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Article title

From innovation to labour costs: Change of emphasis in Finnish competitiveness policy ideas after the Euro crisis

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Abstract

Small open economies such as Finland are particularly exposed to international market competition. In this article Finland is analysed as a competition state where the pursuit of international advantages is a policy priority. Previously Finland has been argued to be an exemplar of an economy following a strategy of radical transformation via creatively utilising corporatist institutions instead of relying mainly on liberal reforms. In the 1990s, Finnish policymakers adopted policy ideas that emphasise technological change, innovation and education as a means to competitive edges, and pursued these goals in a coordinated manner. This allowed Finland to adopt an export-led growth model and specialise in technologically sophisticated high quality products and services. Against this background, it is argued here that after the Eurocrisis there has been a shift of emphasis in Finland's competitiveness strategy. The article documents how cost competitiveness measured in unit labour costs became the focal point of ideas about and policies to improve national competitiveness between 2012 and 2015. This occurred as a result of an expert economist discourse about Finland's export problems that emphasised labour costs as the key variable. The Centre-right government's policies after 2015 reflect the adoption of this diagnosis. On the one hand, unit labour cost reduction has become a policy priority. On the other hand, state expenditure in innovation and R&D policies has been cut substantially. These shifts suggest that there has been a change of emphasis in Finland's post-1990s competitiveness policy model and its ideational underpinnings.

Keywords

Competitiveness, competition state, policy ideas, unit labour costs, small open economy, Finland

1. Introduction

Given their limited domestic market scope, small open economies are particularly exposed to international market competition (Katzenstein, 1985). Hence, in such economies the pursuit of competitive advantages is a policy priority (Begg, 2016; Campbell and Pedersen, 2007; Marcussen and Kaspersen, 2007). In principle, the national competitiveness problem could be tackled via several strategies that combine liberal market-based solutions and coordinated state interventions in a variety of ways (Hall and Soskice, 2001; Jessop, 2002). Nordic economies have sought to solve the problem of competitiveness by emphasising the institutional complementarities arising from policy coordination in their globalisation strategies. Foregrounding policies that promote technological change, innovation and education have allowed countries such as Denmark and Finland to adopt export-led growth models and to specialise in technologically sophisticated high-quality products and services since the 1990s (Kristensen and Lilja, 2011; Ornston, 2012; Begg, 2016).

Whereas varieties of capitalism literature (e.g. Hall and Soskice, 2001) tend to associate rapid and high-tech oriented transformation policies with reforms towards a more liberal orientation, a neocorporatist competition strategy (Jessop 2002) or an emphasis on negotiated coordination of the economy was a key driver of the Finnish reform policies (Ornston and Rehn, 2006; Ornston, 2012; Begg, 2016).

One version of this argument evokes Finland's severe depression in the 1990s, which led to the demise of its old welfare state and investment led socio-economic model. Finland underwent a rapid transformation from being an exporter of relatively low-tech paper and metal products to an international leader in information and communications technology (ICT) due to the success of Nokia (Schienstock, 2004; Ornston, 2012). What is remarkable about Finland's transformation is that it managed to overcome two obstacles to success in high-tech specialities that have been identified in the literature. First, Finnish firms compensated for the limitation of the country's domestic market size through internationalisation, which was actively supported by the state (Lilja et al., 2011). Second, it has been argued that liberal market economies are better equipped to produce radical reforms thanks to the market institutions' ability to adjust and reallocate resources quickly (Hall and Soskice, 2001). However, in Finland the strategy of creatively utilising existing corporatist policy institutions in the fields of technology, science and labour market policy and in concert with liberal reforms to the financial system and corporate governance allowed policymakers to pursue rapid restructuring without resorting to wholesale liberal reforms (Begg, 2016; Ornston, 2012; Moen and Lilja, 2005). Overall, according to this line of argumentation, the Finnish transformation into an ICT leader occurred because of neocorporatist policies, not in spite of them.

At the heart of Finland's post-1990s strategy has been a set of policy ideas (Hall, 1993; Cox and Beland, 2011; Mehta, 2011) that emphasise competition as a means to foster productivity growth and the capacity to generate technological, industrial and product quality upgrades (Ylä-Anttila and Palmberg, 2007; Moen and Lilja, 2005; Schienstock,

2004; Hämäläinen, 2004; Kananen and Kantola, 2013). These goals were pursued primarily in a neocorporatist manner (Jessop, 2002) through ‘innovation policies’, an umbrella term coined to account for the systematic coordination of industrial, science, education and R&D policies (Ornston, 2012; Moen and Lilja, 2005; Lemola, 2004; Pelkonen, 2008). Peak-level wage moderation supported these policies until 2007 by seeking to secure competitive and predictable cost levels for Finnish firms. This was followed by a period of sectoral bargaining until 2011 (Kiander et al., 2011; Bieler and Bergholm, 2013). Centralised agreements returned after 2011.

However, conforming to the European trend (European Council, 2011; Juncker et al., 2015; see also Lapavistas, 2012; Sinn, 2014) of cost competitiveness, measured in unit labour costs (ULCs), has been at the centre of Finland’s competition policy debate since 2012 and has replaced the ideas foregrounding innovation and technology. According to the hegemonic diagnosis, Finnish industries have become overpriced mainly due to excessive labour cost growth in 2007 – 2009, which partially explains their subpar export performance since the crisis (Kajanoja, 2015; Borg and Vartiainen, 2015; Maliranta, 2014).

The contribution of this article is to argue that in recent years a substantial shift has occurred in the dominant Finnish policy ideas related to fostering competitiveness. Hence, the following questions are asked: how has national competitiveness been redefined in terms of ULCs in Finland after 2012? And, how has the adoption of this idea shaped government policies?

These questions are answered descriptively in the context of the governance strategies and dominant policy ideas of the Finnish competition state. More specifically, it is shown that Finnish expert economists’ discourse about the nation’s “competitiveness problems” engendered a shift in the policy idea of national competitiveness between 2012 and 2015. The redefinition of the core problem of national competitiveness in terms of labour costs has explicitly affected government policies since 2015. The platform of Prime Minister Juha Sipilä’s centre-right government elected in 2015 exemplifies this. Improving cost competitiveness has become a policy priority, whereas goals related to innovation policy and industrial upgrade have been demoted to secondary status (VNK, 2015a). Hence, ULC reduction policies have taken priority and have been accompanied by cuts to R&D expenditures. Arguably, the shift amounts to a departure from a set of policy ideas capable of engendering a feasible globalisation strategy for Finland.

The argument presented here is that in the aftermath of the Eurocrisis Finland has departed from its post-1990s national competitiveness policies as well as their ideational underpinnings emphasising innovation and industrial upgrade. Instead, ideas based on the primacy of cost competitiveness became hegemonic in policy circles after the Eurocrisis. This shift could be argued to amount to a ‘recalibrated return’ to Finland’s earlier policy model for competitiveness, where export prices and costs were the key variable (Vartiainen and Pekkarinen, 1995; Kosonen, 1998; Hänninen, 2017), albeit now in a different institutional environment. In particular, Finland’s EMU membership rules out exchange rate devaluations, which generates pressures to attain price competitiveness via internal devaluations, i.e. targeting low ULCs.

