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Modernisation of Finland 1800-2000

What is development in history?

This article deals with social development using the history of Finland as a case, an example or a metaphor. The point is to look at how societies change in the course of time, what kind of alternatives there might have been, and what kind of factors explain that we have come to what we have now.

How to combine a broad picture of global or general development and one regional case? This should not be a problem, if we think that global history is always local history, too. Local and global histories are components of a single process. Otherwise we would not understand global or local development. Also the history of Finland is an outcome of international connections – though we have a tendency and a tradition to see national history as the development of a nation.

For a historian development is a concept which tries to explain social change towards a defined direction. The term was used in the past already more than 100 years ago. People have believed in it and they have tried to "develop" their societies. The current meaning of development became commonly known in the 1960s. Today the concept is used by us to describe and understand current changes.

The historian's task is to see development in a historical context. All social changes are made by men, and action always includes a motivation, which in turn, is based on how one thinks about society and change: what is possible, what is not, what are the benefits or disadvantages, etc. On the other hand, social change is a very complex process, which also involves resources and the environment, i.e. factors men cannot choose. Today, more than ever, history is explained by changes in the natural environment, climate, world economy and demography, i.e. factors.
which are often outside the individual’s power. Still, the world cannot be changed without individual goals and choices.

**Finland as a model of modernisation**

Today Finland is called a developed society, which implies that it was not that before. Finland has followed a certain path of social development, and it looks like a good model even for other nations. That is not the stand taken here, but let us look at Finland as a society, which was a ”developing country” 200 or 100 years ago, and how things then began to change. One must note, of course, that Finland is not an exception but has followed the same pattern of social change as most developed societies of today. What is different, however, is that Finland has never been at the core of Europe but at the periphery, and it is not a great power, but a small society.

As early as the 19th century people were talking about “modernising” things, their lives and society. It is evident that during the 19th century people in Finland internalised the idea of modernisation, i.e. the need to change society towards modernity. From that point on modernisation has been at the core of social debates, it has been defended and opposed. It has been credited for all progress – and it has been accused of causing new social and moral problems.

What is the content of modernisation? Without theorizing the issue, a list of historical phenomena which in Finland have been understood and promoted as tools of modernization is given below.

- Economic growth, i.e. national wealth, as the goal of the national economic policy
- Industrialisation and re-industrialisation
- Land reforms
- Population policy
- Education and science policy
- Social planning
- Individualisation
For the most part modernisation has been legislation and other reforms by the authorities aiming at improving the material life of the citizens. But besides these institutional factors one must emphasize that perhaps the most radical changes have taken place in our minds, i.e. in the ways people think of the world, the society and of their personal role as a member of a community (take for example gender roles, parent-child-relationship, religion etc.). It is difficult to analyse things such as changes in world-views, but it is self-evident that they are crucial elements of social change. One important and far-reaching phenomenon might be covered by the term individualisation. Without that there is no idea of liberty or a demand for democracy or equality.

The ideal type of modern society is a rational society of rational individuals, an ideal image of our own society. Modern society is future-oriented and relies on rational planning, which may be called “planning optimism”. The system requires a good combination of regulation and individual activity. The citizens must feel the society to be fair; they must have equal rights, reasonable opportunities, etc. That is what we call democracy today. The Finnish model of modern society tries to combine strong institutions with individual rights and equality.

**Finland as a "developing country"**

At the beginning of the 19th century, 200 years ago, the Finnish society was fully agrarian and in a poverty trap. It was a typical “developing country” which can be demonstrated by the following facts:

- low productivity of agriculture, seed/harvest ratio 2-5
- no large scale industry and few artisans, no big cities
- high fertility and mortality rates
- low standard of living; poor diet
- low literacy rate
- autocratic administration, “rank society”
- minimum social and career mobility
- a great deal of food was imported
- exports goods were raw materials: timber and tar
- no economic growth
In 1800 Finland was a European periphery and a Swedish colony. It was then among the poorest places in the whole world. This was witnessed by many foreigners including Thomas Malthus, who predicted that Finns would starve due to the extremely rapid population growth, which was the highest together with Ireland. Such was the “population explosion” of that time. So, it was no surprise that in 1867-1868 Finland experienced the last hunger and population crisis in Europe: 240,000 persons (15% of the population) died of hunger and diseases, and agriculture and infrastructure collapsed. The main reason for the crisis was extremely harsh weather conditions, but the background reasons for the catastrophe were high population growth, dependence on grain imports, lack of reserves, lack of a health care system, poor communications, and the missing political will to organize help.

