

## Economic development and nationalism in Finland, 1809–2000

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Social scientists tend to argue that there are three major ideologies or schools of thought in political economy: Marxism, economic liberalism and economic nationalism.<sup>1</sup> They have also concluded that the last of these has received considerably less attention from scholars than its main competitors.<sup>2</sup> In recent years, a number of students of International Political Economy have worked hard to fill this gap. While doing so, they have recognised that previous scholarship has not properly analysed the various ways nationalism can influence economic policies and development. In particular, they have underlined the need to look at the specific content of nationalist projects instead of simply labelling protectionist or autarkic policies as economic nationalism.<sup>3</sup>

In this paper, we will look at one country, Finland, where economic nationalism has had a major influence on government policy and on the actions and development of business enterprises during the last 150 years. For example, the Finnish legislation on foreign direct investment was, between 1939 and early 1990s, “arguably the most restrictive in the developed world” as Ha-Joon Chang from the University of Cambridge has written.<sup>4</sup> The Finnish case is interesting also for two other reasons. Firstly, the Finnish economy grew at an exceptionally high rate from the mid-19<sup>th</sup> century to the end of the Millennium. Secondly, the Finns managed to combine export-oriented economic strategy with exceptionally nationalist economic policies, even though they, as representatives of a small country, could not mould international trade regimes in way that was beneficial for them.

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<sup>1</sup> For example, Robert Gilpin, *The Political Economy of International Relations* (Princeton, New Jersey: Princeton University Press, 1987), chapter 2; Takeshi Nakano, “Theorising Economic Nationalism,” *Nations and Nationalism* 10, no. 3 (2004), 211; David Levi-Faur, “Economic Nationalism: From Friedrich List to Robert Reich,” *Review of International Studies* 23, no. 3 (1997), 359; Eric Helleiner, “Economic Nationalism as a Challenge to Economic Liberalism? Lessons from the 19th Century,” *International Studies Quarterly* 46, no. 3 (2002), 307.

<sup>2</sup> For example, Nakano, “Theorising Economic Nationalism,” 211; Pauli Kettunen, “The Tension between the Social and the Economic – a Historical Perspective on a Welfare State,” in *The Road to Prosperity. An Economic History of Finland*, ed. Jari Ojala, Jari Eloranta, and Jukka Jalava (Helsinki: Suomalaisen Kirjallisuuden Seura, 2006), 286; Levi-Faur, “Economic Nationalism,” 359.

<sup>3</sup> See for example, Rawi Abdelal, *National Purpose in the World Economy: Post-Soviet States in Comparative Perspective* (Ithaca: Cornell University Press, 2001); Eric Helleiner and Andreas Pickel, eds., *Economic Nationalism in a Globalizing World* (Ithaca and London: Cornell University Press, 2005); George T. Crane, “Economic Nationalism: Bringing the Nation Back In,” *Millennium: Journal of International Studies* 27, no. 1 (1998).

<sup>4</sup> Ha-Joon Chang, “Regulation of Foreign Investment in Historical Perspective,” *The European Journal of Development Research* 16, no. 3 (2004), 697.

This paper offers some preliminary observations about the origins and role of economic nationalism in Finland. We are able to build partly on the earlier work done by several Finnish scholars, in particular Markku Kuisma, Riitta Hjerppe, Karl-Erik Michelsen, and Timo Myllyntaus<sup>5</sup>, but are also able to take advantage of the insights of recent theoretical literature on economic nationalism.

It is suggested that the strong Finnish growth performance was to a large degree a result of the creation of a successful export-oriented national strategy, but that economic nationalism had also negative side effects which undermined Finnish economic development and its ability to adapt to economic globalisation. These negative effects have often been overlooked in historical research.

### **New theoretical perspectives on economic nationalism**

The relative lack of interest on economic nationalism is partly due to the fact that it, unlike socialism or liberalism, is not a coherent theoretical construction.<sup>6</sup> Friedrich List, the most important advocate of economic nationalism during the 19<sup>th</sup> century, underlined the need to protect infant industries with protectionist tools. Since then, economic nationalism has commonly been associated with protectionist or autarkic policies, as well as policies that support domestic industries, or place restrictions on foreign direct investment. Ironically, the concept has been much more popular among liberals, than among the (alleged) nationalists. Liberals tend to classify as economic nationalism a wide variety of policies which they dislike and which are not compatible with liberal ideals of free trade and non-intervention of governments in economic affairs.<sup>7</sup> During

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<sup>5</sup> Markku Kuisma, "Government Action, Cartels and National Corporations – the Development Strategy of a Small Peripheral Nation During the Period of Crisis and Economic Disintegration in Europe (Finland, 1918–1939)," *Scandinavian Economic History Review* XLI, no. 3 (1993); ———, "Cooperation in Competition: Finland, an Example of Successful Development, 1918–1939," in *Uneven Development in Europe 1918–1939*, ed. Jean Batou and Thomas David (Geneva: International Economic and Social History Publications, 1998); Karl-Erik Michelsen and Markku Kuisma, "Nationalism and Industrial Development in Finland," *Business and Economic History* Second Series, vol. 21 (1992); Timo Myllyntaus, "The Finnish Model of Technology Transfer," *Economic Development and Cultural Change* 38, no. 3 (1990); Riitta Hjerppe and Jorma Ahvenainen, "Foreign Enterprises and Nationalistic Control: The Case of Finland since the End of the Nineteenth Century," in *Multinational Enterprise in Historical Perspective*, ed. Alice Teichova, Maurice Lévy-Leboyer, and Helga Nussbaum (Cambridge: Cambridge University Press & Éditions de la Maison des Sciences L'Homme, 1986); Riitta Hjerppe, "The Significance of Foreign Direct Investment in a Small Industrializing Economy: The Case of Finland in the Interwar Period," *Business and Economic History On-Line* 1 (2003).