The article is structured as follows. Following this introductory section, section 2 situates the argument within the fields of competition state and policy idea studies. It also describes

the innovation-, quality- and technology-oriented notions of competitiveness that became prevalent in Finland between the 1990s and the Eurocrisis. Section 3 gives a description of the Finnish recession and an analysis of the expert discourse on cost competitiveness amongst Finnish economists between 2012 and 2015. Expert contributions are analysed in some detail to clearly distinguish between two main interpretations of Finland's export problems. Section 4 seeks to establish overlaps between the unit labour cost based diagnosis of Finland's competitiveness problem in the expert discourse and subsequent government policies. It analyses the influence of the newly minted consensus view on government policies after 2015. Section 5 offers a concluding discussion.

2. Finland as a competition state: neocorporatism and innovation policy

It has been argued that Finland became a competition state in the aftermath of the 1990s depression (Kantola and Kananen, 2013; Sorsa 2014). More specifically, the background of the argument is that Finland's state and investment led core socio-economic model that had been operative since the 1950s unravelled at the turn of the 1990s. This was due to the increasing internationalisation of trade and capital flows, EU membership, the collapse of the Soviet block and inefficiencies harboured by the model's design (Pohjola, 1996; Kantola and Kananen, 2013). Hence, radical reform appeared necessary amongst policymakers.

International trade had been an important aspect of Finland's 'old' economic model, and it has been argued that price competitiveness was one defining element of Finnish social and economic policy between the 1950s and 1990s (Vartiainen and Pekkarinen, 1995; Kosonen, 1998; Hänninen, 2017). Up until the world economic crisis of 2008, it seemed as though the competition state in Finland entailed a different, "Schumpeterian" model of competitiveness policy, i.e. one which foregrounded technology, innovation and quality over export price factors (Kantola and Kananen, 2013).

2.1 Competition state theory

During the 1990s, Finnish social and economic policies underwent a transformation. These changes were both broad in scope and radical in the sense that the social legitimisation functions characteristic of the welfare state gave way to a market-oriented emphasis prioritising competition and capital accumulation (Julkunen, 2001; Kantola and Kananen, 2013; Sorsa, 2014). In a broad sense, the transformation can be seen as an example of the competition state thesis put forward by scholars such as Cerny (1997, 2010) and Jessop (2002).

In a nutshell, competition state theory proposes a generalisation of the notion that the international market exerts constraints on domestic policies in the sense that these constraints become internalised within national economies. Hence, the object of competitive pressures is no longer just the open sector of the economy competing directly in the world market; rather, the nation state and its policies as a whole are permeated by the goal of improving competitiveness (Cerny, 2010). In this sense, the competition state is

understood as the adequate mode of existence of the capitalist state in the era of the globalised knowledge-intensive economy (Jessop, 2002). In ideological terms, the goal of promoting competitiveness becomes a shared leitmotif and a source of legitimation for sectoral policies (Kantola and Kananen, 2013).

According to competition state theory, this overarching goal is supported by recalibrated policies pursued in a variety of policy domains. In macroeconomic policy, capital accumulation is best supported by the state stepping aside from attempts to maintain growth and full employment through direct ownership or demand management policies (Cerny, 1997; Kantola and Kananen, 2013). They are replaced by the privatisation of public utilities and supply side policies that target innovation and promote 'creative destruction' in the firm sector (Jessop, 2002). This is accompanied by policy goals including low inflation and interest rates as well as a balanced budget (Kantola and Kananen, 2013). Thus, maintaining full employment is no longer a main macroeconomic goal; it is replaced by a structural unemployment rate ('NAIRU') to curb inflationary pressures. Hence, a microeconomic approach to the full employability of individuals and workfare policies in the labour markets takes primacy (Mitchell and Muysken, 2008).

The state's role is to provide an institutional environment enhancing competition both domestically and internationally. The accumulation process is steered primarily through the management of incentives for investment, working and consumption (tax policies, subsidies, workfare) and not by Keynesian demand management policies (Cerny, 1997; 2010). In the international arena, states seek advantages through a mix of policies that affect domestic firms' costs (labour costs, inflation, exchange rates), the economy's real competitiveness (deregulation, industrial, innovation policies) and attracting foreign investments (favourable taxation, quality of institutions) (Jessop, 2002). Centralised income policies have remained in some economies, but their function has shifted to maintaining competitiveness rather than ensuring equitable income distribution (Traxler, 2010; Bieler, 2006).

Competition state theory has been criticised for the generality of its core claims as well as for the lack of agency involved (Hay, 2004). The claims have been taken to imply the structurally driven convergence of a mix of neoliberal institutions, ideas and policies but have not always been substantiated satisfactorily (Genschell and Seelkopf, 2015). Neilson and Stubbs (2016) argued that countries pursue competitiveness through varying combinations of neoliberal and non-neoliberal elements. In general, countries tend to adopt neoliberal policies to become more competitive, but in a manner that allows divergent outcomes at a national level. Horsfall (2010) focused on issues related to operationalising the framework for measuring the degree of 'competition stateness' quantitatively in various countries using indicators such as social expenditure, taxation, labour protection and industry regulation. In doing so he acknowledged that this is not a straightforward task. Based on his findings, he argued that competition states tend to come in at least two types, a liberal and a Nordic variant, which differ especially in terms of welfare expenditure and benefit generosity.

2.2 Governance strategies and policy ideas

Hence, as Horsfall has suggested, it would be more accurate to speak of different competition states that pursue the market imperative from diverging positions. To this end, Jessop's (2002) proposition to analyse competition states by emphasising governance strategies appears helpful. In addition to allowing for diverse policy strategies, this leaves room for agency. Competition states come in many guises because different national institutions and economic structures can be utilised in a variety of complementary ways to facilitate the goals of accumulation and competitiveness. Jessop (2002: 259–267; see also Sorsa, 2014) delineates four ideal-typical strategies that utilise different approaches to pursue these goals: neocommunitarianism, neoliberalism, neocorporatism and neostatism. The latter three are applicable to the Finnish case.

According to Jessop, neoliberalism places market-driven solutions at the forefront via policies of deregulation, privatisation and competition enhancement, both domestically and externally. It is the strategy that conforms most fully to the notion of competition state. Ideally, the state intervenes minimally by reproducing the legal and institutional framework for competition. Complementarities are thus sought from the domain of the market institutions in the form of flexibility, incentives to private actors and rapid adjustments in resource re-allocation. Since the 1990s, neoliberalism has characterised Finland's macroeconomic policy, as have the policies of deregulation of the financial markets and the emergence of shareholder orientation in its corporate governance system (Sorsa, 2014).

