

The Success of the Finnish Model: An Economic Analysis

Jordi Franch Parella¹

Abstract

Finland is considered an example of how interventionist governmental policies work and a success under many socio-economic standards. From social indicators like inequality and crime to economic indicators like productivity and innovation the Nordic country gathers near the top. We inquire into the causes of the Finnish economic success, ascertaining which is the role of the Welfare State and the public sector in it. In fact, we examine which is the relation of causality between the good socio-economic performance and the public sector. Finland is a competitive market economy that has developed a functional Welfare State within a context of liberalisation and free choice. In this paper, we research the causes of this successful model.

Keywords: Nordic model, Finland, capitalism, socialism, Welfare State

JEL Classification: I00, O52, P00

1. Introduction

Finland, the most northerly country in the European Union (EU), disposes of an inhospitable and extreme climatology. The low temperatures and the cold Baltic wind make life in public outdoor spaces unattractive. The differences with the southern European countries are very noticeable from the first moment (Franch, 2017). The Nordic economies are usually seen, not only in Europe but also in the USA (Aleem, 2015) as an example of efficient Welfare States where the government provides a large range of social benefits. What are the lessons that Finland offers to other countries? A common belief is that the Nordic model is a successful example of how interventionist policies work. Focusing on Finland, the Nordic country can be considered a success under many of the most common and significant socio-economic standards. Finland holds one of the best basic education systems in the world², it is the happiest country in the world³, one of the least corrupt countries⁴ and among the top 10 most-competitive in the world⁵. From social indicators like inequality and crime to economic indicators like productivity and innovation the Nordic country gathers near the top. With a population of 5.5 million, Finland had in 2018 a total GDP of €224 billion or €40,618 GDP per capita. The unemployment rate stands at 8.6 percent and the CPI inflation at 0.8. The fiscal deficit is limited to 0.6 percent of GDP and the public debt arises to 61.4 percent. The current account has a surplus of 0.7 percent of GDP. From its declaration of independence in 1917 until the current year, Finland GDP has grown by an annual average of 2.4 percent. In the early 20th century the country endured a civil war and, during World War II, Finland fought an incredible set of wars against both the Soviet Union and Nazi Germany. In the mid-20th century had to build an industrial base practically from scratch to pay its war debts. It is striking how this remote and thinly populated region, with its freezing winters and myriads of wild lakes has proved so successful. The objective of this paper is to inquire into the causes of the Finnish economic success, ascertaining which is the role of the Welfare State and public sector in it. In fact, is the country a socialist Valhalla or is more a free market economy that has developed a functional Welfare State within a context of liberalisation and free choice?

2. Anders Chydenius, the Finnish forebear of the Nordic model

1 Faculty of Social Sciences at Manresa. Universitat de Vic – Universitat Central de Catalunya (UVic-UCC), Av. Universitària, 4-6, 08242 Manresa, Spain, E-mail: jfranch@umanresa.cat

2 PISA 2003 ranking (1st), 2006 (1st), 2009 (3rd), 2012 (12th), 2015 (5th).

3 Gallup World Poll 2018.

4 Transparency International 2018.

5 World Economic Forum 2018.

Anders Chydenius (1729-1803) was a Finnish priest and a leading classical liberal. A pioneer and proponent of freedom of speech, freedom of religion and migration, he was one of the first comprehensive philosophers of liberalism. In detailing all the abuses, regulations, and taxes that destroyed opportunity, Chydenius outlined a radical laissez-faire critique of the Swedish government. He showed that privileges, license requirements, and trade prohibitions protected a small lazy aristocracy and stopped hard-working people from making their own luck (Norberg, 2013). High taxes confiscated whatever they managed to create, a corrupt justice system made it impossible to win against the powerful, and restrictions on the press made it illegal to complain about it.

According to Chydenius, government has to abide by the Seventh Commandment, i.e. not to steal. Farmers should be given complete property rights to their land, and even the poorest peasants should be given control of their own labour. The country should open its borders and allow people to move freely to and from Finland and other countries. People should be free to discuss ideas and make up their own minds. “I speak exclusively for the small, but blessed word, *freedom*”, Chydenius used to say.