Figure 1. Megatrends

How and why did Finland succeed in escaping the poverty trap, hunger and disease? The answer lies in the variables presented in figure 1. The changes described here are really historical in the sense that nothing comparable had ever happened before and it seems to be
difficult to repeat them. A short glance at the factors, which seem to be crucial in explaining the modernisation of Finland, follows.

**Economic growth and structural change**

In everyday life economic growth is seen as growth in industrial jobs, as better communications, growing markets, expansion of trade, increasing consumption, etc. But where does growth come from? It is an outcome of input and skills, which is how we use the resources we have. As technology improves, we are able to produce more products with less work and less costs. Today the national product per working hour is 15 times higher than 100 years ago. Even though we work fewer hours than before, the GDP in Finland is about ten times higher than 100 years ago.

Economic growth is a very simple formula, but it does not always work, nor does it work everywhere. In Finland there was only limited growth before 1850s, below 0.5% annually. That was the reality for hundreds of years. The major reason for this was that non-mechanized agriculture employed over 80% of the population. There were repeated efforts to improve the quality and productivity of farming, but markets for agricultural products were limited and farmers had no resources for investments. At the end of the 19th century Finland imported close to 50% of its grain.

In the latter half of the 19th century things began to change and a continuous economic growth started. The stimulus for growth came from industrialisation in two ways.

First, the demand for timber and tar was growing continuously in the 19th century, which brought money for farmers who owned most of the forests. That is how they were able to invest in dairy farming, when the consumption of milk and butter increased together with European urbanisation. Butter became another important export product. A new era for forestry began with paper mills at the end of the 19th century. Many of the investors were foreigners and technology was mostly imported.

Secondly, an inevitable explanation for successful industrialisation was the role of Russia. Almost all Finnish paper was exported to Russia. More traditional manufacturing industries (textiles and machinery) also started in the same way: with foreign resources and supported by
the state through special privileges and investments. Finland is a fine example of how the state’s economic policy created the conditions for growth by exploiting the opportunities of international markets. The Finland of the 19th century, Grand Duchy of Russia 1809-1917, was a kind of ”special economic zone” in the Russian Empire, an experiment of organized capitalism.

The state and public opinion did not accept ruthless capitalism and in a small and bureaucratic society it was possible to oppose the power of money. That is why most companies adopted a patriarchal attitude to workers and provided them with housing, education etc. It was also the moral code of the time, and law, that workers had to be respected. Patriarchal capitalism was followed by a strong labour movement and state social policy by the end of the century. As severe problems were avoided and living conditions were improved, industrialisation was largely regarded as a road to prosperity, liberty and civilisation.

State regulation continued through the 20 century. It was not only negative regulation, but the state supported companies through legislation (tariffs) and subsidies. State-owned companies played a great role in the Finnish economy until the 1990s. They were strong in energy production, machinery, chemicals, forestry and communications.

The share of manufacturing in employment began to fall in the 1980s, but industrial output has nevertheless doubled since that. During the past two decades industrial policy in Finland has been reoriented towards high technology in the belief that this will provide new wealth. The state has openly supported high-tech enterprises by education, by research funding and by direct investments. Since 1997 electronics has been Finland's most important export commodity. It is worth noting that Nokia is not selling information technology but telephones. Though it is fashionable to talk about the information society, increasing productivity in manufacturing is still the backbone of the national economy.

