution (the first being the beginning of industrialization – steam engine – and the second industrial mass production and Fordism).

## The Dynamic of Silicon Valley

Silicon Valley in the San Francisco Bay Area is the Mecca of the new economy. It is a concentration of a substantial part of the new companies, especially of those involved in the Internet. I visited Silicon Valley in autumn 1999 and attempted to form a picture of what has made it so successful. An important factor is the proximity of the universities, especially Stanford which has always been strong in technology. The first electronics plant was set up by the Stanford-educated Hewlett and Packard in the 1930s. Strong electronics competence has been the driving force in Silicon Valley, and the related manufacture of electronic appliances, especially computers. Research institutes like Xerox Parc founded by companies have been important generators of ideas. But the 1990s changed everything in the Valley. The Internet began to be widely used in the early 90s and new types of businesses started to appear (Cisco, Amazon.com, America Online, Dell, SAP, etc.). In fact, the miracle of Silicon Valley actually took place in the 1990s. Some two million people live in the Valley today and roughly half a million of them are top experts (the 'Silicon Valley gene pool'). Most of them work for small innovative companies. John Seely Brown, the director of Xerox Parc, explains enthusiastically that "the knowledge in these firms is extraordinary and so is the knowledge about them".

One of the defining features of Silicon Valley is the enormous amount of innovation and recycling of knowledge known as the 'knowledge flux'. New knowledge and new ideas are born out of informal communities or communities of practice. Silicon Valley is ideal for such communities and teams. It has an open and casual culture and its geographical compactness allows for a sufficient number of face-to-face contacts.

Capital investors play an important role in Silicon Valley. Brown calls them "knowledge brokers" since it is they who dispense knowledge. A promising idea will immediately attract both funds and talent. Success for companies depends on their ability to attract resources, not to allocate them; business is made with people who are innovative. The venture capitalists are the key. They know the right people and how to network. They have a profound understanding of what will make a difference since each investment firm processes thousands of business plans each year. Investors seek to identify promising ideas as they first emerge. Talented people are persuaded to join accelerators run by venture capitalists where they are provided with sufficient resources to quickly develop their ideas to maturity and for the market. Steve Jurvetson, a successful young venture capitalists, describes his work as follows:

"I want to know how committed the person is. I never invest in someone who says they're going to do something, I invest in people who say they're already doing something and just want the funding to drive it forward. Passion counts for more than experience. --- The business plan is not a contract in the way a budget is. It's a story. It's a story about an opportunity, about migration paths and how you're going to create and capture value. I never use Excel at work. ... But I spend a lot of time thinking about how big the thing could be." (Hamel 1999)

This illustrates the spirit of Silicon Valley. Be open-minded, look for new ideas and the added value they will bring to customers. Consider commitment, passion and credibility. If everything falls into place, money will pour in and the idea will soon become a product. The best people are available to make it happen. People are prepared to move from one project and company to another and an interesting sector will attract people from other sectors. Wages are high and the incentives to become rich are exceptional. Silicon Valley is attractive on a global scale as well. People arrive from all over the world. Indians, Koreans, Chinese and other Asians have long played a key role and it is estimated that as many as half of the new high-tech companies are founded by them. Silicon Valley makes an excellent case for the benefits and strength of multiculturalism. On the other hand, it is rife with problems. Its fervour, the obsession to become rich and the obsessive fascination with what sells have made it a consuming and asocial place. Its pull has brought enormous traffic jams and expensive housing beyond the reach of 'ordinary' residents. In Castells' opinion, Silicon Valley represents the very extreme of capitalism.

## Risk Society

In his book *Gegengifte: Die organisierte Unverantwortlichkeit (Antidotes: The Organised Irresponsibility)* the German social scientist Ulrich Beck draws attention to the risks – environmental risks especially – brought about by economic progress. While resource allocation and the generation and distribution of wealth were the basic principles of industrialized societies, the generation and distribution of risks have replaced them at the current stage of economic and technological progress. In Beck's opinion this amounts to a shift from the industrial-modern to a new system. At the same time, industrial societies' class-bound ideals of life are replaced by individualism.

The risks of economy and technology are of a totally different magnitude from those dealt with by individual companies and institutions. The harnessing of nuclear power and the related achievements has been an enormous scientific and technological effort, and has given us the ability to build nuclear power stations that cost billions. A nuclear accident can easily kill hundreds of people, cause perhaps tens of thousands to suffer from an overdose of radiation and render the surroundings, including buildings, forests, fields and waterways, useless, possibly for centuries. Similar risks are involved in genetic manipulation, chemical production processes, artificial bacteria and viruses, tobacco and feeding pulverized meat and bone to cows (the origin of mad cow disease). What will happen if mobile phones cause brain tumours that will appear when today's teens are working adults? Some risks arise from human behaviour, such as traffic. The way millions of people decide to get from one place to another builds up massive emissions that warm the atmosphere. Moreover, societies and different production processes and control mechanisms have come to depend on information systems which means that system malfunctions and IT sabotage present a new dimension of risks. While Beck does not address the risks of the economic system, they too are characteristic of a risk society. In recent years it has come to light that the problems of the global economy are more severe than had been thought (Väyrynen, 1999 and 2001). These problems include the following:

- overheating and excess caused by the concentration of capital in growth sectors;
- economic crises – especially banking and currency crises – spread rapidly from one country to another;
- foreign exchange and share trading on the Net and real-time communications cause constant fluctuation of rates, leading to uncertainty and speculation;
- production – especially mass production – is moved to countries with lower production costs, causing unemployment;
- income differences grow; according to estimates 20% of the world's population earns 80% of the total income;
- over-supply caused by the implementation of new technologies and greater productivity while a large share of the global population cannot afford new products;
- increasing indebtedness of the developing countries; and
- crime – such as narcotics trafficking – is becoming more global and taken over by international syndicates.

According to Beck, the major dangers are not just dangers that may be comprehended through the technical sciences or medicine and considered abnormal. They are everyone's business in a new way. The fundamental questions Beck asks are how will these risks be shared, who will take responsibility for them and how will they be managed. Monetary compensation is meaningless since the sum involved would be greater than any insurance system could handle. Micro economies do not have mechanisms at their disposal by which such risks could be carried over to prices. National economies do not have sufficient buffer funds to compensate for the risks and damage. Besides which, most risks are global.

Beck says that the established rules of assigning blame and taking responsibility, and of causality and guilt will no longer work. The principles of democracy, decision-making and corporate economy will have to be revised in a risk society. What are the mechanisms with which these 'mega risks' can be anticipated and prepared for? What is the responsibility of industry? How should the everyday decisions taken by individuals change so that they will reduce the

risks? In Beck's opinion, technology can help to minimize the risks but not eradicate them. What is needed is a renewal of society's institutional structure so that it meets the requirements of a risk society. Because the new risks are global, their management must be based on practices that are global, too.

## **Social Capital – the Tie between Culture and Progress**

In the recent book *Culture Matters*, edited by Harrison and Huntington, it is shown quite convincingly with international comparative data that cultural values and attitudes can promote or hinder the human progress of a region or nation. Progress is measured with economic development and material well-being, social equality and political democracy. Culture refers to the values, attitudes, beliefs, preferences and assumptions underlying our actions. Social capital is considered a key concept that illustrates the significance of values to the progress of a community.

The concept 'social capital' was first adopted in 1988 by the sociologist James Coleman who was studying why people discontinue their education. By social capital, he meant the closeness of interaction within families and the closeness of the community to which the home and the school belonged. His observation was that the greater social closeness there was, the less likely a student was to drop out of school. The most famous proponent of the concept is probably Robert D. Putnam, a political scholar who used it in the context of the administrative reform carried out in Italy in 1970. Putnam wanted to know why different regions of Italy had had such different success rates. His key finding was that procedures of the civil society which favour horizontal contacts create trust which explained why northern Italy had done so well. Since then several scholars, including Francis Fukuyama and also Markku T. Hyyppä, Reino Hjerppe, Jouko Kajanoja and Risto Harisalo in Finland have studied social capital.

In his article "Social Capital" (published by Harrison & Huntington, 2000) Fukuyama defines social capital as a set of informal values and norms that the members of a group share and which allow them to interact with one another. When the group's members know how the others will behave and can expect it to be friendly, they are able to trust each other. If the values are 'wrong', there can be no trust and therefore no progress. Social capital is critical to the formation of a civil society; it governs the way groups and alliances function in society. While families do play a key role in the formation of social capital, the social capital internal to a family is too weak to guarantee strong social capital for the entire civil society. This is much in evidence in Asia where there are often strong bonds within families but mistrust towards strangers. Fukuyama analyses the formation of values and social capital along two axes: hierarchically created vs. spontaneously created and rational vs. non-rational (Figure 2). In late-modern societies values are created increasingly in a spontaneous manner in everyday life and in business. Rational refers to norms that are based on rational selection, comparison and debate, while non-rational means that the transmission and origin of values is other than rational. This raises the question of how norms and social capital are created in late-modern societies. Should we return to the Church? Is an ethical education project required, a conscious construction of norms? Or should we allow the market to take the lead?

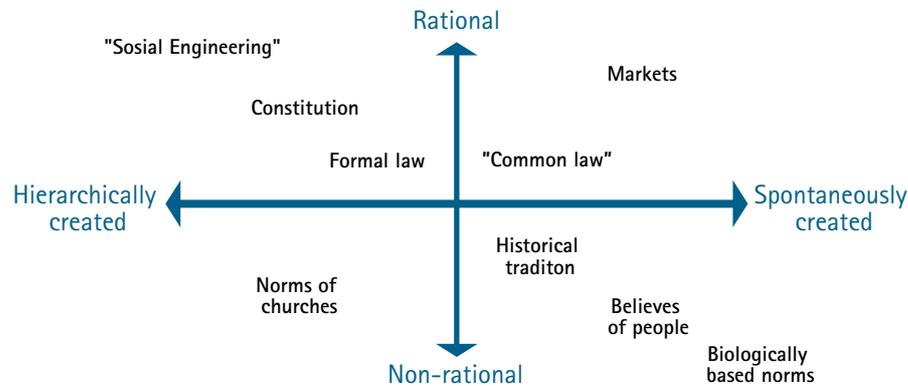


Figure 2. Formation of values by Fukuyama

Cognition scientist have pointed out that the mental models we adopt govern our behaviour. These models amount to a kind of world-view. Lionel Sosa has studied the values and mental models of United States' Latino population. He has observed that they typically:

- submit to poverty (the poor will be redeemed in heaven);
- have low regard for education (family will help, useless for girls to study);
- are fatalistic – individual initiative, goals and ambition are a waste of time (and sinful say Latino clerics); and
- mistrust those outside the family.

Because it is impossible to succeed in the United States with such values and mental models, the Latinos are the least successful group in the US.

The World Bank has also conducted research on social capital (Kajanoja, 1999; The World Bank, 1998). Its research includes all unofficial and official social structures, operating models and dominant values and norms that affect economic development. The Bank uses the following indicators of social capital:

1. horizontal associations (NGOs, labour unions, etc.);
2. civil society (democracy, participation);
3. social integration (social mobility, crime, youth unemployment); and
4. legality and administration (agreements, rule of law).