Chydenius explained in The National Gain why a free market is self-regulating because the profit motive and the price mechanism stimulate to help others by producing the kind of goods and services they most desire:

“Every individual spontaneously tries to find the place and the trade in which he can best increase national gain, if laws do not prevent him from doing so. Every man seeks his own gain. This inclination is so natural and necessary that all Communities in the world are founded upon it. Otherwise laws, punishments and rewards would not exist and mankind would soon perish altogether. The work that has the greatest value is always best paid, and what is best paid is most sought after.... This conception of the national gain (...) gives liberty to all lawful trades, though not at the expense of the others. It protects the poorest business and encourages diligence and free trade. It weighs everybody in the same scales, and gain is the right measure that shows who should have the preference. It relieves the government from thousands of uneasy worries, statutes and supervisions. The harmful selfishness, which always tries to cloak itself beneath the statutes, can then most surely be controlled by mutual competition (...) It snatches away the pillow of laziness from the arms of those who, thanks to their privileges, can now safely sleep away two-thirds of their time. All expedients to live without work will be removed and none but the diligent can become well-off” (Chydenius, 1765).

On the observations of the power of the price mechanism and the self-regulation of the free market, Chydenius built his worldview of economic liberalism. It was the same concept of the *invisible hand* 11 years before *The Wealth of Nations* (Smith, 1776), and Chydenius has indeed been called “the Nordic Adam Smith”. According to Eli Heckscher, one of Sweden’s most famous economists in the 20th century, Chydenius would probably have gained an impressive international reputation if he had been translated into a major language at that time. A generation of independent liberal economists like Gustaf Cassel and Eli Heckscher have considered Anders Chydenius an intellectual forefather. More than other countries, Nordic countries held on to free trade, which was necessary for small economies dependent on both imports and exports.

And when Chydenius' followers adopted free market policies and embraced unrestricted free trade, Sweden and Finland (at that time part of Sweden) had the fastest economic and social development that its people had ever experienced, and one of the fastest the world had ever seen. Later on, between 1850 and 1950, the average Swedish income multiplied eightfold, while population doubled. Infant mortality fell from 15 to 2 per cent, and average life expectancy rose an incredible 28 years. A poor peasant nation had become one of the world’s richest countries. In 1950, when Sweden was known worldwide as the great success story, taxes were *lower* and the public sector *smaller* than in the rest of Europe and the United States. It was not until then that politicians started levying taxes and disbursing handouts on a large scale, i.e. redistributing the wealth that businesses and workers had already created. Public expansion came later. In the 1970s, with coffers filled by big business and with ideas from the international scene turned to the left, the Swedish Social Democrats began to expand social assistance and regulate the labour market. Public spending almost doubled between 1960 and 1980, rising from 31 percent to 60 percent of GDP, and high taxes accompanied them. And this was also the moment when the model began to run into problems. Then, Nordic countries' biggest social and economic successes took place when they had a laissez-faire economy, and widely distributed wealth *preceeded* the Welfare State. In other words, generous public policies and the growth of the State were the consequence and not the cause of the successful Nordic model.

3. Key factors of success

Finland, as well as the Nordic countries, is often used as a role model for good governance in equality, education, sustainability and economic policy, regularly topping the rankings in quality of life. The Nordic countries have not only largely escaped the economic problems that are convulsing the Mediterranean world; they have also largely escaped the social ills that plague America. And economists frequently express puzzlement about this economic success, given that their governments are so big. But on any measure of the health of a society, from economic indicators like productivity and innovation to social ones like inequality and crime, Finland gathers near the top. We'll develop five notable reasons for this success in continuously providing citizens with some of the highest standards of living.