Another aspect of economic growth has been a change in occupational structure. Economic activity has shifted from less productive to more productive sectors and especially from agriculture to manufacturing and services. This change began in the 19th century but was slow until the mid-20th century; as late as the 1960s Finland was still a semi-agrarian country.
A significant fall in the agrarian population in the 20th century can be largely explained by the 'industrialization' of agriculture, i.e. the decline of agriculture seems to be a sign of prosperity. By regulating markets and prices since the 1920s the state secured the same income level for farmers as to the urban population. That became a law in 1968. By the early 1990s, when Finland began negotiations for European Union membership, Finnish agriculture was already so heavily supported and regulated that it may be called a state funded corporation. The process of 'rationalization' has accelerated since 1995. Today there are as many farms as 150 years ago.

Another striking change in the employment structure has been the sharp rise in the service sector. In Finland this has been largely a result of the growth of the public sector, i.e. schools, social services and health care. The public sector is still very large in Finland and most middle class people work in the public sector, which makes it difficult to cut services.
Figure 4. Real wages 1800-2000.

Favourable position in the world economy

The economic success of Finland is not the achievement of the Finns alone. Finns have not been able to exploit other nations, but they have been in a favourable position in the international economy. Finland really has benefited from its connections to the world economy. Before industrialisation the coastal cities of Finland were rather prosperous but very small. The rest of the country was simply poor and disconnected from the rest of the world.

In the 19th century, during the so called first globalisation of the world economy 1860-1913, Finland had a double connection to the world-market. Finland was exporting raw materials to
the west and industrial products to Russia. Finland imported raw materials from Russia and technology from the west. That game was possible because Finland had a special position in the Russian tariff system. At the same time Finland was allowed to protect its domestic markets against western competition. There was a remarkable growth of domestic markets between 1890 and 1940 combined with urbanisation. Between the years of 1920-1940 independent Finland was a rather closed economy but survived well by exporting paper, now to the west, and by adopting western technology effectively, especially from Germany. Industrial infrastructure, roads, railroads, power stations and power lines, were built mainly by the state.

After Word War II protectionism was continued until the 1960s. Then Finland gradually entered the European free market area and had special arrangements with GB, the USA and the Soviet Union. As in the 19th century, Finns were again exporting industrial products to Russia and importing raw materials, like oil, gas and metals. Bi-lateral trade with the Soviet Union was profitable and continued until the late 1980s. That saved Finland from the early crisis of de-industrialisation in the 1970s and 1980s.

An invisible factor that has favoured Finland throughout the two centuries has been the terms of trade, i.e. the prices of the exported goods have been rising and the prices of imported products have been falling relatively.

EU membership was opposed quite strongly in the 1990s, because national regulation of capitalism seemed to work rather well. In fact, the Finnish economy was deregulated quickly in the late 1980s. That was followed by a banking crisis, bubble economy and a deep depression in the early 1990s.

Luckily, in the midst of the depression 1991-1993, huge global markets opened for new information technology. Finland was in a position to benefit from the information revolution and the second globalisation. That was not only good luck, because signal technology had been developed in Finland actively since the 1960s and in the 1980s it was advanced enough to make mobile phone and information networks a market product. The Internet revolution also succeeded early in Finland because of the investments made by public institutions. In the early 1990s the government of Finland declared a program of the first Democratic Information Society, which aimed to secure easy access to the Internet for all and the development of electric communication systems in administration, schools, banking and business.
Accumulation of knowledge

It is easy to prove statistically that a higher education level of the population means higher productivity; educated people have better intellectual, social and technical resources to work with, to make innovations and calculate the benefits. But in 1915 a Finnish economist complained that Finland would never become an industrial society, because Finns had no “capitalist spirit”. Instead, people were slow in their movements, ignorant, stubborn and lazy. When the British said that “time is money” the Finns concluded that “God created the world but mentioned no hurry”. The economist was right when comparing Finland with countries like Britain, Germany or Sweden, which were far more developed in those days. But he did not foresee the future: he did not realise what it meant that children of all social classes went to school, it was compulsory, the university was expanding rapidly, including technical education, and there were many educational and scientific contacts to Europe and the USA.