The research is only now beginning to bring results. On the basis of indicator calculations, social capital accounts for two thirds of the national income in countries with a high level of income. According to the World Bank's report, social capital is similar to a public commodity. Since the benefits it brings cannot be transferred to prices, too little is invested in it. This is why the public sector should invest in the development of social capital. But how should it go

about this? How do small income differences or the availability of social services affect social capital, its preservation or reinforcement? In my opinion, answers at this level are too general. In more concrete terms we must give our attention to families, schools, NGOs and social services. An interesting way to study social capital is to survey the extent of corruption. The international Corruption Perception Index (see Harrison & Huntington, 2000) is very rewarding in this respect. The 1998 index includes 85 countries; Finland is the second least-corrupt country after Denmark (in 1999 Finland held first place):

1. Denmark
2. Finland
3. Sweden
4. New Zealand
5. Iceland
6. Canada
7. Singapore
8. The Netherlands
9. Norway
10. Switzerland
11. Australia
12. Luxembourg
13. Great Britain
14. Ireland
15. Germany
16. Hong Kong
17. Austria
18. The United States
- ...
25. Japan
- ...
76. Russia

The table shows that there is little corruption in the Nordic countries, whereas in Asian countries, where commitment to group and family is strong, corruption is rife. It is striking that many of the least corrupt countries are Protestant.

# 4 A CHANGED FINLAND

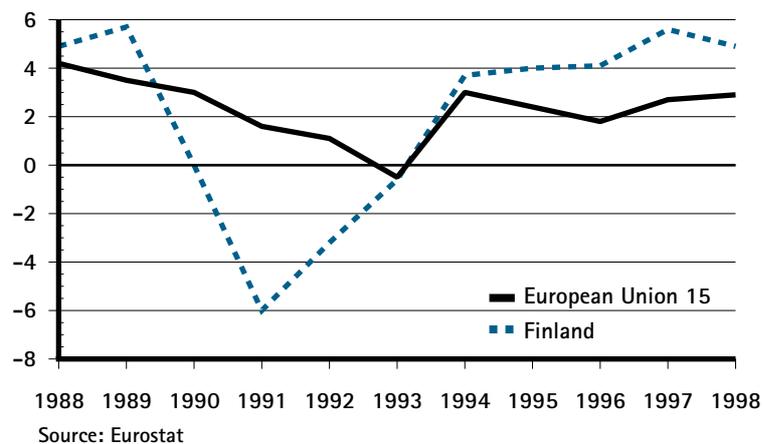
Finland has weathered the recession and all indices show that its competitiveness is among the highest in the world. At the same time, structural problems of its society have escalated. The population is ageing rapidly, bringing about a complex skein of problems. Unemployment is decreasing at a surprisingly low rate, and the number of long-term unemployed is nearly 100,000. Internal migration has increased, and the majority of the population is gravitating towards four or five growth centres. Divorces are on the increase and many people are living alone.

## From Recession to Competitiveness

In the years between 1990 and 1994, Finland drifted into the deepest recession since World War II. Productivity fell dramatically and the State rapidly accumulated a huge public debt. These developments are demonstrated in the figures below.

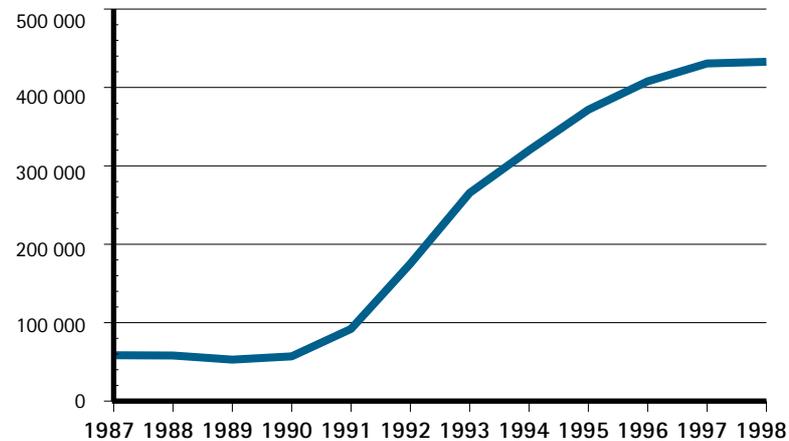
### Gross domestic product in the European Union

Annual growth in percentages compared to the previous year 1990 prices



## Central government debt

Foreign currency and markka denominated liabilities, total  
FIM million



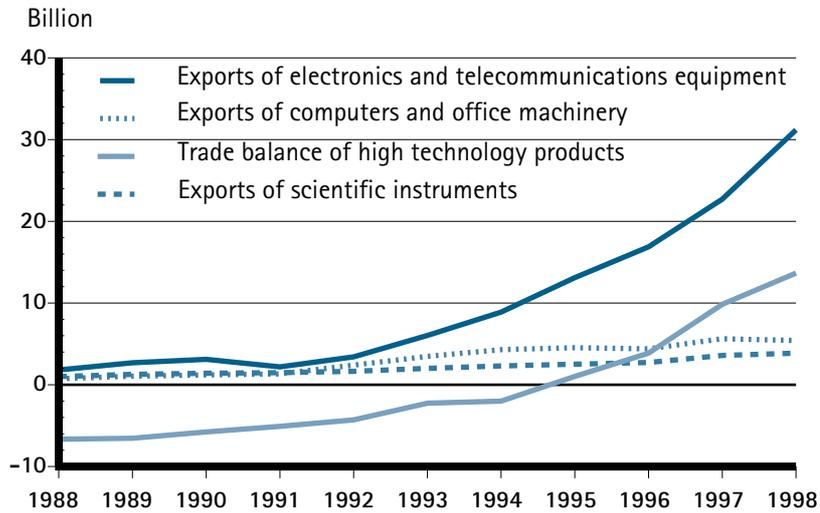
Source: State Treasury

Since the recession, the Finnish economy is now more competitive than ever.

- According to IDC indices, Finland is the third country in the world in information society development
- There are more mobile phone connections in Finland than anywhere else in the world (exceeding the number of landline connections, 73/100 inhabitants)
- Finland is second in the world in the penetration of Internet connections (approximately 135 connections / 1,000 citizens, with the USA leading with 172 connections / 1,000 citizens)
- According to a study conducted within the EU, Finland is the most innovation-positive country after Sweden
- According to OECD estimates, the Finnish system of innovation is one of the best in the world (OECD 1998)
- According to the innovation index of Michael Porter and Scott Stern, Finland was in 10th place in 1996 and 1999, but will in 2006 be in the 5th place after Japan, Denmark, Switzerland and West-Germany, and ahead of such competing countries as the USA, Norway, France, Canada and Sweden
- According to Timo Hämäläinen's dissertation (Forthcoming), the general index of competitiveness placed Finland in the mid-1990s in the 5th place after Sweden, Switzerland, the USA and Canada
- The Global Competitiveness Report (WEF) indexed Finland in the first place in 2000 with respect to technological competitiveness
- The World Competitiveness Yearbook (IMD) ranked Finnish science and technology policy in 6th place in 2000
- Finnish R&D expenditure in 2000 was about 3.2% of GDP, or approximately FIM 26 billion, of which private businesses accounted for about 70% and the public sector about 30%. This is roughly the same amount as Nokia invests in R&D; corresponding expenditure in Sweden is even greater than in Finland, almost 4% of GDP.
- The balance of trade in 1999 was FIM 56 billion in the black, as well as the balance in high technology (FIM 15 billion), where the export/import rate was 1.5 (FIM 47 billion/31 billion)

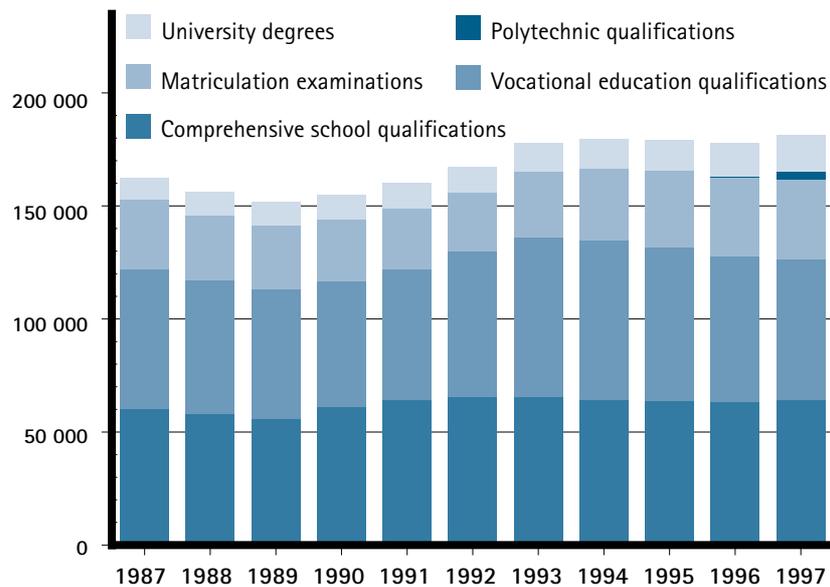
The graphs below demonstrate the positive development of the economy and competitiveness since 1993: R&D expenditure and foreign trade in high technology.

### Foreign trade of high technology products



Education and training is one of the most important keys to success in the globalized network economy. On the whole, the number of completed degrees is on a relatively high level in Finland: nearly 200,000 degrees completed annually.

### Number of qualifications achieved



We can get a good idea of education in Finland by comparing the number of students studying for higher education degrees per 100,000 inhabitants. In 1995, the top countries were:

Canada	5,997
Australia	5,401
United States	5,339
Korea	4,955
New Zealand	4,603
Finland	4,190

In the top three countries, the number of students was 25% higher than in Finland. The figures are significant in that the number of higher education degrees is one of the most powerful indicators of national (future) expertise. However, the figures do not indicate how demanding the degrees are, such as their content and duration.

Measured by the number of people over 24 who have completed higher education degrees, Finland is not a top country. The table below also shows the education expenditure of these countries.

	% of population	Education expenditure, % of GDP
USA	46.5	5.4
New Zealand	39.1	7.3
Israel	31.2	7.6
Sweden	27.6	8.3
Belgium	27.0	3.1
Denmark	26.4	8.1
Germany	23.5	4.8
Ireland	23.2	6.0
The Philippines	22.0	3.2
Canada	21.4	6.9
Finland	21.4	7.5
Japan	20.7	3.6
Norway	18.9	7.4

Finland and the other Nordic countries spend more on education than the other countries. In Finland, older people are poorly educated, whereas the younger generations have a remarkably high level of education. The aim is to ensure that 70% of all age groups will have a higher education degree.