The neocorporatist strategy pursues institutional competitive advantages, with the state playing a mediating role in trying to find a balance between competition and cooperation. Jessop argues that this strategy differs from neoliberalism in that it recognises the inadequacy of purely market-based approaches to social and economic transformation. These processes need to be governed and actively supported by social investments in education, the provision of public services and skill formation policies as well as state intervention in the economy. The neocorporatist mode of state intervention is horizontal, which means that instead of a top-down direction the state seeks to foster negotiated bargaining between stakeholders and to commit to public-private partnerships via its institutional resources. Examples of such policies include improving structural competitiveness and innovation policies to support important domestic companies in the global world market. In Finland, innovation policies have been largely characterised by neocorporatism (Ornston, 2012; Moen and Lilja, 2005; Pelkonen, 2008), although with a neostatist touch.

Along with neocorporatism, neostatism emphasises the role of the state, but in this strategy the state intervenes in competition processes in a more direct manner. On the one hand, the state plays a central role as an agenda setter, formulating a national development strategy according to which economic sectors and actors are governed. Such agenda setting via state institutions was arguably prominent in the Finnish innovation policy strategy, as seen below (Lemola, 2004). On the other hand, the state aspires to continually generate collective resources and allocate them per its strategy. Public-private partnerships are encouraged, but they are placed under state guidance with the intention of ascertaining their compatibility with the overall strategy. Neostatism, too, emphasises structural competitiveness, innovation and industrial policies. However, according to Jessop, neostatist interventions seek to protect core industries from open international competition as much as possible. Centralised wage bargaining can be utilised if it

guarantees cost competitiveness better than decentralised models, as has been the case in Finland (Bieler, 2006; Kiander et al., 2011).

Jessop emphasises that these strategies are ideal-typical, and thus it is not expected that any nation will pursue one consistently in every policy domain; rather, the strategies appear in combinations. However, elements of distinct strategies can be discerned in concrete policies, which are in turn shaped by existing institutions, power resources of key actors and ideas held by policymakers and stakeholders (Hall, 1993; Cox and Beland, 2011; Mehta, 2011). In other words, changes in dominant ideas can be expected to lead not only to changes in policies but also in governance strategies and institutions if the ideational shifts are substantial.

Policy ideas inform policymakers about which issues they should consider important and, in so doing, condition their responses. Following Mehta (2011), policy ideas can be categorised into three types: policy solutions, problem definitions and public philosophies or zeitgeists. In the current context, the notion of the competition state as an adequate response to contemporary capitalism can be understood as a public philosophy or a zeitgeist. This is because the notion consists of general assumptions about the proper role of the state as well as the core targets of its sectoral policies in the globalised economy.

For Mehta (2011: 28–30), policy solutions refer to existing policy problems whose nature and appropriate range of solutions are assumed to be of a given type. The role of the idea then is to articulate the means of moving from the current state of affairs to one where the problem is resolved. Problem definitions, in turn, refer to ideas that have a role in formulating relevant problems out of diverse social phenomena. Hence, they simplify and concretise complex realities into manageable cognitive entities. This is not merely technical, as the process involves value choices about including and excluding potentially relevant aspects of an issue (Mehta, 2011: 33–38; Kogut and McPherson, 2011). Particular problem definitions are thus important not only in a technical sense, but also because they already frame the range of available responses and favour some policies over others.

2.3 Innovation policies as a vehicle for competitiveness in Finland

The deep economic crisis of the early 1990s was an important catalyst for the Finnish reforms. However, the scope and pace of the Finnish transformation in the 1990s can be explained by the ‘availability of a competing and respectable mental paradigm that could be adopted once the postwar mental paradigm was discredited by the economic crisis’ (Hämäläinen, 2004; see also Kantola and Kananen, 2013; Moen and Lilja, 2005; Ornston, 2012). What, then, was the dominant problem definition of the competitiveness policy paradigm that prevailed in Finland from the early 1990s to the Eurocrisis?

First, Finland’s old growth model and industrial structure, based on the capital-intensive production of forestry and metal commodities, were deemed unsuitable for the new economy. Second, related to the role of investment volume as the driver of growth and the relatively low-tech nature of these industries, Finnish productivity growth and efficiency were viewed as unsatisfactory by policymakers (Pohjola, 1996; Hämäläinen, 2004). Third,

growth was to be sought from new sectors, such as the nascent ICT industry (Schienstock, 2004; Moen and Lilja 2005). The Ministry of Finance assumed a key role in diffusing these ideas (Kantola and Kananen, 2013).

A corollary problem was related to the status of consensus in Finnish politics; deep reform processes require the backing of a wide-ranging consensus between political parties and social partners (Kantola and Kananen, 2013; Kettunen, 2008). Amidst the crisis, a centre-right government attempted to pursue a set of liberal reforms in 1990-1991, and specifically in the labour market (Ornston and Rehn, 2006; Kettunen, 2008). However, this attempt was starkly opposed by the trade unions and eventually proved too costly politically. Forced to retreat, the government sought a consensual route to reform by emphasising institutional competitiveness and innovation policy (Ornston, 2012). The Social Democrats returned to power in 1995. Prime Minister Paavo Lipponen's government emphasised the need to enhance Finland's cost and non-cost competitiveness as a means for stable growth of the economy and employment. This strategy was somewhat aligned with the Social Democrats' longer-term goals related to technology-driven development (Outinen, 2017).

In summary, the policy problem was how to generate technological, industrial and product quality upgrades in a consensual manner. The notions of knowledge society and innovation policy-driven growth were viewed as potential answers (Ornston and Rehn, 2006; Kettunen, 2008).

Most of the institutions that were central to the Finnish post 1990s innovation policies were founded between the 1960s and 1980s. These include the Science and Technology Policy Council (STPC), operating under the Prime Minister's Office, and the Finnish Funding Agency for Technology and Innovation (Tekes), currently working within the Ministry of Employment and the Economy. In the 1990s, however, their funding (including lending capabilities) was enhanced substantially, and their cooperation with public research institutions and private companies became more coordinated (Moen and Lilja, 2005; Hämäläinen, 2004; Ornston, 2012).

The STPC assumed the role of an agenda setter (Hämäläinen, 2004; Lemola, 2004). Following its reports, Finnish policymakers assumed the notions of a 'national innovation system' (NIS) and the knowledge society early in 1990s (Lemola 2004). The NIS consisted of a holistic view of societal functions enhancing the capacity to generate knowledge, know-how and technological capabilities. This was reflected in the fact that ICT industries were prioritised as a new growth area (Moen and Lilja 2005). Social partners were included in the STPC, which was important to national consensus formation through innovation policies. These policies were more attractive than the alternative of labour market liberalisation for unions bargaining from a position of weakness due to high unemployment, EMU convergence criteria and the transnationalisation of businesses (Kettunen, 2008; Ornston, 2012).