3.1. Economic and social cohesion

Finland has a record of practicing social tolerance and integration. The Finnish culture of social integration finds its roots in the lifestyle of Finns throughout their history. The need to be highly cooperative and use every available human resource is still critical in a sparsely populated country faced with harsh weather conditions. The share of persons at risk of poverty in the household population was 11.8 per cent in 2018. In the 50-year period covered by the income statistics, the risk of poverty has been at its highest in 1966, when 18.6 per cent of the population were at risk of poverty. In relative terms, the number of persons at risk of poverty was lowest in the year 1993, when the average income fell fast due to recession. The share of people at risk of poverty was then 7.2 per cent of the whole population. Persons living in poverty or with a low income are those living in a household with a net income below 60% of the national median income. The degree of social cohesion and income equality is very high in Finland. The ratio of the wealthiest Finns over the poorest ones is 3.9, considering in both cases the 20% of the population (this same ratio in Spain is 7.5). And the income of the highest-earning ten per cent was on average 5.7 times as high as that of the lowest-earning ten per cent. Exactly, Finland income share held by highest 20% is 36.7% in 2018, while income share held by lowest 20% is 9.4%. And income share held by highest 10% is 22.4%, while income share held by lowest 10% is 3.9%. Gini index in Finland was reported at 27.1, according to the World Bank collection of development indicators (36.2 in Spain, for instance). Poverty gap at \$1.25, \$1.90 or \$3.20 a day (PPP) amounts in all cases to 0% of the Finnish population. Finland has managed to strike an amicable balance between genders, workers and authorities, and within the education and welfare systems. An equal society can bond together to survive the bad times. Income inequality in Finland is the lowest among all EU member states. According to the professor of economics at the University of Tampere Matti Tuomala (Tuomala and others, 2013), income inequality does not promote economic growth. In Finland, equity is not only about treating everybody the same way. It should also include the ability to treat different people differently so as to best fulfill their social mission. The centralisation of wealth due to large inheritances is problematic, because it can inhibit the realisation of meritocracy, another of the key factors of the Finnish model. Nevertheless, it is a Finnish (and European) paradox that the very group that financially supports many of the continent's welfare states, e.g. the entrepreneurs, is not given the same kind of incentives to thrive as other groups. In fact, in Finland, France or Germany, a bankrupt entrepreneur must wait between 5 to 9 years before legally being given a fresh start. In the U.S., this can happen within a year. And many of the most valuable start-ups of the last decade, including Uber, Dropbox, Airbnb and SpaceX would be considered at least partly illegal in many EU countries. Some European nations have taken bold legislative moves to stimulate entrepreneurship. For instance, Estonia, with 0% tax on retained and reinvested profits and only 14-20% tax on distributed profits. This is significant for entrepreneurs and their investors because much-needed capital can be reinvested into innovation and expansion before being taxed.

3.2. Social trust

The existence of a very high level of trust gives Finland a competitive advantage. Social trust is the lubrication of the engine that makes societies work. In economic terms, social trust reduces transaction costs. Deals are made quickly, execution is flexible and litigation is rare. Otherwise, deals are complicated, contracts are long, execution is rigid and litigation is high. According to Ronald Coase, "in order to carry out a market transaction it is necessary to discover who it is that one wishes to deal with, to conduct negotiations leading up to a bargain, to draw up the contract, to undertake the inspection needed to make sure that the terms of the contract are being observed, and so on" (Coase, 1960). Readers Digest conducted a global experiment involving the simulation of lost wallets in cities around the world.

Helsinki was declared the world's most honest city. Out of 12 wallets, Finns returned 11 (Willett, 2013). In the United States, there are more than 390 litigation lawyers for every 100,000 citizens. In Finland there are ten times