## Structural Problems of Finnish Society

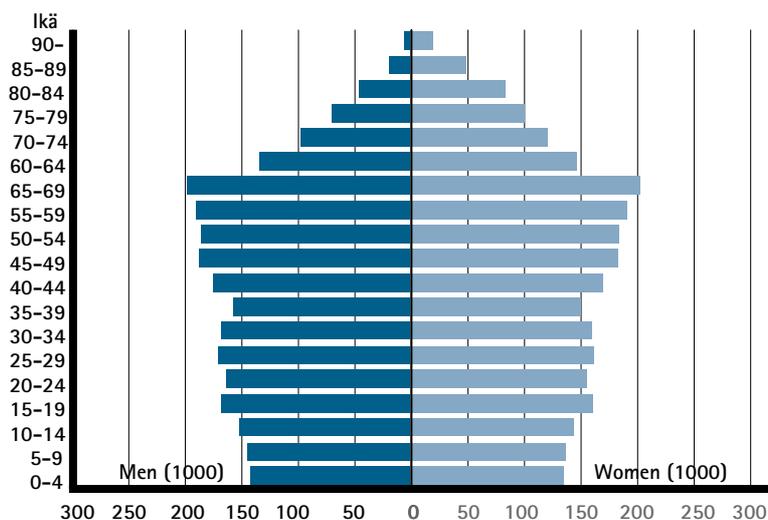
Four of the structural problems of Finnish society are discussed in this report: ageing, unemployment, regional centralization, and changes in family types.

## Ageing

The proportion of people over 65 in the population has increased rapidly, and will remain at the same level in the future. The population pyramid is widest in the 50-54 age group. There are more 30-54-year-olds than people under 30. Ten years from now, the number of retired persons will begin to grow very rapidly, and by 2020 more than 25% of all Finns will be over 65. The figure shows the situation in 2010. This development will lead to great structural problems (see *Talous&Yhteiskunta* 4/2000):

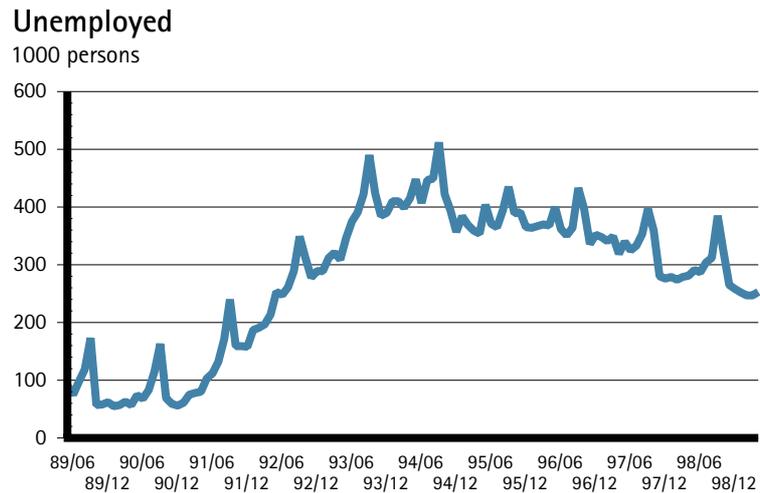
- **The dependency ratio will become weaker:** At the moment the ratio (the proportion of dependants to the working population) is about 120, but in 2030 it will rise to 140, while the proportion of total expenditure on social services of the GDP will rise from 25% to about 30%.
- **Pension expenditure will increase:** The share of statutory pension expenditure of the GDP is now about 11%, but by 2030 it will have grown to 16%.
- **Labour shortage will grow:** Finland will need more immigrants (see Trux 2000); however, Pekka Parkkinen (*Talous&Yhteiskunta* 2/2000) believes that the workforce will remain around 2.4 million as potential employees will seek jobs on the market (in other words, although the overall population will shrink, the percentage of working-age people seeking employment will increase, or they will remain longer in working life as retirement age becomes higher)
- **The need for public social and health services will increase:** Pensioners use a great deal of such services; the proportion of people over 75 will grow, partly because of longer life expectancy, and this group will use a great amount of health and other services

Population by Age and Sex in 2010



## Unemployment

Economic recovery has not reduced unemployment to the level prior to recession, as the graph shows.



Source: Statistics Finland, Social Statistics: Labour Force

One feature especially worth noting is the high level of long-term unemployment (28.7% of all unemployed). According to Statistics Finland, there were 75,000 long-term unemployed in Finland in 1999, while the Ministry of Labour puts the figure as high as 98,000. Nearly one half of the long-term unemployed are over 45, although there are also people under 24 in this group (figures from 1999).

Age group	% of long-term unemployed
15-24	6.5
25-44	44.0
45-54	49.1

Long-term unemployment is most prevalent among the least educated.

Level of education	% of long-term unemployed
Basic	44.1
Lower secondary	41.8
Upper secondary, higher	13.9

Long-term unemployment is above all a problem in the cities. The greatest concentrations are found in Uusimaa, but the numbers are quite high also in Pirkanmaa and North Ostrobothnia. In these regions, the unemployed must compete for jobs with people migrating to the area.

## Structural Unemployment – Does It Exist?

It is often claimed that only a certain proportion of unemployment is structural, while the rest constitutes cyclical unemployment (see Vartiainen, Hyvinvointikatsaus 1/2000). In the new economy, however, the concept of structural unemployment is problematic. The traditional view is that structural unemployment is linked with inflation and the price of labour. When unemployment sinks below its structural level, in other words, when there is not enough labour, wages rise and inflation escalates. The economy 'needs' a certain amount of unemployment, otherwise the wage demands of the workforce would exceed the profitability aims of businesses. In the new economy, however, the price of labour is not determined by the mass of the unemployed, but by skills. Increasingly, therefore the question is, whether there is qualified labour, and where it can be found. Labour released from the declining sectors of the economy cannot be easily transferred to the developing sectors. Part of the workforce does not possess the necessary skills, and must either remain unemployed or be prepared to take on routine tasks; this comes across quite clearly in the profiles of the long-term unemployed. Structural unemployment is therefore found in sectors where a high level of education is not a requirement; there is an over-supply of labour and wages remain low. On the other hand, the demand for experts is greater than the supply, and wages rise. The situation may change in the near future, however, because we can already foresee a great shortage of qualified ordinary labour. It is estimated that, in the future, it will become increasingly difficult to find qualified machine operators, metal workers, construction workers, drivers, storage workers, nurses, etc. It is a mistake to place value on higher education degrees alone: there will also be a shortage of people with vocational qualifications. Therefore, structural unemployment in production occupations will decrease and their wage levels will rise. If this analysis is correct, there will be no need for under-selling so-called 'non-current' labour in Finland.

## Regional Centralization

Mass migration has increased since the recession. The reason is not the depopulation of rural areas, which had already happened by the mid-1970s. Since then, migration was relatively meagre, until it picked up again in the late 1990s. The year 1998 marked the second liveliest year of migration in the last century. A researcher at Statistics Finland has identified three basic reasons for mass migration in the 1990s (*Suomen vuosisata*):

1. Those who were not able to migrate during the recession are migrating now
2. The migration of students has increased since the enactment of the Municipality of Residence Act (1994)
3. Migration takes place predominantly between cities to regions where new jobs were created after the recession.

Most people migrate to urban centres, to the south and the coastal areas, where the majority of population lives already. *Tietoaiika* 9/2000 tells us that

- Every other Finn lives in the 32 most densely populated municipalities
- Half of all Finns live south of a line between Rauma and Imatra

- Half of the population lives in the 60 km wide coastal zone.

The country is also divided so that the following indicators of success are the highest in the same geographic areas:

- GDP per capita
- R&D investments of companies
- The number of people with post-basic level qualifications
- The number of employees in the IT sector.

The correlations are obvious!

The most successful regions are the Helsinki metropolitan area, as well as the Oulu, Tampere, Turku and Jyväskylä regions. According to Statistics Finland, however, only the Helsinki metropolitan area and the Tampere and Oulu regions are actual growth centres. In Turku and Jyväskylä, production has not grown apace with population and jobs. Salo is the most rapidly growing small region.

The National Research and Development Centre for Welfare and Health (STAKES) has made a study of regional differentiation of welfare and has come to the conclusion that welfare is surprisingly fragmented (Kainulainen et al. 2001). In the study, welfare was interpreted as being composed not only of economic success, but also of psychological and social factors. Basically, we can say that welfare is greatest in cities and growth centres and their surroundings, rural regions included. The number of ailing municipalities identified in the study was over one hundred, most of them in northern and eastern Finland. Nevertheless, social problems accumulate in the centres of large cities (e.g. Helsinki, Vantaa, Kerava, Järvenpää). On the other hand, there are islands of welfare in the countryside as well, despite relative poverty and unemployment, such as Kuhmo, Sotkamo and Suomussalmi.

There are distinct reasons and drives behind the centralization of the economy and the population. The new economy, too, needs strong centres of expertise with global attraction. A report prepared for the Economic Council, Regional Development and *Regional Policy in Finland*, suggests that the centralization of the economy is intensified by the following factors:

- The size and proximity of markets are important in many sectors
- Dense and diverse labour markets improve the meeting of demand and supply of labour
- The spread of information and other positive external factors benefit businesses that are located close to one another
- The supply of diverse cultural and other services draws, above all, young people to the centres.

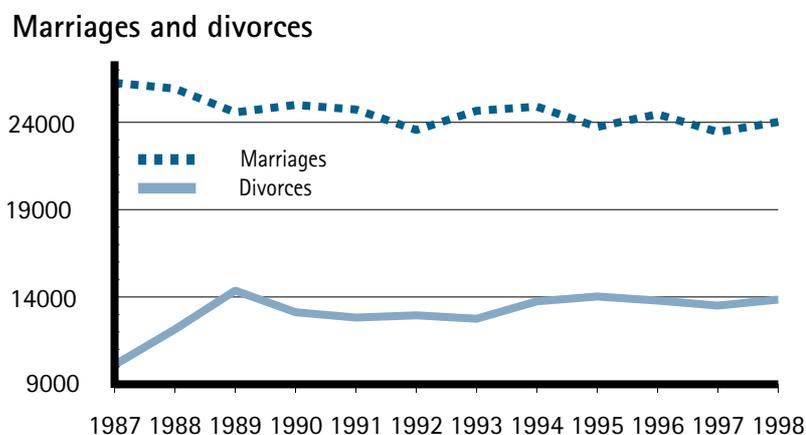
In the programme-based revision of Finnish regional policy in the 1990s, a new emphasis was placed on the role of regions. Programmes for urban and rural development have sought to define the aims and instruments of regional development. Regional development is also affected by general social policies, such as education, taxation and income transfer, as well as the targeting of R&D expenditure. In addition to these so-called macro regional policies, a number of targeted measures have been implemented, the so-called micro regional policies. Examples of these are the aid areas and structural funds of the EU (FIM 3-4 billion/year).

National measures have included business subsidies (FIM 2-3 billion/year), granted on regional grounds, and programmes for centres of excellence (14 centres of excellence and 34 regions of excellence).

The report of the Economic Council's working group indicates quite clearly those factors on which future regional development will depend. The key position is occupied by the business sector. The crucial questions are where those activities which create new jobs will be located, and where investments will be directed. For regions outside growth centres to obtain investments, they must ensure favourable operating conditions for enterprises. One of the most important production factors of enterprises is, of course, an adequate supply of qualified labour. It is therefore important that sufficient attention is paid to the regional coverage and quality of the education system. Cooperation between businesses and educational institutions is particularly important. New economic activity is created not only by investment, but also by promoting local entrepreneurship. This, too, calls for expertise and education, but also risk funding. The report of the Economic Council culminates in an emphasis on the significance of regional cooperation. "The common feature of successful growth areas is a positive attitude climate and working towards a common goal." (p. 188). However, this analysis, good as it is, needs to be augmented with information from new directions, which have been under discussion at Sitra, namely networking and the transfer of innovations.