In concrete terms, the core of the technology and innovation policies consisted of two key parts. The first was the centre-right government's decision in 1993 to increase public funding of R&D activities (Moen and Lilja, 2005; Lemola, 2004; Hämäläinen, 2004) despite austere fiscal policies overall. This policy was continued under the Social Democrat led governments in the late 1990s (VNK, 1995, 1999). The increasing R&D expenditures were

financed by privatisation revenues (Ornston, 2012) and savings elsewhere, such as from communalities and social expenditures (Yliaska, 2017). Total R&D expenditures reached 3% of GDP in 1999 (Moen and Lilja, 2005). In the 2000s, the governments' goal of increasing R&D funding became consolidated in various programmes, and innovation policies were directly linked with trade and industrial policies (VNK, 2003, 2007). Even during the crisis in 2011, PM Jyrki Katainen's coalition government held onto the goal of pushing the overall level of R&D expenditure to 4% of GDP (VNK, 2011).

The second part consisted of reforms to strengthen the links between businesses and research institutions within the innovation system. Early on, Tekes had assumed the role of funding long-term R&D projects for companies, research institutes and universities, albeit with limited finances. This role was fortified in the early 1990s, as the centre-right government decided to increase R&D expenditure (Lemola, 2004). Given its intermediary position, Tekes could promote cooperation by making project funding conditional for companies interacting with one another as well as research institutions (Ornston, 2012). In fact, Finnish companies were readily accustomed to interacting and bargaining with one another and public agencies under the old growth model (Moen and Lilja, 2005). Policymakers promoted cooperation between companies and public research institutes organised in clusters. The idea was to gain competitive advantages through knowledge and technology diffusion and the utilisation of reliable supply chains. The supply chains extended to moderately priced labour power; especially in the 1990s, Finnish engineers were both abundant and relatively cheap. The best-known example of this is the ICT cluster that developed around Nokia and became the driver of the economy from the late 1990s (Moen and Lilja, 2005).

In summary, Finland pursued competitive advantages via innovation policies informed by the notion that improvements in technological capability, new growth areas and quality products are essential for success. In terms of governance, the policy model was based on a variant of corporatism that utilised pre-existing institutional resources in a novel way to channel resources to the nascent ICT sector in a coordinated manner. The traditions of negotiated bargaining and consensus that had been the cornerstones of Finnish income policies and business operations within the bank-groups were instrumental to this transformation. Politically, policies that mainly benefited the ICT sector came to enjoy very broad support (Ornston, 2012; Kettunen, 2008). In retrospect, these policies were successful in promoting structural change and growth in the economy.

3. Finland's competitiveness problem and the Eurocrisis

The dominant problem definition of national competitiveness in Finland changed in the aftermath of the Eurocrisis. In contrast to the post-1990s ideas about enhancing competitiveness via innovation policies, ULCs have occupied the centre stage. It is argued that Finnish economists contributed to this change by formulating and diffusing ideas about the nature of the competitiveness problem.

3.1 Research problem: Overlaps between expert arguments and government policy designs

It has been argued that economists are a group of professionals whose capability to influence policy is substantial (Sorsa and Eskelinen 2018; Kogut and McPherson 2011). I too argue that Finnish economists contributed to the recent policy changes primarily by forming and diffusing ideas about the nature of the competitiveness problem.

Following Mehta's (2011) lead, it is argued that the expert economist discourse was instrumental in the redefinition of the primary problem of national competitiveness in terms of costs and ULCs. However, as pointed out by Kogut and McPherson (2011), the test for the actual impact of economist discourses is the application of the policies derived from them. Moreover, economist views are most likely to influence policies when consensus amongst experts is reached. Here, economist analyses of the Finnish competitiveness problems are analysed as an expert discourse that had a tangible effect on policies. It is shown that in 2015 the government adopted particular definitions of Finland's competitiveness problem found in the expert discourse as policy guidelines.

The data analysed consist of expert diagnoses of the competitiveness issue by leading Finnish economists as well as policy papers by the Ministry of Finance, the Prime Minister's office and the 2015 Government Platform.

The government adopted a numerical target for ULC reduction in 2015, which reflected the idea that Finland suffers from a competitiveness gap. As the study set out to trace economic expert influences on policies, contributions that contained estimates of the size of the competitiveness gap or that suggested improvement targets in terms of ULCs were considered particularly suitable to be analysed as data. This group of studies contained the elements of what became the consensus view. On the other hand, expert analyses that contained alternative arguments about Finland's competitiveness and ULC developments or direct criticisms of the diagnosis that increased ULC drove export deterioration were also included in the data.

In principle, the types of expert contributions to the debate can be distinguished by the fact that the economist analyses were more focused on scrutinising and thereby defining the competitiveness problem than on offering solutions to it. In practice, this distinction was not as clear because some analytical contributions contained or implied general policy guidance. On the other hand, although the policy papers contained more specific policy advice, they also contributed to the problem formulation by affirming one type of interpretation over others.

The European discourse on cost competitiveness, which places ULCs at the centre in explaining the crisis and the calibration of adjustment policies, has been a background influence on the Finnish debates (Lapavitsas, 2012; Sinn, 2014; Juncker, et al., 2015). In particular, the notion that low ULC growth leads to financial stability and export-led growth has been central to the European accounts of sound macroeconomic policies (European Council, 2011). Finland has exceeded the ULC growth reference values of the EU Economic Governance and since 2012 has received several recommendations to align productivity growth with labour cost growth from the European Council.

Nevertheless, the influence of the EU institutions' recommendations on concrete competitiveness policies and the expert discourse on competitiveness has arguably been limited (Andersson et al., 2015). Despite general similarities, the EU institutions' arguments and recommendations were not at the forefront in the expert contributions analysed here. However, a discourse based on the perceived German recipe for success via permanent wage moderation (Lapavitsas, 2012; Sinn, 2014) emerged in Finland after 2012.

3.2 The economic crisis in Finland

The debate about Finland's competitiveness problems occurred in the context of a serious economic crisis and its aftermath between 2008 and 2015. Hence, a general account of the crisis serves to situate the more nuanced, and at times conflicting, expert diagnoses of the competitiveness problem within a framework of basic 'facts' about Finland's predicament. In what follows, an overview of Finland's trade performance and competitiveness developments is presented. The overview relies on growth and export data provided by Statistics Finland and ULC data from bi-annual reports of the Information Committee on Cost and Income Developments (TUKUSETO) published between 2012 and 2017. TUKUSETO operate in a tri-partite manner under the Ministry of Finance. TUKUSETO's evaluations play a central role in Finnish incomes policy, and their competitiveness assessments have a semi-neutral status in policy.

During the 2000s and until the 2008 crisis Finland's economy grew on the back of a strong export sector led by the ICT and paper industries. Its competitiveness in terms of nominal ULCs improved relative to the Eurozone average thanks to high productivity growth and wage moderation until 2007 (e.g. TUKUSETO 2017). Finland's GDP growth rate and current account balance both exceeded the EU average prior to the crisis. However, between roughly 2011 and 2016, these trends were reversed. According to the interpretation that became dominant amongst Finnish experts and policymakers, the main reason for this is that Finnish industries had become uncompetitive because of their high costs, which was attributed to excessive wage growth.

Amongst the discussants it is widely agreed that an important cause of the Finnish economic crisis was the collapse of exports in 2009. Moreover, the slow recovery of exports has contributed to the slow growth that persisted until 2016. Export performance and cost competitiveness have thus become part of an important economic policy debate in Finland.