And above all, there was an innovation which proved to be very important in the long run: female education. All girls went to school and in the 1910s the percentage of girls in secondary schools was higher in Finland than in any other country of that time. A remarkable number entered universities, too. Educated women played an important role in the education sector, as civil servants, as politicians and as cultural figures.

Finland was characterised by educational optimism since the late 19th century. Its roots were in nationalism: “as a small nation we can survive only through civilisation and education”. With the help of this idealism, education became the most promising channel for social mobility, too. Today educated people in Finland have the most equal social background, and they come from all social classes. This was due to public schools being open to everyone at all levels. As education has produced social mobility, it has been a key factor for social stability, too.

Demographic transition
Finland, a country of two million inhabitants, had a population problem and a poverty problem in the 19th century. Both were solved between 1880 and 1910 when 600,000 people left the countryside: half of them moved to Finnish cities and the rest to the USA and Russia. It was a crucial element, of course, that people had the chance to move and they were also willing and ready to do so. Cities and emigration promised them a better life. The same was repeated in the late 1960s when 300,000 Finns, mostly young rural people, moved to Sweden.

The fertility rate among the urban population began to fall rapidly between the years 1910-1920. People began family planning to secure a better life for themselves and for their children. This meant smaller families and in fact better resources for each person, the birth of the modern nuclear family. This was not merely a demographic or an economic change, but also a mental turn: people began to design their lives in a longer perspective. It was a kind of rationalization of the life-course. Before WWII the official population policy emphasised population growth, but a crucial element of that policy was the aim to improve public health. Healthy children, not large families, were the goal, and Finland soon took the lead in low infant mortality rates.

Along with the birth rate, mortality rates also declined and as early as the 1910s cities were a healthier environment than rural areas. The so called hygienic revolution, the fight against bacteria, was implemented in Finland rather effectively. Especially urban sanitation programs proved to be important. This required scientific knowledge, legislation, an active local authority and a positive attitude from the ordinary people.

Finland's demographic transition has an interesting analogy – or contradiction – with the current world: today there are many areas with high population growth, high fertility rates even in cities, and no chance for non-skilled workers to seek jobs abroad or to bring their families with them. This produces poverty, health problems, despair and social disturbance.

**Political stability and social security**

Political crises (the fear of Russification, Civil War in 1918, fascism and communism in the 1930s, Cold War) are often emphasized in Finnish history. But in fact Finnish society has been rather stable and extremely homogenous. Even under Russian rule (1809-1917) individual rights were not severely violated, instead a vivid and well organised civic society emerged.
People gathered around two great ideas, nationalism and socialism. They both were programs of modernisation and equality and declared national unity. The Civil War in 1918 was an exceptional political crisis, but it ended in a compromise. In 1919 a great number of vital social reforms were introduced and in the early 1920s Finland was a far more democratic and equal society than before, and above all, the country could not be governed without political consensus. Finland was called a "republic of farmers and workers".

The ideological and political foundations of the welfare state in Finland also go back to the 19th century. Nationalism was followed by the idea of national social policy. *Sozialpolitik* was adopted from Germany. The aim was to reinforce and secure the stability and the cohesion of the society with the help of social policy. The idea of social integration and national interest continued in the 20th century. In the 1960s Finland finally began to have material resources to build a modern *welfare state*, as it was called, following the Swedish model. The major political forces in that project were the left and the agrarian party. They agreed that all citizens, urban and rural, should enjoy equal services and benefits. In the 1980s when the conservatives joined the government the level of social benefits and income transfers were raised and extended to the middle class as a compensation for the high taxes. The *Finnish Model of the welfare state* was ready: everybody pays and everybody receives. This is expensive, of course, but it makes almost all citizens dependent on public expenditure and above all, it justifies the system.