## Changes in Family Types

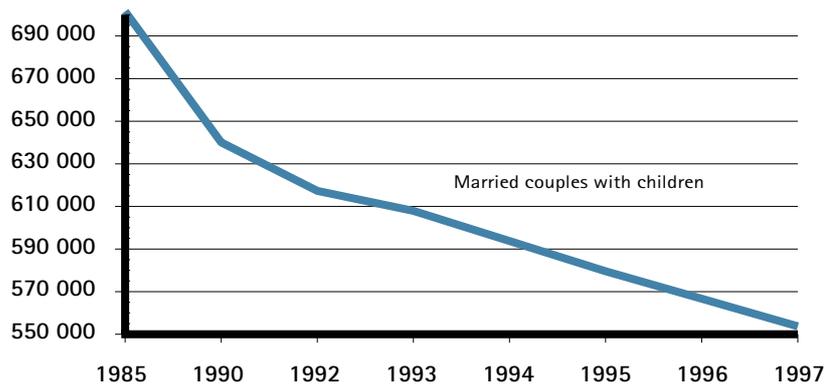
Some 23,000 new marriages are contracted in Finland each year. The marriage rate has declined, while cohabitation without marriage has grown. Nearly 20% of all cohabiting couples are unmarried. A more important change, however, is the increase in divorces; at the moment, the divorce rate in Finland is among the highest in the world. If Finns continue to divorce at the same rate as in the past few years, almost every second marriage will end in divorce. The Swedish and the Estonians share the same predicament. Changes in family types are also linked with the problems of children and adolescents (divorces, single parents, extended families).



Source: Statistics Finland, Population Statistics: Demographics

Changes have taken place also in family types. The most common type is a married couple with children. The number of such families is 40%, but is declining. Factors contributing to this trend are divorces, decreased number of children in families, and young adults moving away from home.

### Most common family types



Source: Statistics Finland, Population Statistics: Demographics

Living alone is quite common in Finland and in the other Nordic countries (*Hyvinvointikatsaus 4/1999*). A quarter of the Finnish population lives alone. The number of single adults over 20 living alone is about 1.4 million. The proportion of people living alone among 20-24-year-olds has grown more rapidly than in other age groups. Another group in which the share of people living alone is great is women over 65. In Helsinki, already every second household is a 'single household'.

Single women living alone are on the bottom of the income ladder. For young singles, social benefits constitute an important part of their income. Being single is often associated with an image of success. Indeed, most younger singles have a mobile phone and a car, and they spend more money than other groups on services in hotels, restaurants and cafes. The economic situation of single women improves as they get older, whereas the situation of single men deteriorates. Many single men approaching retirement age are long-term unemployed, and they tend to retire early. Many single people suffer from loneliness; over one half of elderly singles report feelings of loneliness. The number of elderly widows is much greater than that of widowers (men die about 7 years earlier than women). For them, the death of their spouse signifies a major change in life (often involving a move to a smaller dwelling far away from their previous home and their neighbours).

# 5 ILLFARE OR WELFARE STATE?

The competitiveness of the Finnish economy is among the highest in the world and the gross domestic product has grown in the late nineties at an annual rate of 3–5%. The nation is perhaps more affluent than ever before in its history. The welfare state provides a broad range of different kinds of services. Yet subjective misery is widespread. Has the welfare state indeed been dismantled? Is poverty to blame? Is working life too exhausting? Are families not doing well?

## Defending and Dismantling the Welfare State

The basic idea of the welfare state is to use tax revenues to finance public services (education, health care, social services) and to guarantee social security with benefits (income support, pensions, unemployment security). Moreover, we must bear in mind that welfare states have a well-developed democratic and legal systems, and that they are affluent market economies.

The Nordic states have developed their own welfare state model with these distinct features:

- Universality of services, i.e. public, often free services (education and training, health care) are provided for the entire population
- Social services cover the entire life span of citizens from childcare clinics to old people's homes
- Benefits are partly based on nationality (income support, national pension), partly on earnings (employment pension and earnings-related benefits)
- Small income differences
- Equality between the sexes

Although Finland survived the recession fairly well because of the welfare state, the legacy of the recession is high unemployment and a large national debt.

The future of the welfare state is under constant public debate. It is often claimed that the past few years have seen a significant dismantling of the welfare state. Heikki Lehtonen has presented three changes that were made in the Finnish model of the welfare state in the 1990s: 1) the prevalence of means testing has increased, 2) contributions by the insured have risen and 3) social rights have been eroded (see Anttonen and Sipilä 2000). The basic features of the welfare state are still intact, however, and no significant cuts have been made in either benefits or services. The welfare state still enjoys great support in opinion polls. The highest value is placed on public health services. Similarly, the major political parties are unanimous in their idea of what constitutes the fundamental features of a welfare state.

In my opinion, the greatest problems facing the Finnish welfare state are those connected with funding, markets, responsibilities, and social cohesion. These issues merit more discussion than the sufficiency of services or programmes to combat poverty.

1. **Funding:** How can the public sector pay for services and benefits when the dependency ratio grows and taxation apparently has to be lowered (EU tax harmonization, global tax competition, the effects of e-commerce, etc.)?
2. **Markets:** How can markets be exploited in the provision of publicly funded services; which services could be privatized; how can cooperation between the public and the private sector be developed?
3. **Responsibilities:** How should the responsibility for welfare be allocated between individuals, families and the public sector; should the responsibility of individuals and families be increased?
4. **Social cohesion:** How does the welfare state (services, income transfers) and social capital interact; how can social cohesion be preserved?

The funding problem is obvious, and I shall not discuss it further in this context, except by referring to the great national debt. The problems of social cohesion and responsibility will be discussed later. The market problem and the entire issue of privatization (including the privatization of state companies) has become strongly politicized. In a poll conducted by the Centre for Finnish Business and Policy Studies (EVA), 53% of respondents disagreed with the claim that a great many public services should be privatized in Finland in order to secure increased efficiency in the provision of services. Attitudes against privatization have become more prevalent in the last couple of years. For political reasons, it is difficult in Finland to experiment with alternative models for providing and funding services (supplier-producer models, service vouchers, use of purchased services, new forms of cooperation between the public and the private sectors in the provision of social and health services, increased use of services provided by NGOs, etc.). This prevents us from developing social innovations and increasing the productivity of the public sector as forcefully as we should.

## Competing Models of Welfare State

Recent public discussions show that defence of the Nordic model of welfare state (universal social policy) has become the key issue on the political agenda. However, it is only seldom pointed out that our level of welfare is by no means exceptional, and that there are also welfare states in countries not in northern Europe.

Broadly speaking, the core of the welfare state consists of social security, which is described with 'social schemes'. Dr. Matti Kari has identified three different social schemes – the Nordic, the (central and southern) European, and the American. The Nordic model is universal, in other words, social security extends to all people living in the country. The European model is a so-called contribution-based system, which is based on statutory social insurance and the earning of benefits by working. The system in the United States is a so-called marginal system, in which measures and benefits are targeted at those who have not earned their social security on the market (e.g. by taking insurance policies). The various features of these systems are described in the table below.

	<b>Nordic</b>	<b>European</b>	<b>American</b>
<b>Eligibility for social security</b>	All residents	Working population and their families	Holders of private insurance policies
<b>Funding</b>	Taxes and social contributions	Social contributions from employees and employers	Insurance premiums
<b>Public security – measure of solidarity</b>	Universal: security provided for all	Comprehensive: security covers (nearly) everyone	Marginal: only for the few

Let's make a brief comparison between Finland, Germany and the USA (see Anttonen and Sipilä, 2000). In the table below, the countries are compared with reference to certain variables. The figures are from the mid-1990s.

	<b>Germany</b>	<b>Finland</b>	<b>USA</b>
Social expenditure/GDP	27.5	31.1	16.1
Social service expenditure relative to income transfers	0.12	0.21	0.06
Percentage of employees in public service institutions of the entire workforce	15.6	28.2	14.0
Poverty rate: percentage of persons who earn no more than half of the average income	8.1	2.4	18.6
Income disparity: income of people in the top 20% income bracket relative to that of people in the lowest 20% income bracket (80-92)	5.8	6.0	8.9
Total public health expenditure, % of GDP	10.5	7.4	14.0
Share of the public sector of total public health expenditure	71.5	79.3	45.7
Physicians per 1,000 inhabitants	3.4	2.9	2.3
Male suicides per 100,000 inhabitants	23	45	20
Homicides by men per 100,000 inhabitants	1.2	4.1	12.4
People with higher education degrees, % of entire working-age population	14	13	27
Total education expenditure, % of GDP	5.9	6.9	7.1
Percentage of under 3 year olds in publicly-funded day-care	2	21	26
Percentage of 3-year-olds in pre-school or day-care	47	27	34
Percentage of 5-year-olds in pre-school or day-care	79	35	100
Percentage of people over 65 in long-term institutional care	7	6	6
GDP per capita as 1000 \$ at purchasing power parity rates	20.8	20.3	29.3
Total tax revenue as % of GDP	39	46	28
Unemployment rate as % of workforce (1997)	9.7	14.0	4.9
Percentage of women in 15-64 age group who are in the workforce	61.4	71.1	70.7
Gender Development Index, i.e. the participation of women in political and economic life, placement of country in statistics	16	7	5

Although such comparisons are difficult, at least we can say that all these countries provide high-quality services. The situation in Germany is fairly close to that of Finland, although they have a different welfare model. Finland employs clearly more people in the public sector than the other countries. In Germany, small children are predominantly cared for at home. In the USA, unemployment is low, so are taxes, the GDP is high, considerable investments are made in education and public health, and women participate actively in working life. The problem with the USA is their high rates of poverty and homicides. On the other hand, more suicides are committed in Finland than in the other countries, and also more homicides than in Germany. Of the three countries, Finland spends least money on health care (half of the expenditure in the USA, where the insurance system has the effect of increasing health expenditure). This may be a sign of efficiency, but may also explain the surprisingly low position of Finland in the comparative statistics of the World Health Organization. The WHO World Health Report 2000 ranked Finland in 31st place, while France was placed 1st, Italy in 2nd, Germany in 22nd and the USA in the 37th place. Finland's poor position can be explained by premature deaths of men at the best working age. In the 25-64 age group, mortality among men exceeds female mortality by 45%: the number of men per 100,000 inhabitants in this age group who die is 519, whereas that of women is 212! Alcohol probably plays a big role in this. In Finland, some 3,000 people die of alcohol-related causes every year.

## **The Great Challenge of Preserving Social Cohesion**

In recent years, new types of arguments have been presented in support of the welfare state, particularly from the perspective of social cohesion. While economics has traditionally presented levelling and efficiency as mutually opposite forces, the present thinking is that they in fact support each other (see Kajanoja, 1999). The economists who developed the Nordic welfare state (Myrdal, Tinbergen, Pekka Kuusi), emphasized that income transfers and public services, such as education and health care, serve to improve the efficiency of national resources and increase consumer demand. The new issue in the welfare state debate is the relationship between the welfare state and social capital. It is claimed that the welfare state promotes social capital and thereby improves economic competitiveness. This claim merits closer study and also a more precise formulation, especially since opposite claims are also made, namely that the delegation of responsibility to public administration and authorities decreases people's commitment to care for their families and local community (Fukuyama).