Tables 1 and 2 summarise Finland's overall economic growth, export performance and ULC-based cost competitiveness between 2007 and 2016.

Table 1: Finnish economy between 2007 - 2016

Year	Exports, B€	Current account balance, B€	GDP growth, %	Current account balance to GDP, %
2007	82,1	7,1	5,2	3,8
2008	87,3	4,3	0,7	2,2

2009	65,7	3,4	-8,3	1,8
2010	72,4	2,3	3	1,2
2011	77,1	-3,5	2,6	-1,8
2012	78,9	-3,9	-1,4	-2
2013	78,9	-3,2	-0,8	-1,6
2014	76,4	-2,6	-0,6	-1,3
2015	76,4	-2,1	0,1	-1
2016	76	-3	2,1	-1,4

Source: Statistics Finland

Table 1 illustrates that Finland experienced a sharp recession and recovery which was then followed by another recession and several years of stagnation. In the first bout of recession in 2008 and 2009, the economy contracted sharply, with the GDP declining by 8% in 2009. Finland started to grow in 2010 and 2011 as the world economy recovered. After 2010, economic policy in both Finland and Europe took a contractionary turn. In 2012 Finland entered into recession again as the Eurocrisis worsened. The second bout of recession lasted until 2015.

The sensitivity of the Finnish economy to exports was visible both in the initial contraction and the subsequent recovery. Between 2008 and 2009, the total of Finnish exports declined by almost 22 billion euros in response to the contraction of world demand and the problems of the Nokia-led ICT sector, which coincided with the crisis. During the recovery, Finnish exports grew by some 12 billion euros in 2010 and 2011, but then from 2012 they stabilised at a level lower than before the crisis. Finland's current account balance had been positive throughout the 2000s but turned negative in 2011 in response to exports contracting more than imports.

Turning to cost-competitiveness, Table 2 presents information about nominal ULC changes in terms of annual growth rates in Finland. The data in Table 2 is collected from TUKUSETO's (2012, 2015, 2017) bi-annual reports, which are customarily used as a 'neutral' benchmark for assessing cost developments in Finnish tripartite incomes policy. Nominal ULCs measure the ratio of labour costs to productivity and can therefore change because of changes in labour costs, productivity or both (Felipe and Kumar 2014). Reflecting this, TUKUSETO's bi-annual reports divide ULC changes into components of labour costs and productivity.

Table 2 illustrates that Finnish cost competitiveness, as measured by ULCs, worsened between 2007 and 2016. In brief, wage growth outstripped productivity growth especially between 2007 and 2010 and thus contributed to deteriorating cost competitiveness. During this period, wage bargaining was conducted sectorally and reflected 'good times' leaving room for wage-drift. Yet 2011 marked a return to centralised bargaining under 'bad times', which continued in 2013 and 2016. GDP and productivity growth improved with the cycle during the brief recovery between 2010 and 2011, but this stopped when Finland re-entered recession in 2012. As a result, ULCs grew as productivity growth did not meet expectations and thus could not underwrite wage growth. However, wage increases since 2007 have generally not been exceptional when contrasted to historic norms (Sauramo, 2016; see also Borg and Vartiainen, 2015).

Table 2: Components of Finland nominal ULC change, whole economy

Year	ULC change	Labour cost change	Labour productivity change
2007	0,5	3,7	3,1
2008	6	4,4	-1,6
2009	8,5	2	-6
2010	-1,4	2,2	3,7
2011	2,3	3,6	1,3
2012	5,2	2,8	-2,3
2013	1,4	1,3	0
2014	1,2	1	-0,2
2015	1	1,6	1
2016	0,6	1,2	0,6

Source: TUKUSETO

Although bargaining outcomes have received considerable attention in subsequent debates, wage growth alone does not account for Finland's deteriorating cost competitiveness. As for labour productivity growth, Table 2 suggests that it has developed pro-cyclically. One theoretical take on this would be that favourable demand growth tends to boost productivity growth and vice versa (e.g. Storm and Naastepad 2012: 81-92).

Productivity growth declined sharply in 2008 and 2009 in response to the crisis, causing a large ULC increase in 2009. During the brief recovery between 2010 and 2011, productivity grew rapidly, but this halted as the crisis worsened in Europe. Productivity declined again in 2012 as Finland re-entered recession. In general terms, Finnish productivity growth since 2007 has been poor, especially in comparison to the 2000s. This has been particularly true in the manufacturing sector (e.g. Sauramo, 2015; Maliranta, 2014).

In Finland's case, it is important to underscore that the problems of its ICT sector coincided with the crisis. As this is a high productivity growth sector, its problems had a large impact on the overall economy's productivity performance. Maliranta (2014) has suggested that the observed productivity decline has had a structural, longer timescale basis and was exacerbated by the Eurocrisis. On the other hand, Sauramo (2015) as well as Holmström et al. (2014) rather see the decline in productivity as a cyclical effect of the recent downward fluctuations in GDP, which was driven by the global financial crisis in 2008 and the Eurocrisis since 2010. In their view causality runs from a decline in world demand to reduced exports and GDP and eventually to declining measured productivity, which worsened still due to the ICT sector's problems.

Finally, Table 3 offers a comparative picture of Finland's performance relative to a group of relevant European economies by accounting for annual changes in nominal ULCs. The data is from OECD because TUKUSETO's reports do not contain data on Sweden's performance. The table format was chosen instead of an indexical graph in order to avoid confusing ULC levels with changes (see section 3.3).

Table 3: Nominal ULCs, whole economy

Year	Austria	Finland	Germany	Netherlands	Sweden	Euro Area 19
2007	0,5	-0,5	-1,4	2,6	4,2	1,1
2008	2,9	5,4	2,3	3,3	4,6	3,3
2009	5,4	9,3	7,4	5,2	6,3	4,7
2010	-0,5	-1,7	-1,6	-1,7	-3	-0,8
2011	0,7	2,4	0,6	0,6	2,4	0,5
2012	2,8	5,6	2,9	2,8	3,9	1,7
2013	2,1	1,2	1,7	0,7	1,4	1
2014	1,6	1,1	1,4	0,1	1,1	0,5
2015	2	1,2	2	-1,2	-0,2	0,5
2016	2,2	-0,6	1,6	0,5	1,3	0,8

Source: OECD, Productivity and ULC by main economic activity

Table 3 illustrates that Finnish ULC growth exceeded that of other export-oriented European economies especially in 2008, 2009 and 2011-2012. After 2012, however, Finland has recorded modest ULC growth along with other members of this group of countries. Between 2012 and 2016 Finland lost slightly against the Eurozone average and the Netherlands, performed as well as Sweden and gained slightly in relation to Germany and Austria. Overall, Finland has lost ground since 2008, and the significance of these losses to its export performance was a key topic in the expert debate.