**Welfare state and classes**

Economic growth has enabled a widespread redistribution of income organised by the state. Today public expenditure is more than half of the GDP in Finland. Every other euro goes to the state in one way or another, but all that money comes back, too, in public services. To put things in a really broad context, we may say that the welfare state represents a unique phase in history. For the first time ever wealth and equal distribution of income appear together in the same society. For the first time ever an extensive public sector is not being used as a tool of oppression or exploitation. Viewed through the eyes of a person living in the 19th century, the situation would seem strange indeed: capitalism and Utopian socialism have come together.

The central motivation behind the construction of the welfare state has been ideological, the promotion of security and equality. People saw the welfare state as an answer to the feeling of
insecurity and inequality they had experienced generation after generation. Other, less noted factors have been the changes in economic, demographic and social conditions. Now when considering the future of the system, it is necessary to see these broader, structural, connections, too.

Figure 5. Income distribution.

Today Finland together with Sweden has the most even income distribution in the world. It is a result of strong state intervention, i.e. wage regulation, taxation policy and direct income transfers. It is fundamental for the class image of the society that most of the population are very close to each other in their standard of living – despite the constant cry of "the increasing gap between the rich and the poor" in public. Some comparative studies suggest that social mobility in Finland has been more common than anywhere else. This is partly explained by the structural change of the economy and the growth in the public sector, but education policy has played a decisive role in this social mixing.
But the system has also unintended results: close to 40 percent of the adult population are not working today. This “new class” including retired people, students and the unemployed was created by the welfare state. It is great, of course, that the society is able to support so many people, but together with public services they make for quite a heavy economic load – especially for the generations that are smaller. Thus the maintenance of the welfare system requires constant economic growth. We may say that we are trapped in the search for growth, which can be quite a stress for the earth and certainly produces economic and social inequality globally.

Figure 6. Social Classes 1800–2000
An open late-comer or just good luck?

Why did Finland succeed in modernisation and development – when compared with many other societies in a similar position? First, one has to remember that Finland has been a part of European and global development. Thus the question is about adaptation: how to adjust to a given environment (natural and social), how to survive with your neighbours, how to benefit from others, how to protect your own interests and culture, etc. A surprise or not, Finns and Finnish society have been very flexible, open to changes and new ideas. In politics flexibility has often been regarded as opportunism. In communication and the economy Finland has always been an open society, because it is too small to survive alone. It has been a dependent economy, but it has usually won in exchanges with others.

In technology Finland has been a latecomer, but also a willing student. The transfer of technology has been effective, as well as the implementation of innovations due to the small size of the country and well-organized administration. All this requires that there are people who know about the rest of the world, i.e. specialists educated abroad or at home, and they must enjoy public support. There is a saying that Finns, who have lived so long in the forests, are very keen of everything new. That is a stereotype, but it is true that in a small society one has to be open-minded and at the same time safeguard one's identity by emphasizing national uniformity.

Conclusions: A model for others?

History does not repeat itself but it may offer examples, analogies and comparisons for the evaluation of the possibilities in another place and time.

*In many ways the Finnish experience cannot be followed, because:*

- A similar economic growth by exploiting natural resources can hardly be repeated.

- A similar population development cannot be repeated; there is no open land to go to for the current world population.
- Similar patterns of thinking which encouraged people to change their lives cannot be repeated in the same way.

In many ways the Finnish experience could be followed. It requires:

- Severe social problems must be solved.

- Social power based on legislation and democracy is needed for that.

- Individual rights and equality must be supported.

- There must be investments in science and broad education.

- Individuals must feel the society to be fair.

- Similar patterns of thinking which encouraged people to change their lives may be repeated.

The experiences of development presented here, the case of Finland, are real and one should learn from reality. For instance the belief in education was something one just had to believe in, and it was only afterwards that we were able to see it was the right way. Similarly the belief in equality has been a decisive idea and factor in European modernisation – as well as the individual initiative to promote the common good.

The final lesson is that there is no historical model of development which could be followed by others, because the context is decisive. But history teaches us that there are several possible futures, and it is wise to consider this when making decisions today. We do not know the future, but we can analyse the conditions and factors of development in history. Today we are fully dependent on the man made infrastructure and social systems. That is a severe challenge – and an opportunity which did not exist 200 years ago.
References