fewer litigation lawyers (Ramseyer and Rasmussen, 2010). Less-litigious societies like Finland has a trust-related competitive advantage over more-litigious societies like the United States and the United Kingdom, because it has an impact on the cost of insurance and the general fluidity of contractual business processes. The rise of litigation imposes a heavy tax on the workings of the market and a significant drain on national work. In other words, a litigious working culture reduces the level of work efficiency and work utility. Another measure of the social trust is the corruption of public sector. According to the Corruption Perception Index published by Transparency International, Finland is one of the least corrupt nations in the world (Transparency International, 2018). The country has scored very high on this index for the last decades, being the study conducted in 178 countries every year. Francis Fukuyama claims that societies that have been able to create more trust and have a dynamic civil society, while successfully fending off the powers of an overly interventionist and controlling state, have been economically successful. For instance, he states that the state “dirigisme” of countries like France, make them less efficient in creating global organizations and in generating wealth (Fukuyama, 1995). Fukuyama's indicators of a high trust society apply to Finland. Finland is by and large a meritocracy. The country has an egalitarian structure and has given to its citizens access to high quality education. The result is a corporate culture that values competence over family status or social role. Even in the largest family companies, the management is often made up of independent professionals. An example is Kone Corporation, a world leader in the elevator business. Though Kone is controlled by the Finnish Herlin family, strategic direction of the company was given to Matti Alahuhta, a world-class professional business leader. This out-of-the-family trust is, according to Fukuyama, a success factor in building strong and efficient multinational corporations. In Finland, nepotism and self-serving decisions are mostly avoided. The strength of Finnish civil society has been a strong generator of national institutions and social trust. And Finnish civil society is strong. There are a vast number of organizations related to a wide range of human activities, from health and politics to culture and sports. The combined membership of the associations surpasses 15 million persons, which is three times the national population. Approximately 75 percent of Finns are members of some association during their lifetime. In terms of civic organizations and voluntary work, Finland is a global leader, along with other Nordic countries (Harju, 2018). And one surprising catalysts of social trust in Finland is the culture of silence. Richard Lewis describes this relative cultural feature quite well when he states that Finns are “people with a Western set of values cloaked in an Asian communication style” (Lewis, 2005). In business life, the art of listening is critical. In an article published in the *Harvard Business Review*, management guru Peter Drucker lists eight practices of effective executives, and at the end he concludes “with one final bonus practice. This one is so important that I will elevate it to a rule: Listen first, speak last” (Drucker, 2004). The former Chairman of the Nokia Corporation, Jorma Ollila, has often commented that the corporate culture of the company has always been one where anyone at any level of the organization can voice an opinion.

3.3. Economic freedom and ease of doing business

Finland has one of the most advanced welfare systems. Created basically during the three decades that followed World War II, this system is a token of the traditional Nordic belief that the state was not inherently hostile to the well-being of its citizens, but could intervene benevolently on their behalf. The supplier of social care is usually the local government. Then, decentralization and close proximity to the citizen are the guidelines of welfare. In Finland, local health policy decision making has been decentralised since the beginning of the 1990s. It is sometimes claimed to be the most decentralised health system in the world. The Finnish municipalities are responsible for the provision of both health and social services, and in this they use their own local tax revenues and are supported by state subsidies. One of the arguments for this decentralisation process is that of responsiveness: the municipalities are able to adjust their services to meet local needs and conditions. Funds from the state make up about 30 percent of the resources spent on all social services and pensions, while employers supply about 40 percent; local governments 15 percent, and the recipients of services the remainder 15 percent. Since the 1990s, the public sector has been made available to private foreign investors: the social sector, health care, etc. This also includes private companies which own functions that once belonged to the public sector, as security companies doing tasks once in hands of the police. In fact, Finland occupies a top position in the economic freedom index (Heritage Foundation) and the ease of doing business (World Bank). In 2018, it ranked 20th and 13th respectively. The state does not dictate or impose schooling and healthcare. It simply administers and promotes choice between private and state-run services and most have co-payment schemes.

Private property is guaranteed by law and citizens' savings are free of government control. Finland leads the privatization of inefficient state-owned entities and applies private company corporate governance defending shareholder interests in semi-state owned companies (as Statoil). The public sector neither dictates the growth pattern nor the way in which the economy should be run. It is generated from the private sector, which finances more than 60% of research and development, and government applies private-sector best practices of efficiency and transparency in the management of public services. Finland has carried out successful privatizations of state sectors, from telecommunications to electricity generation and distribution. Even some forests have been privatized. Choice, freedom and private initiative is the cornerstone of Finnish welfare state. It's system is based on civil society and competition, individual initiative and responsibility and it is far from being based on state control of the economy. Multiplying state intervention usually leads to failure. The role of the public sector is to facilitate and not to absorb or hinder the free enterprise, private savings and investment in the productive activities. The meritocratic culture is a defining feature of the Finnish and Nordic countries, who can freely choose the best offer in the absence of monopolies. We can find the opposite situation in the countries of southern Europe, where friendship relations pervert the functioning of public services and the consumer is captive of the extractive ruling elites. Concerning the funding of the State, Nordic citizens are compelled to endure heavy tax burdens. However, and contrary to what is widely believed, the large difference is due to the regressiveness of the taxation system. In other words, it is not so much high-income earners who pay the Welfare State bill, but the lower and middle classes via indirect taxes, which are obviously more regressive than taxes on labour or on capital gains. In Finland, Value Added Tax is levied at a standard rate of 24%, with two reduced rates of 14% on food and restaurant services, and 10% on books, pharmaceutical products and passenger transportation.