3.3 The nature of Finland's competitiveness problem

Finnish export problems have attracted considerable attention from economic experts. The data presented above has functioned as the common ground for a variety of interventions in the form of academic articles, policy documents and opinion pieces. However, of interest here is that two main interpretations of the Finnish situation have emerged which have diverging views on issues such as the nature and extent of Finland's competitiveness problem as well as the feasible corrective measures.

The latest round of discussions about cost competitiveness was initiated by employer organisations after the costly sectoral wage bargaining outcomes effective until 2011. The income policy agreement for 2011-2013 was the first centralised agreement since 2007 when The Confederation of Finnish Industries (EK) had quit pursuing them (Bieler and Bergholm, 2013; Kiander et al., 2011). After the return to centralised agreements, the EK began voicing concerns about Finland falling behind Germany and Sweden in terms of ULCs.

In 2011, the Research Institute of the Finnish Economy (ETLA), which is close to the EK, released a report underscoring the importance of flexibility-inducing labour market policies and wage moderation to Germany's competitiveness and economic success (Kauhanen and Saukkonen, 2011). While the importance of cost reductions and labour market liberalisation to German success is a matter of debate (Sinn, 2014; Lapavitsas 2012;

compare with Storm and Naastepad, 2015; Hassel, 2014), the idea of wage moderation being the key to economic success has dominated Finnish discussion.

An early indicator of the ongoing discursive shift is that by 2013 the Central organisation of Finnish trade unions (SAK) had embraced a position that they had denounced in 2012: that Finnish competitiveness was at its worst level during the EMU era and that ULCs were the key problem requiring improvement (SAK, 2012, 2014). Previously they had argued that Finnish competitiveness is strong because of high quality products and that costs are not a problem (SAK 2012).

In analytical contributions, two main interpretations have been suggested with regard to the connection between Finland's export performance and ULC growth. Both acknowledge that wage and productivity developments contributed to the decline in Finland's measured cost competitiveness. Likewise, both agree that the ICT sector's problems related to Nokia's weakness were an important contributor to this decline (i.e. the decline was not only due to costs). The sector was a key driver of productivity growth in the Finnish economy, and its demise has had a lasting negative effect on productivity. However, the interpretations differ in that one variant argues that ULC growth was the cause of deteriorating export performance (Kajanoja, 2015; Maliranta 2014), whereas the other rejects this view (Holmström et al., 2014; Sauramo, 2015).

Interpretations that build on the premise of ULCs driving export performance have been based on several indicators. Some have utilised nominal ULC trends for the whole economy to argue that Finnish exports are being held back by a high cost level. According to Borg and Vartiainen, Finland exceeds the German cost level by 25% and the Swedish level by 10% (Borg and Vartiainen, 2015). Conversely, Maliranta (2014) and Kajanoja (2015) pointed out that nominal ULCs for the whole economy might not be representative of the Finnish competitiveness problem. In their view, the analysis must be complemented with real ULCs, which consider price changes and the effects of the terms of trade. Real ULCs measure the share of wages in value added, which means that it is also the reciprocal of firm profitability. Utilising real ULCs of the manufacturing sector, both Kajanoja (2015) and Maliranta (2014) argued that the decline in productivity growth accompanied by growing wages have resulted in a profitability decline that reduces their cost competitiveness.

Moreover, Maliranta (2014) underscored that the deterioration in real ULCs has been occurring since 2002, and this is partially due to the fact that Finnish competitiveness was exceptionally good in the 1990s. In his estimation, Finnish companies' real ULCs have deteriorated by 10 – 15% relative to the pre-crisis trend. He emphasises creative destruction as a means for future competitiveness.

Kajanoja (2015) agreed that this deterioration has been on-going. Additionally, he highlighted the ambiguity of drawing conclusions about countries' competitiveness levels from direct comparisons between their ULCs. According to him, the Finnish cost competitiveness problem and its size could be best captured by asking the following question: How much lower would real manufacturing ULCs and relative labour costs had to have been for Finland to record a small current account surplus in 2014 and return its manufacturing employment level to that of the long-term trend level? He concluded that

Finnish labour costs relative to those of its key competitors would have had to decline by 10 – 15% to catch up (Kajanoja, 2015).

By contrast, the alternative interpretation argues that a decline in world trade constituted a negative external shock to the Finnish GDP, exports and productivity growth, which was subsequently recorded as ULC growth (Holmström et al., 2014; Sauramo, 2015). This shock has been exacerbated by the ICT and paper sectors' structural problems as well as the problems in Russian trade starting in 2014. The decline of Finnish cost competitiveness was thus an effect of the global financial crisis and not the cause of subsequent export problems. These developments have also driven the decline in Finnish enterprises' profitability (real ULC growth). Holmström et al. (2014) argued that a qualitative upgrade of the Finnish export industry accompanied by wage moderation should be a policy priority.

Sauramo (2015) emphasised that ULC-based analyses tend to lead to confusion regarding rates of change and levels of competitiveness. The indicator traces changes relative to a base year and can identify divergences when the trajectories of several countries are compared over a period of time. Hence, the selection of a base year is bound to influence the picture. Moreover, Sauramo argues that ULCs thus computed are not indicative of countries' cost competitiveness levels as such but only of their changes relative to a base year. A country may lose ground in terms of ULC changes over a period but at the same time remain competitive in terms of absolute ULC levels, which is a source of potential confusion. Comparing the levels of ULCs based on a ratio of total labour costs to total value added, Sauramo (2015) argued that although Finland has experienced negative changes in cost competitiveness since 2007, in terms of ULC levels its post-crisis competitiveness is equal to that of Sweden and better than that of Germany. Sauramo thus disputes the notion that Finnish industries suffer from an excessive wage level.

The view that deterioration in cost competitiveness was the primary cause of Finland's export problems became more influential over time. During the spring of 2015, it became the consensus view. Expressive of the emerging consensus was a report called 'Strategy for Finland', drafted by economists Juhana Vartiainen and Anders Borg (ex-Swedish Minister of Finance) and published by the Prime Minister's Office under PM Alexander Stubb's (Coalition party) leadership (Borg and Vartiainen, 2015). As noted above, this report also contributed to the discourse about the nature of the competitiveness problem. Borg and Vartiainen's key contribution was their explicit recommendation to adopt a wage setting model based on permanent moderation so that the export sector would act as the wage leader. That is, increases in other sectors must not exceed those in the export sector.

Another important intervention was a recommendation concerning the macroeconomic policy stance of the future government by the Ministry of Finance (VM, 2015), which was presented in the form of an occasional paper. Similar to Borg and Vartiainen, the Ministry also promoted a ULC-based view of the problem and argued for long-term wage moderation. Both reports posited the competitiveness issue in a wider framework and argued that Finland's long-term fiscal sustainability depends on its ability to generate current account surpluses. Additionally, the Bank of Finland (e.g. 2012, 2014, 2015) had frequently emphasised that wage increases between 2007 and 2009 eroded cost

competitiveness, which has become a structural impediment to growth. The differences of the two narratives are summarised in Table 4 below.