## **Social Capital Rests on the Civic Sector**

There have been very few empirical studies made on social capital in Finland. Researcher Markku T. Hyypä at the Social Insurance Institute of Finland has studied male mortality in the Swedish-speaking areas of Ostrobothnia and has come to the conclusion that people who are active in communities and maintain networks of interaction lead healthier lives and live longer (see Hyypä and Mäki 2000). We may assume that at least the following features of the welfare state can promote social capital (see also Kajanoja and Simpura 2000):

- 'Social contract' for the maintenance of public security networks
- Development of local communities (promoting regional cooperation, municipal democracy, provinces)

- Support for the civic sector (NGOs, voluntary work)
- Development of networks of interaction (access to the Internet, e-mail, service networks, such as Learning Regions)
- Strengthening equality in opportunities (education, income distribution)
- The ethic dimension of politics (confidence in decision makers, low corruption)

The construction of social capital in the third sector occupies a special position (Hyvinvointikatsaus 1/2000). The third sector refers to voluntary non-profit social organization: societies, foundations and cooperatives are all part of the third sector. Households are often called the fourth sector. The present writer prefers the term civic sector for the third sector, in order to emphasize its connections with civic society. The great significance of the civic sector is apparent in that it:

- Strengthens the social substructure of society
- Strengthens social cohesion and social capital
- Strengthens the democratic institutions of society

Moreover, organizations in the civic sector provide services and promote various group-specific or general issues in society (monitoring of interests).

The civic sector in Finland is traditionally active, at least as indicated by the number of organizations and their membership (NB. churches are not included):

<b>Type of organization</b>	<b>N. of registered organizations</b>	<b>% of adult population</b>
Trade organizations	1395	75
Sports clubs	2170	23
Art and other study circles	2225	15
Social services, charity.	870	10
Religious, other ideological orgs.	185	9

Between 1975 and 1998, the number of these organizations grew by 86%. Studies show that their members are pillars of the political system (Suomen vuosisata), whose confidence in the central institutions of society is higher than average. The rule seems to be that the better educated people are, the more actively they take part in organizational activities.

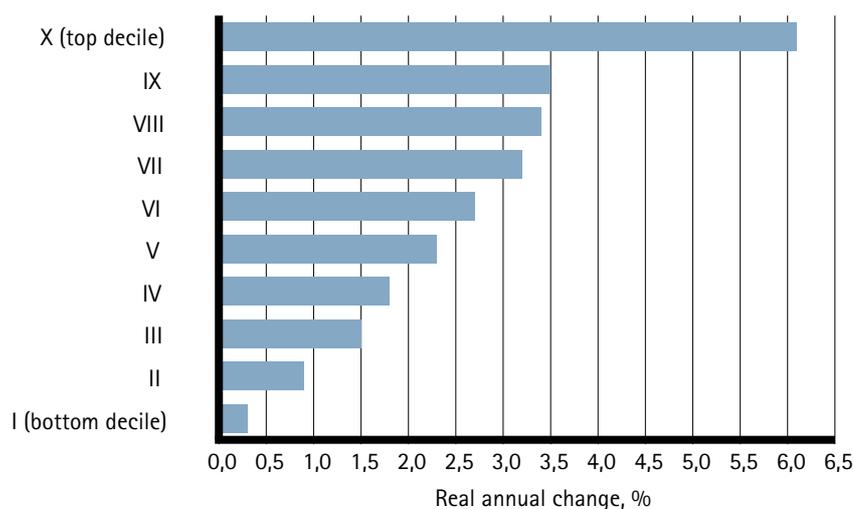
Autonomy is an important characteristic of the civic sector. This autonomy is reflected in the funding of the organizations. In Finland, about 61% of the funding is raised by the organizations themselves. Funding from the public sector accounts for 32% and donations for 7%. Compared with other EU countries, the proportion of funding raised by the organizations themselves is high in Finland and the share of public funding is relatively low. The majority of proprietary funding comes from membership fees. The dependence on public funding of organizations providing health and social services is greater, over 50%. One important source of funding is the RAY (Finland's Slot Machine Association), which distributes approximately FIM 1.5 billion in grants annually. The amount of employment provided by civic organizations is about 66,000 person years, or 3% of the total. In the Netherlands, the corresponding figure is 12.4%, in Ireland 11.5% and in the USA 7.8%. Thus the effect of these organizations on the employment situation is not very great. In contrast, voluntary work performed by these organizations is a far more important factor. Voluntary work performed by members of registered

organizations in Finland is about 82,000 person years. This activity is especially significant in the fields of culture and sports.

From the viewpoint of social capital, the civic sector occupies a key position. It can strengthen the social capital of society, but also weaken it, if it maintains narrow traditional attitudes and exclusiveness. On the other hand, the State can both promote and weaken the civic sector and social capital (Kajanoja, *Hyvinvointikatsaus 1/2000*). The State can promote the development of the civic sector by creating rules and prerequisites for the voluntary activities of its citizens. However, by controlling and creating dependencies, the State can also suppress social capital. It is important that the financial independence of civic organizations is preserved in Finland. Voluntary participation in the activities of these organizations and self-acquired funding are the best ways to help them to carry out their social mission – to offer citizens opportunities to participate in organizational activity.

## Income Inequality Grows, Yet is the Lowest in the World

One of the greatest ideas of the Nordic welfare societies is the levelling of income differences. This is achieved by progressive taxation, social income transfers and the provision of public, often free services. According to the income distribution statistics for Finland, the income share of all deciles except the most affluent decreased slightly from 1993 to 1999. The percentage share of the top decile has grown from 19.3% to 23.2%. At the same time, the Gini Index, an indicator of income inequality, has grown from 21.1 to 26.2. In 1999, income inequality increased considerably relative to the preceding year, with the top decile increasing its share from 21.4% to 23.2%). From 1994 to 1998, the top decile increased its disposable annual income an average of 6% each year, whereas the corresponding increase in the lowest decile was only about 0.4% (see Figure 3).



**Table 3. The real change in annual disposable income of income deciles in 1994–1998, average % per year, Statistics Finland income distribution statistics 1998.**

The percentage share of the unemployed in the lowest income decile was 27, and that of students, 21. Statistics for 1999 show that 63% of students and 45% of all unemployed were in the lowest income decile. In the below 24 age group, 36% belonged to the lowest decile. The proportion of young people in the bottom decile was considerable, because over 30% of people in the bottom decile were under 24 anyway. The composition of the lowest income decile in 1999 was as follows:

	% of the decile
Unemployed	27.6
Students	21.7
Pensioners	20.0
Salaried employes and workers	15.8
Agricultural entrepreneurs	2.4
Other entrepreneurs	6.9
Others not in labour force	8.8
	100

The list shows that we must not confuse poverty and low income (see TT 2001). A considerable number of people in the lowest income decile are students, part-time salaried employees and part-time entrepreneurs. For many, poverty is temporary. In 1999, the number of income support recipients was 500,000, which includes unemployed people, single parents and over-indebted persons (ca. 9% of the population). Roughly 100,000 people regularly queue for food donations.

If the growth of income disparity is measured by disposable income –which includes income transfers and services – the growth of disparity is not as great as measured by factor income. However, all indicators show that income inequality in Finland has grown since 1995 (see *Hyvinvointikatsaus Spesiaali 2000*). There are many reasons for this:

- Wages of the well-educated have increased more rapidly than of those with less education (wage drift included), yet wage differences in Finland are the smallest in the Nordic countries
- Options and capital income are enjoyed by the most affluent group anyway
- The tax rate has been lowered
- Unemployment and the great number of the long-term unemployed keeps part of the population constantly in need of public income support

It is obvious that the one factor which has most contributed to the growth of income disparity is capital income, such as sales profits. According to OECD statistics, income disparity is at its lowest in Denmark, Finland, Sweden and Austria, Holland and Norway, in this order (according to the Gini Index for the mid-1990s).

The critical question with respect to the growth of income disparity is, what will happen to poverty in the future. One of the most frequently used indicators of poverty is the poverty rate, which indicates the proportion of the population whose income falls below the poverty line of 50% of the average income (in Finland, 50% of average income is about FIM 3,300/month). This is of course a relative indicator and says nothing about absolute poverty. According to

Eurostat statistics, in 1994, Finland had the lowest poverty rate among the (current) EU countries, 3.9% of all households. The statistics are interesting:

	<b>poverty rate %</b>	<b>No. of poor people</b>
Finland	3.9	192,200
Sweden	5.7	503,400
Denmark	7.4	386,000
The Netherlands	8.4	1,275,000
France	13.9	7,949,000
Germany	14.0	11,327,700
Luxembourg	14.1	56,700
Austria	14.1	1,108,100
Belgium	14.6	1,474,200
Italy	16.5	9,321,900
Spain	18.5	7,169,400
UK	19.9	11,426,800
Greece	19.9	2,041,900
Ireland	23.4	837,500
Portugal	24.6	2,424,500
USA	26.3	

Such figures are always somewhat uncertain, however. According to the income distribution statistics of Statistics Finland, the poverty rate clearly grew from 1990 to 1998, whereas in 1999 it fell again.

	<b>Poverty rate</b>	<b>Households</b>	<b>Persons</b>
1990	3.4	73,000	126,000
1998	4.5	105,000	196,000
1999	4.0	93,700	187,000

According to this measure the number of poor people is about 180,000–190,000, of whom a considerable proportion are long-term unemployed and people living on national pension. Nowadays Eurostat recommendates that the poverty treshold is 60% of median income in modified OECD-scale. According to this measure the % of poor people from the population was 7.8 in 1990, 8.1 in 1997, 9.5 in 1998, and 9.6 and 460,000 habitants in 1999 (see Ministry of Social Affairs and Health 2001). Although income disparity in Finland increased somewhat in the late 1990s, it appears that Finland has perhaps the lowest income disparity and poverty rate in the world. Public debate on the growth of income disparity stems partly from political differences.

Factors underlying public discourse on poverty include subjective distress, fear of change, deficient personal resources caused by unemployment and, of course, genuine concern for the poor. In my opinion, one of the most important questions regarding poverty is the effect of income disparity on social cohesion. At the very least, people are afraid of an imminent division of Finnish society and growing gulf between the poor and the rich (see EVA poll). Confidence that everyone will be provided for is weakening.

Income disparity is not an exclusively negative phenomenon, however. Technological development and the growth of productivity keep the economy in constant change. Industries and trades in which productivity is weak and companies using outdated technology lose ground and their profitability declines, whereas companies and industries utilizing new technology prosper. Wages in the first-mentioned fields decline relative to wages in the latter, and the workforce gravitates towards trades which offer higher wages. This process promotes economic progress. It has also been observed that wage differences within new sectors are smaller than within the old, which means that new technologies will, in the long run, improve the wages of all employee groups and decrease internal income differences. Income disparity has also an effect on work motivation: people must see that they are able to improve their standard of living through education and hard work. The removal of poverty requires economic growth, the creation of more jobs, as well as personal flexibility, such as willingness to change occupations or residence. Poverty cannot be removed merely with income transfers, and, from the statistical perspective, poverty will always exist.