3.4. Education

A consensus exists, under the leadership of education visionaries such as J.V. Snellman and Uno Cygnaeus, that the shortage of natural resources and the low population (5.5 million for an extensive territory of 338,000 km²) makes it essential to excel in education in order to compete in a global economy. And this is achieved efficiently, without wasting public money. For example, in 2014 Finland spent \$11,381 per student in the pre-university stage. The figure in the U.S. was \$16,268. By contrast, the Nordic country reached the first position in the PISA tests, while the Americans only achieved the twenty-fourth. Finland's education spending is on average in the OECD countries, but the results are far superior. Finns excel in the application of the principle "less is more". One should try to produce better results using fewer resources. Therefore, the case is about being productive and achieving more with fewer resources. Not always the solution to a problem is to spend more. It's about spending better. The basic curriculum is uniform throughout the country, but the schools have a high degree of autonomy to adapt to the different circumstances of each locality. The decentralization of decision-making power to the local authorities, i.e. municipalities and schools, which are responsible for curriculum planning, implementation and the assessment of educational policy at the local level, is key in the effectiveness of the system. Education is free at all levels, including school lunch and material. And the good academic results go hand in hand with very low school failure rates. Their level and proficiency of English language is remarkable. All foreign movies and television series are subtitled, instead of dubbed as is common in other European countries (as in Spain, which goes together with a low level of English language). All learners are supported to raise national performance, not just a privileged minority, as it occurs in the global corporate education model, which segregates students into subgroups based on their previous or expected performance. As a reflection of the adoption of the principle of equity, more than 99% of students in Finland successfully complete compulsory basic education; about 95% continue to be educated in secondary schools; of those, 93% complete their courses; and more than 60% enroll in higher education (Sahlberg, 2015). All education in Finland, from preschool to post-graduation, is completely tuition-free for all students. Nevertheless, if Finland gets brilliant marks for the quality of its basic education according to the PISA test, it enjoys far from such world-class luster on the side of higher education. Indeed in most world university rankings Finnish universities are quite far from the top positions.

The current thinking is that the potential of each student should be maximised. Therefore educational guidance is seen as essential. The Finnish educational system has no dead-ends and learners can always continue their studies on an upper level of education, whatever choices they make in between. The excellence of the Finnish educational system has been favored by its remarkable homogeneity of performance in and between schools. No other country (OECD, 2018) has so little variation in results across schools, and the difference within these schools among lower and upper-performing students is extremely low. In this sense, Finnish schools are able to serve all learners well, regardless of their family background or socioeconomic status.

The main type of pupil assessment is the continuous assessment during the course of studies and the final one. Continuous assessment is provided to guide and help pupils in their learning process. One task of basic education is to develop the pupils' capabilities for self-assessment and the purpose of this is to support the growth of self-knowledge and study skills, helping the pupils to learn to be aware of their progress and learning process. General upper secondary education ends with a national matriculation examination, which comprises four compulsory tests. Having completed the matriculation examination and the entire upper secondary school syllabus, students are awarded a separate certificate that shows details of the examinations passed and the levels and grades achieved. In vocational education, qualifications are developed in co-operation with the world of work and other key stakeholders. This is done in order to ensure that the qualifications support flexible and efficient transition into the labour market as well as occupational development and career change. Representatives of the world of work and business life play an important role in planning, implementing and assessing these competence based qualifications, in similarity with the German model (Franch, 2018). As teaching is an attractive career choice in Finland, the teacher education institutions can select those applicants most suitable for the teaching profession. For example, the intake into class teacher education is only 10 per cent of all applicants (Ministry of Education and Culture, 2017). Teaching enjoys immense prestige and trust, as much as medicine, advocacy and other careers of the same reputation in terms of social value. In this way, the teaching career is lifelong and is one of the most disputed: annually, more than 20 thousand candidates compete for the position of primary school teacher and only a tenth of these can be selected.