Table 4: Distinct expert depictions of Finland's competitiveness problem

	Cost-diagnosis	Productivity-diagnosis
Main cause of subpar export performance	Domestic: costs & wage policy; Nokia's demise	International: World slump; Nokia's demise domestically
Key variable	Unit labour costs	Productivity and world demand
ULC change emphasis	Wage policy; structural & labour market issues	Productivity decline; cyclical issues
Implied policy remedy	Improvement of cost competitiveness (ULCs) via prolonged 'radical wage moderation'	Industrial upgrade to improve productivity; wage moderation as a secondary measure

The policy problem of national competitiveness became redefined in terms of ULCs in the course of the expert debate. Between 2012 and 2015, key policy institutions, expert economists and social partners began to gravitate towards a broad consensus about Finnish export industries being held back by declined cost competitiveness. In contrast, due to a lack of institutional support, the interpretation reflecting the pre-crisis ideas of innovation policy and technological change as competitive assets became peripheral especially in the policy domain.

4. The policy response to the competitiveness problem

Finnish economists contributed to the policy changes primarily by forming and diffusing ideas about the nature of the competitiveness problem. Following Mehta's (2011) lead, the expert economist discourse was instrumental in the redefinition of the primary problem of national competitiveness in terms of costs and ULCs. However, as Kogut and McPherson (2011) have argued, the test for the actual impact of economist discourses is the extent to which the implied policy advice is incorporated into actual policies.

The cost competitiveness discourse has had a substantial impact on Finland's economic policy. Most of the concerns voiced in the analytical debate about the choice of relevant indicators (world demand or ULCs; real or nominal), their application (the whole economy or the manufacturing sector) and the interpretation of the results (changes or levels) were lost in translation when the issue was channelled into the policy arena. The main effect of the debate was the diffusion of the notion that Finland suffers from a sizeable cost competitiveness problem relative to Germany and Sweden—and it would require an improvement in the range of 10 – 20% to reverse this disadvantage (e.g. VM 2015; VNK 2015a). As suggested by the ULC-based analyses and expert recommendations, the variable readily available to policy intervention was labour cost moderation.

Future PM Sipilä of the Centre party adopted the idea of a 10 – 15% gap in the Finnish cost competitiveness *level* for the total economy relative to Sweden and Germany during the spring election of 2015. The idea was operationalised in the centre-right government's programme after the election. In the programme text, the competitiveness gap was directly linked to Finland's economic problems:

'Despite its many strengths, Finland is in a spiral of decline. Unemployment is high. Economic growth has waned. Our competitiveness has deteriorated and is 10–15 per cent weaker than that of our key competitor countries. Exports are flagging.'
(VNK, 2015a: 6)

In response, the government initiated a competitiveness pact, which is described below. The priority given to cost competitiveness reflects a departure from the earlier hegemony.

The programme also notes that Finland was facing problems in producing and commercialising innovation and expertise (VNK, 2015a). These policy problems are more in line with the pre-crisis ideas about competitiveness. However, apart from the goal of promoting growth and R&D in the wood-based bioeconomy sector (VNK, 2015a), the programme offered mostly cuts in the areas of R&D and innovation policy. This, too, amounts to a departure from the old policy priorities in the sense that although austerity was the general budgetary stance in the 1990s and 2000s, innovation policies were funded generously.

4.1 The competitiveness pact – a step towards neostatism?

The best-known initiative was the government's decision to take the lead in the arena of income policy and urge social partners to form a competitiveness pact (originally a social pact). In principle, the pact can be situated in the continuum of the social pacts adopted by the Finnish (Kauppinen, 2000; Kiander et al., 2011) and European governments (Bieler, 2006; Traxler, 2010) in the EMU era as competitiveness policy tools. However, the government's direct intervention was novel.

In a nutshell, the government requested that social partners commit to a combination of a wage restraint and a reduction of indirect labour costs that would lower Finnish ULCs by 'at least' five percentage points, but preferably more (VNK, 2015a). Even prior to the formation of the government, PM Sipilä had proposed a package including a wage freeze and an uncompensated work time increase of 100 hours per year, but SAK rejected this package (Hirvola, 2017). The negotiations did not proceed much during the summer of 2015.

In the process of forming the pact, the government assumed a markedly active role in ushering the social partners. This was underscored by the government's stance during an impasse in the bargaining process in the autumn of 2015. First, should the pact fail, the government proposed cutting public expenditures by an additional amount of 1,5 billion euros, on top of other cuts amounting to 4 billion euros (VNK, 2015a). Second, the government also proposed to pursue ULC reduction measures via a unilaterally imposed

binding legal package (*'Pakkolait'*) if the social partners did not commit to a negotiated solution within the proposed framework (VNK, 2015b).

This marked a departure from the social pacts drafted in 2011 and 2013. In comparison, they were more akin to the Finnish corporatist tradition, with the government overseeing the process and offering social partners tax-, social policy- and labour law-related bargains in exchange for wage moderation (Kiander et al., 2011). In contrast, PM Sipilä's government implied that the competitiveness issue could not be resolved via the standard procedure within the existing framework of corporatist labour market policy institutions. In Jessop's terms, the current government's mode of intervention in the labour market can be understood in terms of a step towards a neostatist top-down direction.

The government manoeuvres were enough to nudge the social partners into bargaining. After a lengthy process (Reunanen, 2017; Hirvola, 2017), an agreement was eventually reached in February 2016, and the pact was formally signed in June 2016. It consisted of agreed measures relating to ULC reduction and qualitative matters, such as promoting decentralised bargaining in the future and other labour market issues.

A nominal wage freeze for 2016 – 2017 was a central plank in the pact – the bargaining outcomes of 2015 were simply to be continued up until the autumn of 2017. Additionally, as of 2017, annual work time was increased without compensation by 24 hours, as opposed to the government's original proposal of a 100 hour increase. To fortify the ULC effects, employers' indirect labour costs were to be decreased by reducing the employers' burden on social security, unemployment payments and employee pension payments by an agreed percentage from 2017. The arrangements vary item by item, but generally the yearly reductions are in the range of 0,5 to 1 percentage points. As of 2017, public sector employees' holiday payments have been reduced by 30% from 2016 levels (Kilpailukyksopimus, 2016). The government agreed to cancel the additional cuts and instead compensate the ensuing loss of workers' purchasing power through tax cuts of approximately 500 million euros.

The pact stipulated that the 2017 bargaining process would be sectoral, not centralised, and that firm-level bargaining was to be promoted in a negotiated manner. The pact also expressed the signatories' willingness to continue drafting reforms to change security, labour law and earnings-related social security in tripartite cooperation with the government and social partners (Kilpailukyksopimus, 2016).

However, in November 2015, the EK had announced that it would change its rules so that the central organisation was not authorised to negotiate about working conditions or sign peak-level tripartite agreements in the future. This was a very significant move, as it implied the end of centralised income policy in Finland. The move was completed in 2017, when the EK cancelled the existing peak-level agreements between the central organisations.