## **Increased Demands in Working Life – What about the Family?**

Economic development in the 1980s and 1990s in Finland, as well as in other industrialized countries, has brought about profound transformations in working life. New or strengthening features are especially:

- Work requires great expertise and has become more demanding (skills and qualifications)
- Increased flexibility in working life, such as working hours
- Increased work mobility (eWork)
- Introduction of new forms of organization at work (teams and autonomy)
- Introduction of new forms of management and remuneration
- Increased use of IT technology (knowledge-intensive work)
- Increasing number of atypical employment relations (project and part-time work)
- Job insecurity (layoffs, fixed-term employment)
- Wage polarization (highly paid experts vs. poorly paid production occupations)
- Diversification of the forms of career development (exchanging jobs and tasks)
- Increased prevalence of entrepreneurship at work (internal entrepreneurship and small enterprises)

The general trend during the past one hundred years has been the normalization and shortening of working hours and increasing productivity of work (see *Suomen vuosisata*). The trend in working hours seems to be turning now (see Julkunen and Nätti 2000). In the new 'working hour regime', time spent at work is no longer regulated by collective agreements, the patterns of time spent at work are diversifying, and the boundaries of work and leisure are becoming obscure. Experts and highly skilled employees (men more so than women) are working increasingly longer hours. They also work overtime without pay: overtime is 'compensated' for by job satisfaction and higher basic wages, sometimes also by incentives in the form of options.

The life of experts is becoming more work-oriented, and private life becomes marginalized vis-à-vis work. While this development is most conspicuous in the USA, the phenomenon is becoming increasingly apparent in Finland as well. The basic reason for this development is the new economy: globalization, networking, increasing competition, the decreasing significance of time and place due to ICT, and the associated maintenance of round-the-clock availability. In the *positive scenario*, new work environments allow employees to alternate flexibly between work, family and leisure as needed. In the *negative scenario*, fluctuating and increasingly long working hours jeopardize the balance of the human organism, causing stress and sleep disturbances. At the same time, family and social relations suffer, and there is no longer enough quality time to maintain good personal relations.

According to a recent survey within the EU, working conditions did not improve in the 1990s (Helsingin Sanomat February 15, 2001). Work-related health problems, such as pains in the shoulders, neck and back, have increased. The amount of work has increased and become more hectic. The atmosphere at work has become more strained and lack of expertise causes stress. The independence and flexibility of work have increased. Exhaustion is more prevalent than before. In a corresponding survey conducted in Finland, work exhaustion is double the EU average.

The increased demands of working life are inevitably reflected in the family. People must perforce neglect their families. The problems of children and young people are partly caused by changes at work, although unemployment and divorces of course play their part. According to statistics provided by the National Research and Development Centre for Welfare and Health, the number of drug-related deaths approximately doubled between 1990 and 1996 (to 88 per annum), and the number of youths convicted of drug crimes increased about sevenfold. The number of children and adolescents taken into custody grew between 1991 and 1998 by about 10%. The number of young people receiving psychiatric treatment grew 35% from 1990 to 1996.

One relevant issue in this context is increased violence. According to a report from the National Research Institute of Legal Policy, violence in the family and at work grew in the 1990s; the growth was especially noticeable in the case of women. Both women and men increasingly face violent situations in restaurants and other public indoor spaces. Men face violence increasingly in the streets as well. The heading of a news item about increased violence in the Helsingin Sanomat stated that "Dismantling of the Welfare State Is Reflected as Growing Insecurity" (Helsingin Sanomat February 18, 2001).

According to a report on young people's life-management prepared for Sitra, statistics show that the problems of young Finns have not increased dramatically because of the recession (Paju and Vehviläinen 2001). The only real exceptions were the increased supply and use of drugs in the 1990s, and problems in mental health. Researchers say that many young people's problems are related more to urbanization than to unemployment. However, statistics do not show the most recent developments. On the basis of the results of a questionnaire survey conducted among school children, Irmeli Järventie has suggested that up to 29% of all children are in great danger of becoming marginalized. In Sitra's study, it is estimated that about 10,000 to 15,000 youngsters can be characterized as having multiple problems and facing a real risk of marginalization. On the other hand, not even researchers are in complete agreement on what constitutes marginalization, and estimates of the number of marginalized people per age

group vary from 0 to 30 percent. In her dissertation on school dropouts, *Koulutusyhteiskunta marginaalissa?*, researcher Katja Komonen noted that dropouts could not be branded as marginalized. They just wanted to grow up quickly and did not like school.

Instead of combating marginalization, we ought to speak about strengthening the life-management resources of young people. At least economically, independent life-management seems to be lost to young people, as in 1998 nearly 90,000 people under 25 had to resort to income support. According to Sitra's report, mitigation of the risk of marginalization calls for improved local cooperation between schools, social welfare and labour authorities. Measures are also needed to ensure that children do not drop out of school and job placement should be supported.

## **Values and Attitudes of Finns Are Changing – Is Pessimism Growing?**

Aristotle said it quite nicely, that values are things which ordinary people aspire to in their everyday life. Professor of philosophy Timo Airaksinen, on the other hand, regards values simply as goals. Values are those durable aims to which we are truly committed. They contain a strong emotional component: they are more a question of experience than understanding.

Some values are conscious and verbally articulated (reflexive), others are less conscious and poorly articulated. This applies to individuals as much as to societies. Discourse on values aims at explicating values and consciously examining their interrelations and conflicts. Late-modern societies are genuinely pluralistic and value conflicts are therefore possible. The peaceful means for seeking consensus in a pluralistic society are argumentation and dialogue. Without dialogue, society is shattered into separate islands, each with its own values, and with no communication between them. Social capital remains weak. Social conflicts escalate.

Values are always social, they are shared by the community in question. In traditional societies, values were 'inherited'; they were learned within the family, tribe, local community, social class, church. In post-traditional society, however, values are chosen. Individuals are confronted by a mosaic of values and communities upholding those values, and they make personal choices, joining certain value communities. Values and communities can also be exchanged; values are in flux.

Empirical studies confirm the dissolution of homogenous culture. In their book *Post-Patria?*, Alasuutari and Ruuska argue that electronic media are a significant factor contributing to fragmentation. However, the implication is not that there would be no common values in Finland (Levomäki). Finns are united by a shared emphasis on equality and uniformity. Public responsibility for the less fortunate is considered important. Confidence in the church, religion and trade organizations is also substantial in Finland.

In a major international comparative study, Ronald Inglehart has remarked that, as affluence grows and democracy advances, values around the world are becoming more Scandinavian. Scandinavians value the quality of life, friends and leisure more any other nations in the

world, and they are also less authoritarian and prejudiced. According to Inglehart, the number of people who feel they can trust their fellow men is greater in Finland and Sweden (two thirds) than anywhere else (see Pantzar 2000). Family values are also strong, although family patterns have proliferated and divorces are more frequent.

In a study on the values of young people, Helena Helve has observed that clear core values are disappearing. Young people choose their values according to their situation. Their foremost values are an interesting job, equality, and environmental protection. For young people, the most important things in life are health, home, personal relationships, and work. Nevertheless, their values also betray late-modern tendencies: individualization, loose commitment to communities, and the search for identity. Studies also reveal an interesting duality: Young people see their personal future as bright, yet their image of the future of Finland and the world is gloomy. The world will be besieged by war, disease, crime, violence, over-population, and environmental catastrophes.

According to Mika Pantzar, emerging values are hedonism, vitality, self-determination and -expression; his term for these is **expressive values**. They reflect the shift from modern industrial society to late-modern experience society. This shift in values is clearly linked with the fact that basic needs in Finland are fairly well satisfied. Thus social recognition and self-fulfilment become central. This trend will probably increase egotism and weaken the sense of social togetherness.

Such basic needs as food and clothing account for a decreasing share of private consumption in Finland, while the share of things associated with the experience economy has increased, such as recreation, leisure and foreign travel. One interesting feature is the growing share of habitation, travel, and health services (*Suomen vuosisata*).

Year %	Food	Clothing	Habitation	Health	Travel	Recreation	Foreign Travel
1900	52.1	12.0	12.9	0.8	2.9	1.8	0.4
1955	34.0	13.8	12.7	2.0	7.9	5.6	1.0
1980	20.5	6.0	18.1	3.4	15.9	9.2	2.2
1997	12.5	4.3	24.8	5.5	15.5	9.3	3.6

EVA's new poll shows some significant changes in attitudes. The most significant change is the general belief that differences in income and welfare will increase: 87% of the population believe that these differences will be greater in 2025 than today. 75% believe that most rural areas will have become depopulated. The study also investigated ideas about the strength of social conflicts and opposition. The following table shows percentages of the population who consider that the listed conflicts are very or fairly strong at the moment, or believe they will become stronger in the near future.

	Strong now	Will grow stronger in near future
Growth centres vs. peripheries	85	69
Rich vs. poor	79	78

Native Finns vs. immigrants	77	38
Well-educated vs. poorly educated	74	63
Politicians vs. citizens	73	38
Supporters vs. opponents of nuclear power	71	45
Working population vs. the unemployed	68	42
Industry/companies vs. environmental protection	61	39
Supporters vs. opponents of EU membership	55	35
Employers vs. employees	51	24
...		
Men vs. women	21	8

It seems that Finns perceive great and even growing conflicts in the areas of regional development, affluence, and education. Peripheries will become increasingly marginal, the rich will become richer and the poor poorer, and the well-educated will prosper. Support for declining regions is considered important: 70% disagree with the claim that instead of declining regions support should be given to urban centres which act as the driving force of employment and growth.

The general picture emerges that the attitudes of Finns are pessimistic. When in the 1980s it was still "a great fortune and privilege to be Finnish", after the recession only 44-45% of the population fully agreed with this. One Finn in two believes that "replacing human labour with machines and automation will lead to permanent mass unemployment". 61% believe that expectations attached to the importance of information technology are unfounded. Only 20% believe that globalization will increase welfare, and 52% is convinced that globalization signifies a shift towards hard capitalism and will increase differences in welfare between countries and continents. The belief is widespread that, in the long term (2025), the average global temperature will increase considerably, and the state of the environment will deteriorate. 72% believe that immigration will lead to a heterogeneous composition of nationalities in the population. A positive sign is, however, that 81% of the population absolutely condemns any attacks against foreigners, and 78% does not approve of their deportation.

All in all, Finns have become more pessimistic and are afraid that social inequality will grow. They are above all concerned about the escalation of conflicts between the rich and the poor, between growth centres and peripheries, and the well and the poorly educated. Over one half of respondents believe that people were happier in the past. As their distrust of politicians is great at the same time, we can only speculate where the answers can be found. There is now social demand for a new vision of welfare.