3.5. Advanced technology and competitive labour training

With an effort in research close to 4% of GDP, Finland modernises the forest and wood industry, metals, engineering and telecommunications, electronics and design. Innovation translates, on average, into 36 patents for every one million inhabitants (only 1 in the USA). Everyone remembers the Nokia mobiles, who led the world market between 1998 and 2007, before the irruption of Apple. Nokia was a benchmark in mobile telephony until it could not compete with the Cupertino giant and the new concept of smartphone, consuming the sale of the mobile phone section to Microsoft in April 2015. However, the company still exists providing IT consulting and telecommunication networks. On the negative side, Finland is not among the world's most entrepreneurial countries. According to the Global Entrepreneurship Index rankings, the most entrepreneurial countries in the world are the United States, Switzerland and Canada. The next three countries on the top of that list are Nordic countries: Sweden, Denmark and Iceland. Finland ranks a respectable 11th position, but it's not in the top. This is an obvious area of potential growth for the future. In a highly egalitarian Finland, it is forbidden to succeed and forbidden to fail. Finns tend to envy those who succeed and pity those who fail to a point where neither is a desired outcome for anyone who is either too fearful or too smart to engage in a risky business venture. This kind of social distaste for the successful creates a scarcity of positive role models to inspire others. Also diminishing the significance of errors committed by the peers is one of the unwritten rules of Finnish working life. This is not a question of lack of honesty. It is a question of respect and courtesy. However, it reinforces a potentially damaging relationship to errors because they are not communicated to a wider audience who might benefit from them. Also many Finns have relative difficulty working in groups. Most large organisations in the world face the problem of work being done in closed environments as opposed to open and dynamic inter-disciplinary teams. Perhaps this challenge is somewhat more intense in Finland than elsewhere. General Finnish reserve and overall difficulties in communicating with foreigners, pose some of the most important barriers to the internationalization of Finnish innovations (Chaker, 2017).

Anyway, good education and access to digital technology have produced good results in the online games sector. Rovio, for example, is a company founded by three students of the Technological University of Helsinki who launched a video game called Angry Birds in December 2009. The game has been adapted to many platforms and is one of the most popular with more than 3 billion downloads. The puzzle game involves a battle between angry birds and ugly pigs that have stolen the birds' eggs. This company can be seen as the result of the Finnish open mind, with absence of useless hierarchies and a culture that promotes knowledge, freedom and meritocracy. Also the creator of the Linux operating system, present in thousands of computers around the world, is another student from the University of Helsinki called Linus Torvalds.

Tired of the commercial licenses that he had to pay to Microsoft, he devised an open source and free-use system that everyone could use and improve without restrictions. These are only some examples of a developed national ecosystem of high-performing technology companies.

Kone, the Finnish elevator company with more than 15 percent of the global market share, produces some of the world's most technologically advanced elevators. Neste, the oil and gas company, leads the world in renewable fuels. UPM and Sora Enso are among the top five forestry companies in the world. Even small companies have carved enviable niches for themselves. Arctia Shipping designs and builds a significant part of the planet's icebreakers. Uponor supplies one of the best plumbing and ventilation systems in the world, Nokian Renkaat the best winter tires, and Ponsse the world's most advanced forest machines. Indeed, Finnish companies have led the way, in terms of scientific and technical experimentation, on a global scale in many industries. In Pekka Himanen's book *The Information Society and the Welfare State: the Finnish Model*, he provides academic insight into the workings and performance of Finland as a world-class innovation center. Himanen claims that Finland and its fully fledged welfare state are not incompatible with technological innovation and with a dynamic and competitive economy (Castells and Himanen, 2002). Finland has been a hotbed for global innovation in the area of digital gaming. Long and dark winters, coupled with great education and cheap access to technology provide some trigger conditions. Sulake Corporation came out with a concept in 2000 that revolutionized the world of gaming. The game was one of the first to allow players to interact socially. Finland has served as the launch pad for some of the most popular mobile games. Also Supercell, the gaming company established in 2010 by Ilkka Paananen and Mikko Kodisoja, has become one of the world's premiere digital gaming companies. The company has also very little hierarchy. Without any middle management and teams, Supercell workers are given much autonomy and responsibility. And opposed to many leading IT companies in the world, Supercell refuses to use tax planning, being also very active in many charities and in investment funds that help other entrepreneurs. In some ways, Supercell embodies much of the good values Finland represent: ingenuity and high-level learning, equality and social trust.