In summary, the competitiveness pact consisted of a policy response intended to reduce Finnish ULCs' mirroring of the adoption of the dominant diagnosis of the cause of Finland's export problems. The pact has led to an improvement of ULCs and reduction of the wage share of the GDP, but its effect on exports remains an open question. Moreover, given the EK's rule change, the pact might be the last corporatist income policy solution in Finland. If

so, future wage moderation has to stem from sectoral or workplace bargaining or involve direct government intervention.

4.2 Demotion of innovation-based competitiveness policies

The flipside of cost orientation is that the innovation-based competitiveness policies have been downplayed in PM Sipilä's government programme. As a result, former priorities, such as goals related to the promotion of technological change and R&D, have become de-emphasised. This reflects the narrow focus of the expert debate on cost competitiveness. In that debate, the qualitative factors have typically been referred to as results of prior policies and thereby assets upon which new industrial advantages can be built. However, analyses focusing on the need for further improvements in these fields have been mostly overwhelmed by labour costs.

In previous research, R&D expenditure increases have been a key indicator of Finnish innovation-based policies targeting enhanced competitiveness (Lemola, 2004; Ornston, 2012). The recent ideational change is clear in that the Sipilä government's programme is the first one since 1995 that does not contain explicit goals related to expanding total R&D expenditures. Similarly, the current government's austerity measures have included cuts to investments in innovation policies and education. As Alaja (2017) argued, one way to capture a clear shift in policy priorities is to compare recent developments in government R&D expenditures to their pre-crisis levels. According to Alaja, the recent R&D investment cuts amount to a substantial shift in government policies.

Table 5 summarises the trends in overall government outlays in R&D activities as classified by Statistics Finland between 2007 and 2017. Following the initial decision to increase expenditures in the 1990s (Lemola, 2004), the total amount grew until 2011, reaching 2,07 billion euros, and its share reached about 4,5%. Following the crisis, R&D outlays declined steadily until 2015. However, no dramatic cuts were implemented despite the crisis. After the election of the Sipilä government, the reductions increased. With the government's austerity package in effect, the outlays contracted by some 150 million euros in 2016, equal to a drop of 8,95% in real terms. In 2017, the decline continued but was less pronounced. In sum, the amount of total government R&D outlays in 2017 stand at about 1,8 billion euros, which is about 3,3% of total government expenditure.

Table 5: Government R&D expenditure

Year	Gov't R&D expenditure, M€	Percentage of gov't expenditure, %	Yearly change in real terms, %
2007	1739,6	4,6	0,1
2008	1813,8	4,4	-1,1
2009	1928,4	4,3	2,2
2010	2065,3	4,3	5,2
2011	2071,7	4,3	-2,6
2012	2064,2	4	-3,4
2013	2017,9	3,8	-4,1

2014	2001,6	3,8	-2,9
2015	2001,6	3,8	-1,1
2016	1845,4	3,5	-8,9
2017	1797,5	3,3	-2,5

Source: Statistics Finland 2017

A similar trend of decline from 2010 on can be observed in the funding allocated to Tekes and the state's research institutes. Meanwhile, the funding of the Academy of Finland has increased (Statistics Finland, 2017). While Tekes' funding peaked at 610 million euros in 2010, it was subsequently reduced and was at 322 million in 2017. Half the reductions came after 2015 (Statistics Finland 2017).

What conclusions can be derived from these developments in R&D expenditure? Yliaska (2017) noted the cuts to Tekes funding but emphasised continuity in the Finnish technology orientation towards innovation and competitiveness policies. However, his analysis extended only to developments prior to 2015, with a substantial amount of cuts still ahead. Given the central role Tekes has had in coordinating and funding R&D activities (Lemola, 2004; Ornston, 2012) as well as the substantial reduction in total government outlays in these activities after 2015, the funding cuts suggest a discontinuity of the pre-crisis policy stance.

Moreover, the government's policy stance is not very sensitive to the needs of the section of Finnish exports that expanded in the 2010s despite the crisis, namely ICT-related services and gaming. This reflects the emphasis on costs in the expert debate. These industries stand on the foundations of innovation and education policies that were prioritised before the crisis, and they have taken Nokia's place as the driver of this sector. Their competitiveness too depends more on institutions and quality than costs (Tamminen and Nilsson-Hakkala, 2017). According to a recent study, the gross export revenue of ICT-related services rose from about 1 billion euro in 2008 to more than 7,5 billion euros in 2016. For comparison, forestry products, arguably the main benefactor of the focus on cost competitiveness, accounted for 8,9 billion euros in 2016. In terms of value added domestically, ICT-services now account for about 35% of all Finnish exports (Tamminen and Nilsson-Hakkala, 2017).

5. Concluding remarks

This article has argued that Finland has recently pursued competitiveness enhancement policies that depart from its globalisation strategy that was in place between the 1990s and the Eurocrisis. It was shown that an economist expert discourse has led to a redefinition of national competitiveness that prioritises costs over industrial and technological upgrades through innovation policies. Consequently, in terms of policy relevance, ideas based on costs and ULCs have surpassed those concerned with innovation and technology as the cornerstone of Finland's international competitiveness. This ideational shift has already influenced government policies. The competitiveness pact prioritises ULC reduction policies and is a step away from a neocorporatist governance strategy thanks to the state's very direct intervention. The demotion of the innovation-based view of competitiveness

enhancement is also visible in the government's decision to cut overall R&D expenditures in the aftermath of the Eurocrisis, and those of Tekes in particular.

Overall, it would be tempting to interpret these policy shifts as a sign of Finland moving away from neocorporatist governance strategies of innovation policy towards the ideal-typical neoliberal competition state, with neostatist influences in labour market policies. This paper argues that the policy changes in Finland have been driven by ideas assumed by domestic policymakers rather than by direct international pressure. The findings of this article suggest that although the European competitiveness discourse was an important background to the change of Finnish policy ideas, the process of redefining the problem of national competitiveness and its solutions were primarily a domestic endeavour. That said, the Finnish pursuit of growth via an export led policy model accompanied by budgetary discipline resembles the norm towards which the EU nudges its members (Johnston and Reagan, 2018).

In a sense, this shift has amounted to a rediscovery of old Finnish ideas about the primacy of cost competitiveness (Kosonen, 1998). On the other hand, the recent success of Finnish ICT service exporters would suggest that Finland has institutional advantages required for the continuation of the neocorporatist innovation-driven growth strategy. Moreover, as Johnston and Reagan (2018) point out, a winning strategy for EU economies is still one of occupying a high-tech exporting niche with the help of national institutions that are geared to support this task. However, in contrast to what the available institutional resources might suggest, the hegemony of the ideas related to cost competitiveness and the improvement of ULCs has made continuing this strategy less feasible. For the moment, Finnish policymakers appear as late adopters or doubters of the renewed interest in industrial and innovation policies that are pursued by using the state as a vehicle (e.g. Mazzucato, 2013).

Finally, the findings suggest that Finland's status as an exemplary case of a 'high-road' innovation and technology based competitiveness strategy found in the literature merits reconsideration in order to accommodate the recent policy shifts.

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