# 6 OBJECTIVE: GOOD LIFE

The frequent references to competitiveness easily give the impression that in order of importance, the economy comes before people. However, the good life of the citizens is the first priority, and to ensure a good life for them, we need production and the economy – i.e., we need wealth. But the seeking of wealth and prosperity must be kept in control so that the preconditions of good life are not jeopardized. If the work consumes all human energy, if the wealth is accumulated unevenly, if life is insecure, the economy is acting in contradiction with the basic values. However, promoting a good life and generating wealth may also be mutually supporting phenomena. This is the basic issue in our discussion. If we understand competitiveness from a wide and consistent perspective, the development of competitiveness will require an understanding and enhancing of human resources and social capital. Good life is not in conflict with the economy. We have already a lot of material on the development of the Finnish competitiveness. There are plenty of good visions and strategies. Sitra's Finland 2015 courses have produced outstanding reports which highlight important strategic outlines. However, I will here try to analyze the national challenges from a fresh perspective.

## Building Blocks of Good Life

Introduced by Aristotle, good life is a concept that has been extremely popular in recent social policy rhetoric. For Aristotle, good life meant a balanced and virtuous life guided by reason, with happiness as the ultimate goal (cf. Sihvola, *Toivon vuosituhat*). Sihvola presents his own, modernized version of the good life model. In a good life, a person will be able

1. to experience a full course of life
2. to be physically well, to obtain nourishment, protection and sexual satisfaction and to move freely from place to place
3. to feel pleasure and to avoid pain
4. to use all his senses and utilize his imagination and intellectual capacities
5. to grow attached to the close ones, especially to parents and children, and to feel the corresponding emotions, i.e., to love, to grieve, to miss and to feel gratitude
6. to develop an independent view of the goals of life and to plan his life accordingly
7. to exercise practical skills and to develop technical capacities
8. to lead a life in community within the family and society
9. to live in a satisfactory relationship to animals and the environment
10. to laugh and play and to have recreation
11. to feel a patron of one's own life and to recognize one's cultural identity.

This is, indeed, an overwhelming list of issues, and we would be sorry to have to delete even one among them. According to surveys made by the Centre for Finnish Business and Policy Studies EVA, people interpreted "a better life" mostly in terms of good health, close ties with family and friends, inner peace, interesting and challenging work, a permanent and secure job as well as secure basic earnings. Many aspects of the good life advocated by Sihvola in his list were not particularly appreciated by the respondents of these opinion polls.

However, I feel that it is worthwhile to question the attempts to define good life. In issues related to good life, we have to start from the fact that the late-modern culture is characterized by a diversity of values. The European liberal tradition provides a fruitful point of view. According to this approach, the premise of social policy should be the people's right to define their own good life, as well as to provide them with the conditions in which they can try to attain their good life independently.

The relationship between the individual and the community has always been one of the key issues of social philosophy. The liberalist tradition has emphasized the individual's freedom and autonomy. However, the individuals in modern societies are in many ways dependent on the communities (family, relatives, employer, etc.) and the state (training, health care, security, etc.). This dependence has even been enhanced to provide more security. Thus there is a tension between freedom and dependence, between individuality and community. Addressing these contradictions is the major issue in social policy.

## **Freedom Skills – the Active Human Being**

According to the French social theorist Alexis de Tocqueville (1805-1859), democratic society is threatened by individualism and the concentration of power (see Saastamoinen, *Eurooppalainen liberalism*). By individualism, he referred to the tendency of man to isolate himself from other citizens inside the small circle constituted by his family and friends, refusing to assume more comprehensive societal responsibility. People focus on promoting the well-being of their inner circle. Individualism is generated by the illusion of personal independence. According to Tocqueville, individualism tends to jeopardize freedom itself. He justifies this view through his particular notion of freedom: freedom does not mean that man is free to do whatever he pleases. Freedom means the capacity to direct one's own life, relying on one's own reason and controlling one's own urges, and the capacity to collaborate with other people for the promotion of shared goals. One has to learn to become free, and this can only take place in contact and interaction within different communities. Individualism will lead to a fatal restriction of this very interaction.

The ideas of Alexis de Tocqueville are further elaborated in a sophisticated manner by the British thinker L.T. Hobhouse (1864-1929) in his social-liberal view of society. According to Hobhouse, freedom refers to the means to develop the individual's personality. In his opinion, it is a prerequisite for equality that each citizen of a society has an opportunity for self-development. This calls for the state's interference in social life, an aversive idea for the earlier advocates of liberalism. Although the state is necessary, self-development can only take place

under circumstances in which man has the possibility to make independent decisions about his own life. Therefore, people should not be unnecessarily fostered.

According to Hobhouse, it is the responsibility of the authorities to provide favourable circumstances for individual self-development. The state should guarantee sufficient basic education for each citizen, thus providing them with the necessary preparedness for self-development. Moreover, the state should guarantee circumstances in which each citizen would be able to provide a sufficient living for himself and his family. Since the great majority of the population cannot become entrepreneurs, there are only two paths available for earning one's living: salaried labour or allowances paid by the public authorities. The objective should be a society in which as many people as possible are able to find a job, thus not depending on public assistance. According to Hobhouse, people were expected to make efforts to earn their living. He also suggested that society should arrange for a comprehensive old-age pension, sickness insurance and unemployment security for all. The society sketched by Hobhouse was an anticipation of Nordic welfare states.

Let's continue to elaborate on the idea of freedom shared by Tocqueville and Hobhouse. This conception of man is based on man's own activity. We could say that man is able to be free when he has

1. the capacity to learn and acquire new knowledge and skills
2. the resources to attain his objectives (health, material resources)
3. the capacity to collaborate with others
4. the capacity to consider and weigh alternatives in the light of his own resources, objectives and risks

The capacity to be free allows each individual to construct his own good life. Promoting this kind of freedom is the vital element in the equality of possibilities. It not only means enhancing the patronage of life, but it also means the opening of new windows of possibility. According to this view, the three main functions of the welfare states would be:

1. to enhance the freedom skills: to support people's capacity for freedom through education, family-oriented work and other means; to share knowledge and skills;
2. to expand the choices available to people: to see that every person has a sufficiently extensive range of choices; to complement the choices provided by the market;
3. to manage risks: to prevent the dramatic loss of all opportunities in the event of misfortune (unemployment, old age, illness, death of a close person, bankruptcy); to provide "a second chance".

The notion of freedom skills is synonymous with the good old concept of civic skills. Should we restore the importance of civic skills? This subject seems to have been dropped from the school curriculum whereas many civic learning institutes offer many courses which enhance the freedom skills. What is, however, important is the attitude that every man is responsible for his own life. The choices are mostly offered by the market. But we have to keep a close eye on the potential trend for the market to become one-sided, we must constantly see which things, services or options are not provided by the market or which of them are too expensive and thus inaccessible to those who need them. The security guarantee is the one feature of

the welfare state most appreciated by the people. But our concept of security is passive in nature. We should take an active turn by underlining risk management. Even if man encounters problems, he will overcome them if the particular individual and society have jointly prepared for the risks. According to an active view of man, risk management is used to ensure operative capacity by anticipating such eventual risks. The objective is to find the exact operative capacity which it is possible to attain if the risks materialize. This is the way to maintain the capacity for freedom, the freedom skills.

## **The Difference between Those Who Develop, Assimilate or Withdraw**

One of the major problems undermining the universality of the welfare state is the low degree of customer orientation of its services. The services have been designed and standardized for all or for a large group of people entitled to receive them. There is far too little client-oriented customization, flexibility and discretion. Universality violates the diversity of people: only a few people receive exactly the kind of service or assistance they really need. Although universality is justified through its inherent equality and economy of scale, the outcome is, nevertheless, not only unequal but also expensive. When the diversity of people is not taken into consideration, the services and forms of assistance do not provide enough support. As a consequence, some of the people do not enjoy the circumstances which would make it possible for their capacity for freedom. i.e., their freedom skills, to develop, and this will lead to repeated calls for assistance, learning difficulties, etc. The overall costs of universality may even exceed the more customized service system. I will here quote two examples of ways to account for the diversity of people.

Aatto Prihti has suggested that in terms of competence and inclusion, we have three distinct groups, entitled the Developers, the Assimilators and Those Who Withdraw (Prihti 23.11.2000):

"The knowledge-based society includes those who develop, those who assimilate and those who withdraw. So far, we have built the new society in terms of those who develop. The next wave will call for the participation of the Assimilators. The inclusion of this large group of people will be a major leap towards a genuine knowledge-based society, and it will solve many of the current problems and fears. Those two withdraw, i.e., the socially excluded, constitute the conscience of society. A genuine knowledge-based society will also consider and care for them.

The Developers create and develop new products, services and contents. They know how to plan, implement, market and serve. There are many entrepreneurs among this group. They are society's core resource.

The Assimilators are people who are not involved in the development of new products or services but who can actively use the services and potentials of the knowledge-based society. There are many Assimilators among the people in active working life, and very many also

among those outside the labour market. Today, many people in this group are passive and faced with the threat of social exclusion.

All societies also have a group of those who have withdrawn: some of the aged, the sick and the socially excluded. The information society could also offer a number of good new services for them but many among this group will not be able to learn to use these services independently."

Those who develop, assimilate or withdraw all need different services because their capacities, status and motives also differ. We can also assume that they learn differently, their resources and co-operation capacities are divergent and that they have a different approach to the risks and consequences of their own action. The following is a tentative discussion on the differences of the three groups as reflected by their services needs.

The Developers: this is a well-educated and motivated group of fairly young people. They need state-of-the-art training in carefully chosen special areas, they need to be in command of international co-operation skills and understand the multi-cultural aspects, they need to be prepared to migrate with their families to foreign places of work to meet the needs of their employers. The services must be mobile and independent of geographical borders. They face the threat of work becoming prioritized over personal coping, family and human relationships. Their children's day-care and education as well as good health care are the most important services from their point of view.

The Assimilators: they may have a good education, but most of them are of mediocre training and capacities (which, by no means, is to be underestimated). The group includes a lot of people who are ageing. It is a major effort for them to assimilate the newest technology and to learn to apply it. Life-long training and complementary training are a must for them. In-house learning is an efficient method to maintain these people's professional capacities. Their wage level may be modest and they cannot expect to get any profit sharing through options, and therefore the motivation and commitment of the Assimilators is an issue that requires continuous attention. They are not particularly willing to change, and so they constitute a challenge for those who direct them. This is a group that becomes easily redundant and has to move within the country in search of work, a phenomenon that constitutes a major expense for society. The Assimilators' windows of opportunity close relatively easily. Some retired people also belong to this group; they are better educated than before, and they have more money at their disposal. A senior market emerges, a major challenge for the service providers. The seniors want to study and travel, they demand good services and modern service housing with special security arrangements. Society can utilize the knowledge and competence of its senior citizens.

Those who withdraw: we can expect this group to include the retired, the temporarily unemployed, long-term unemployed, people drawing an invalidity pension and voluntary outsiders. This group includes heavy users of social and health services. There is a lot of visible alcoholism, and their behaviour may be aggressive. The work motivation of the unemployed may call for enhancement; re-training and rehabilitation are indispensable services. Some of the pensioners have withdrawn and, as they age, they become increasingly dependent on the services. The chronically ill depending fully on institutionalized care and the aged in old people's homes constitute a group of their own. Maintaining their operative capacities will require a lot

of resources. Taking care of those who withdrawn is an issue that touches the conscience of educated society.