4. Conclusions

The Finnish model is a success under most significant socio-economic standards. From social to economic indicators the Nordic country gathers near the top. Anders Chydenius (1729-1803), a Finnish leading classical liberal, is a distinguished forebear of the Nordic model. He outlined a laissez-faire society, in which the power and size of the government are limited. Sweden and Finland had the fastest economic and social development between 1850 and 1970 when, under the influence of Chydenius' ideas, his followers⁶ adopted free market policies. Public expansion only came later, in the 1970s, when Nordic countries had consolidated a prosperous society. In other words, generous public policies and the growth of the Welfare State were the consequence and not the cause of the successful Nordic model.

We highlight five notable reasons for this success in continuously providing citizens with some of the highest standards of living. First, the culture of social and economic integration. The degree of social cohesion and income equality is very high. Gini index in Finland was reported at 27.1, according to the World Bank collection of development indicators and poverty gap at \$1.25, \$1.90 or \$3.20 a day (PPP) amounts in all cases to 0% of the population.

The second reason is the existence of a very high level of trust that gives Finland a competitive advantage. Social trust is the lubrication of the engine that makes societies work. In economic terms, social trust reduces transaction costs. Deals are made quickly, execution is flexible and litigation is rare. Otherwise, deals are complicated, contracts are long, execution is rigid and litigation is high. Low-litigious societies like Finland has a trust-related competitive advantage over high-litigious societies like the United States and the United Kingdom, because it has an impact on the cost of insurance and the general fluidity of contractual business processes. The rise of litigation imposes a heavy tax on the workings of the market and a significant drain on national work. In other words, a litigious working culture reduces the level of work efficiency and work utility.

Another key factor is the liberalisation of the economy, in spite of a heavy Welfare State. Although taxes and public spending is high, decentralization and close proximity to the citizen are the guidelines of welfare. The state simply administers and promotes choice between private and state-run services and most have co-payment schemes. Finland leads the privatization of inefficient state-owned entities and applies private company corporate governance in semi-state owned companies.

⁶Most notably Lars Johan Hierta. A non-violent liberal revolution came in 1840s and 1850s, which acted on Chydenius' ideas to open up the economy, the first step that transformed the country into one of the world's wealthiest.

The Nordic country has carried out successful privatizations of state sectors, from telecommunications to electricity generation and distribution. Even some forests have been privatized. Choice, freedom and private initiative is the cornerstone of Finnish welfare state. Its system is based on civil society and competition, individual initiative and responsibility and it is far from being based on state control of the economy. As a result, it occupies a top position in the economic freedom index (Heritage Foundation) and the ease of doing business (World Bank). And Finland is one of the least corrupt nations in the world. Instead of the easy resource to family and friends (crony capitalism), the Nordic country is meritocratic and values competence over family status or social role.

The fourth reason is education. An excellent education achieved efficiently and without wasting public money. Although the basic curriculum is uniform throughout the country, the schools have a high degree of autonomy to adapt to the different circumstances of each locality. The decentralization of decision-making power to the local authorities, i.e. municipalities and schools, which are responsible for curriculum planning, implementation and the assessment of educational policy at the local level, is key in the effectiveness of the system. The system is comprehensive and no child is left out. Representatives of the world of work and business life play an important role in vocational studies, and teaching enjoys immense prestige and trust, as much as medicine, advocacy and other careers of the same reputation in terms of social value.

Finally, research and competitive labour training sustain a developed national ecosystem of high-performing technology companies. Finnish companies have led the way, in terms of scientific and technical experimentation, on a global scale in many industries. The fully fledged welfare state is not incompatible with technological innovation and with a dynamic and competitive economy. In fact, Finland has been a hotbed for global innovations in the area of digital gaming and has extremely good access to the latest technologies, as well as venture capital, and its businesses are highly connected.

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