## Services Adapted to the Course of Life

The careers and courses of life of people are increasingly variable. So-called normal employment contracts are increasingly rare. The demands of working life are constantly increasing, and there is a special need to learn new knowledge and skills on a continuous basis. While work demands more and more of people, their family pressures are also growing. The children live in a confusing environment with multiple values, with the inherent norms being questioned. The media and peer groups exercise a great influence on young people. During their secondary school years, they should be motivated to go to school in order to make it to the best upper secondary schools, universities and vocational training institutes. Both parents work and want to succeed. There are also numerous single parent families, with the care of the human relationships and children requiring a lot of effort. People also need time for rest and recreation.

Such circumstances call for a flexible service and social security system. Within one person's course of life, there are alternating and repeated periods of study, work, caring for children, holiday, sickness, unemployment and withdrawal. A meaningful alternative worth consideration, the alternating needs during the course of life could find a response in personalized "course of life accounts". The idea consists of personal or family accounts, with "deposits" accumulating during the periods of work and "withdrawals" that can be made during periods that the person is away from work due to study, sickness or unemployment. The assets in such accounts would be accumulated partly through the person's own earned salaries, partly through employer contributions and partly through public funds, such as KELA, the national insurance institute. A voluntary contribution to the account, encouraged through a tax relief regime, would also support the system. Such a funding system would provide more incentive and be less expensive than the present system (see Lassila and Valkonen, *Gloaalistuminen ja hyvinvointivaltion rahoitus*). Be that how it may, the entire Finnish system or services and transfer system deserves a critical review against the current working life and increasingly individualized courses of life.

## Keys to Local Development – Local Initiative and Networking

Regional development is a concentration of the problems in Finnish society. It has to deal with the internal immigration, concentration, urbanization, change in the industrial structure, EU membership, ageing, and social exclusion. The current trend in regional development finds its explanation in globalization, new technology, new economy and even the modernization process. Along with these major trends, current regional development can also be explained through political choices. The most eager advocates and admirers of technology interpret the concentration of the population in large cities as an indispensable trend required by the very essence of an information society. The other extreme is represented by the rural romantics who see the rural areas as a value per se. These two views are very illustrative of the confusion

caused by the regional development among the political decision makers. This report examines regional development from the point of view of innovation and networking.

One of the key issues of the new economy is networking. It can be seen as a three-level process, with the physical or geographical network constituting the basic level. The elements of this network are the centres and the surrounding areas in the vicinity (circles), and the connecting arteries. The decisive factor is the "time budget", i.e., how many minutes does it take to reach the centre. The growth centres are mostly also logistics centres. The geographical network defines the everyday orientation, called "the space of places" by Manuel Castells (Castells 2000). The centres in the space of places are (mega) cities and concentrations of physical activities (housing, trading, business operations, logistic centres, etc.).

The second level is constituted by the information networks. They surpass the physical structure and create a virtual structure and virtual connections for the regions. The mere information connections are nothing as such. The most important factor is the co-operation of the actors within the region, and their connections to outside partners and clients. This generates the traffic in the information networks. Important growth centres are also intersections of information flows. Information networks define a different kind of space, called the "space of flows" by Manuel Castells. The centres in the space of flows are cities where the information flows intersect (such as New York or London).

The third level is that of knowledge and competence networks. Competence means the ability to apply and combine information and skills in new, creative ways. Knowledge networks are constituted by the informal personal contacts between the experts and various people with competencies. The competence networks are created by communities of knowledgeable people interacting with each other and sharing a common information and value basis. Ideas and innovations, experience and knowledge are transmitted through the competence network. They are places which generate new knowledge.

The research into innovation and the new economy suggests that competence tends to accumulate. Various Silicon Valleys emerge, definable as centres of knowledge. They have a sufficient number of operators to create a critical mass which guarantees the continuous development of competence. The research shows that various knowledge centres are significant precisely for the fact that they provide access to competence networks and the means to join various communities of practice. Typically, the centres of knowledge emerge in the vicinity of universities and research institutes.

Another significant outcome is the fact that new kinds of businesses are created for the transfer of the knowledge and competence. The term KIBS, i.e., knowledge intensive business services, is used. Such KIBS include law firms, accounting firms, marketing agencies, design firms, technology consultants, and the like. In order to be able to operate, the companies need to be surrounded by a sufficient number of such knowledge intensive services. Both the competence centres and the knowledge intensive services are typically associated with large cities which constitute "nodes in the space of flows". Therefore, the development of the regions outside them calls for special solutions.

On the basis of the analysis presented in this report, the development logic of the regions outside the growth centres may be based only on local initiative and networking, i.e., close contact with various centres. Local initiative means innovation and enterprise generated on the

basis of the strengths of the inhabitants and communities. Strong contacts with both physical centres and the knowledge centres are indispensable to guarantee sufficient interaction and a good understanding of the most recent innovations and novel knowledge. The future of business and industries in remote areas is strongly dependent on the local entrepreneurs' ability to apply the newest possible knowledge in their own operation. A core characteristic of the new economy is the combination of new technology and traditional business operations. As an example we could quote the development of the food chain by combining organic production with the most recent biological discoveries about health promoting foods.

The regions outside the centres are only rarely knowledge centres, and therefore their life depends on the interaction with the knowledge centres, and on their ability to learn the necessary competence and skills through this channel. For example, it is of vital importance to the success of agriculture that good contacts and networks are created between the agricultural producers and the life science and medical research institutes, not only in Finland but also on an international basis. We do not have any well-functioning institutions to create such contacts. There is an apparent need to create so-called "knowledge matching services", to help the entrepreneurs in the regions outside the growth centres to find the necessary contacts in the knowledge centres, providing them with access to the most recent discoveries and competence.

In the light of this report, regional developments can be highlighted with a few key issues. Their success will be based on local initiative, innovation and enterprise. The regions and the local companies must start from their own strengths, complemented with the most recent innovations. For this purpose, they need intensive contacts in the knowledge centres. Information technology can be used to support networking and to overcome some of the problems associated with distance. The local forces must be joined together to back the shared objec-

tives, and therefore a strong social capital is necessary.

# 7 FINLAND'S CHALLENGES

Globalization and the new technology have had a deep impact on the world. The keyword is networking. The economy is transforming into the so-called new economy, with competition taking place in terms of learning, innovation and speed. At the same time, it has become evident that intellectual capital alone will not guarantee success in the globalized world – we also need good social capital. Whilst social capital is becoming increasingly important, the conditions for accumulating it are changing, as traditions are weakening and society is characterized by multiple values. Society becomes fragmented as individuals differentiate. It has become difficult to construct a community spirit.

## **Ensuring Competitiveness through the Renewal of the Old Economy**

Today's Finland is more competitive and more prosperous than ever before. The economy grows by 2 to 4 % on an annual basis. However, we must not become complacent with the gospel of the positive indicators of competitiveness. Finland remains a small player in the global economy. Maintaining the position requires immense work, as shown by the rapidity with which the slowing down of the US economy was reflected in Finland during the summer of 2001. For example, in 1998 Finland had almost as many Internet connections per 1,000 inhabitants as the US, but in 2000 the US had surpassed the Finnish rate markedly. It may very well be that in 2002 the number of mobile phones per population will be much higher in countries other than Finland, the leading country in this respect in 2000. We are very efficient in developing technology, but we are much less efficient in applying it to businesses and services. However, this is the very core of the new economy. The transfer to the new economy will mean a "great transformation" for Finland, and we must succeed in it, should we wish to maintain our place among the most successful nations.

## **Solving Structural Problems through Opening and Innovation**

Among the difficult structural problems faced by Finnish society, those related to ageing, unemployment, regional development and social exclusion seem to be the major issues. These structural problems also contribute to differences in the distribution of well-being. In Finland, the ageing of the population will take place at a very rapid rate – it is so rapid that we hardly will be able to change our mode of operation in time and will be consequently affected by the increasing service needs and deteriorating care relationship. We will need more workers,

despite the unemployment rates. The present unemployment will vanish in a few years, due to large numbers of people reaching retirement age. The shortage of labour force is evident in all branches of industry. The number of engineers is not sufficient, but there is also a shortage of all other kinds of professionals: construction workers, drivers, health-care professionals, teachers, etc. The solution to this problem must be sought in immigration. But are the Finns prepared to receive tens of thousands of people from other countries and cultures? Not only do we need these people in terms of workforce, but also as components of a genuinely multi-cultural, innovative society.

Finland is going through a period of intensive concentration. The population is moving to growth centres, and the young and adults of active work age are leaving the small towns and population centres. All there is left in them are the old and the municipal authorities. There seems to be no consensus as to the strategies of regional development. EU funding is used to finance one project after another, but the projects fail to harness local initiative as the real driving force of change. Any potential outcome will therefore fail to set roots. The main challenge in this respect is to support the local initiative and construct the future of the regions on the basis of competence networks and innovative business operations.

## **Fighting Ill-being through Enhanced Social Capital**

In today's Finland, people seem not to be feeling good. The increasing problems of young people are evident symptoms of ill-being: drug abuse, mental problems, school dropout rates and violence. Broken families and unemployment are factors contributing to the whole, but the growing contradiction between work and family life also plays a role. The present demands of working life forces people to work more and more. People have to sell their souls to their employers, which are often their own enterprises. With every adult in the family working, no time or energy is left over for the children and human relationships. However, ill-being is also a consequence of other factors which are much more difficult to specify. In my analysis, the social capital, "the common spirit", is starting to disappear from Finland. Should this trend intensify, the very foundations of the welfare society will be shaken. Can we still save the social capital?

## **The Great Objective – A New Welfare State**

The welfare state is facing a period of great transition. People appreciate its worth and fear for its loss. However, the welfare state is also associated with problems which need to be solved, including those related to its financing, markets, responsibility and cohesion. Finland must have the courage to address these problems, although they are politically difficult issues.

There will not be any more money available to fund the welfare state. On the contrary, the ageing of the population and the global pressure towards lower tax rates will lead to diminished tax incomes. With increasingly scarce resources available, we need to be able to produce the services in a more efficient manner. This will not be possible without exploiting

the markets. The welfare state is not based on the notion of the public sector producing all welfare services. The real issue here is the provision of sufficient services.

A society is good if the people can lead a good life in it. In the late-modern society, the concept of good life becomes more individualized; it is not the same for everybody. The premise for developing the welfare state can only be the diversity of the people and their individual phases of life. Ready-made standard solutions are no longer adequate. The welfare system produces passiveness whilst we should make every effort to support people's own activity – their "freedom skills". The objective of the welfare services should be to empower the people to lead an independent life.

During the late 1990s, the differences in income grew, with the highest income brackets receiving abundant capital gains. However, Finland remains the world's leading country in terms of small income differences and rate of poverty. Income differences are even necessary, to a certain extent, to maintain the dynamics of the economy. The best way to control income differences is to increase the conditions for employment and to raise the level of competence and knowledge of the population. Social security should be maintained at a sufficient level but the current "either assistance or work" policy should be replaced by more flexible forms of assistance, apt to lower the employability threshold. A system of basic income seems worth experimenting with: it will activate people to work and provide secure earnings without humiliating them.

What we need now is the courage to build a new Finnish welfare state.

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