<sup>6</sup> Gilpin, *Political Economy*, 31.

<sup>7</sup> Helleiner, "Economic Nationalism as a Challenge", 308–309.

the era of globalization, many observers have regarded economic nationalism as a relic from earlier unhappy days, or an irrational backlash that can only hinder world trade and development.<sup>8</sup>

In interwar era, economic nationalism received considerable attention from various scholars, but during the Cold War, bilateral perspective focusing on the differences between socialism and liberalism tended to dominate discussions about international economy. From the 1970s onwards, the students of International Political Economy began to give more consideration to the role of economic nationalism. They commonly represented economic nationalism as a statist tradition which emphasised the subordination of private interests to state's needs. It was therefore closely linked with the Realist school of International Relations, which underlines the primacy of states in world politics.<sup>9</sup>

A number of scholars, have, however, recently challenged these views.<sup>10</sup> They argue, firstly, that political economists have failed to recognize that state and nation are two different things, even they often overlap. A nation is, according to Benedict Anderson's famous definition, "imagined community", i.e. socially constructed community of people who do not necessarily know each other but who nevertheless believe they are a part of a same group.<sup>11</sup> Scholars should therefore study how nationalist ideas and identities influence economic and other policies. In other words, they should "bring the nation back in" to the international political economy.

Secondly, the scholars have underlined the goals rather than the methods and tools of economic nationalism. Rereading of Friedrich List's works by Erich Helleiner has offered support for this view. List believed that main difference between his thinking and that of the economic liberals was that the latter were interested in promoting the interests of the individual and the humanity on the whole, and therefore ignored the significance of nations, while for List the latter were crucial entities. List was in fact, according to Helleiner,

very clear about how economic nationalism should be defined. The liberal school of political economy, he argued, was a 'science that teaches how the entire human race may attain prosperity.' His goal, by contrast, was to develop a 'science which limits its

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<sup>8</sup> See, for example, various statements collected by Andreas Pickel in "Explaining, and Explaining with Economic Nationalism," *Nations and Nationalism* 9, no. 1 (2003), 106–110.

<sup>9</sup> Gilpin, *Political Economy*, is the best known example of this school of thought.

<sup>10</sup> See for example, Abdelal, *National Purpose*; Helleiner and Pickel, eds., *Economic Nationalism in a Globalizing World*; Crane, "Economic Nationalism."

<sup>11</sup> Benedict Anderson, *Imagined Communities: Reflections on the Origin and Spread of Nationalism* (London: Verso, 1983).

teaching to the inquiry of how a *given nation* can obtain (under existing conditions of the world) prosperity, civilisation and power.<sup>12</sup>

In other words, liberals and economic nationalists cannot be separated from each other simply by looking at whether they support free trade or not, but rather by trying to find out why they advocate certain policies. Given that the main goal of nationalists is to promote “prosperity, civilisation and power” of a “given nation”, they can in certain cases support the dismantling of trade barriers instead of protectionism. Hence, free trade policies and high tariffs can both be symptoms of economic nationalism, if the goal is to promote the wealth or power of the nation.<sup>13</sup> Quebec nationalists have, for example, supported free trade policies, because in this way they have become less dependent of the English-speaking majority of Canada.<sup>14</sup> Andreas Pickel has therefore argued that economic nationalism is not opposite of economic liberalism, but “is better understood as a generic phenomenon that can accommodate almost any doctrinal content, including economic liberalism.”<sup>15</sup> David Le-Faur has written about

the school of ‘national’ economic thought which may be best characterized by the following three assertions: a nation’s citizenry largely shares (or should share) a common economic fate; the state has a crucial positive role in guiding the national economy to better performance; and the imperatives of nationalism should guide the state’s economic policies.<sup>16</sup>

Based on these kinds of differences, Erich Helleiner has asked: “in what ways do national identities and nationalism influence economic policy and processes?”<sup>17</sup> In this paper we try to answer this question in the Finnish context.

### **The roots of Finnish nationalism**

From the Middle Ages up to 1809, the area which later became the independent Republic of Finland was a part of the Swedish Kingdom. There was no administrative or political entity called “Finland” but rather a group of provinces that belonged to the Kingdom in the same way than did those areas

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<sup>12</sup> Helleiner, “Economic Nationalism as a Challenge”, 312.

<sup>13</sup> Nakano, “Theorising Economic Nationalism”, 212; Stephen Shulman, “Nationalist Sources of International Economic Integration,” *International Studies Quarterly* 44, no. 3 (2000), 365.

<sup>14</sup> Shulman, “Nationalist Sources”, 375–380.

<sup>15</sup> Pickel, “Explaining”, 122.

<sup>16</sup> Levi-Faur, “Economic Nationalism”, 360.

<sup>17</sup> Helleiner, “Economic Nationalism as a Challenge”, 326.

in the Sweden proper. In the Swedish-Russian war of 1808–1809, the Russian Empire conquered Finland and made it an autonomous Grand Duchy. The Emperor (or Czar) of Russia adopted the title of Grand Duke of Finland, but day-to-day affairs were in the hands of the Finnish Senate, the most important of the new administrative organs set up after the war. Although most of the inhabitants of the country spoke Finnish, the Grand Duchy was led by a Swedish-speaking elite, which occupied key positions in all fields of life. Many members of the elite were not however, Swedes in an ethnic sense, but originated from Finnish-speaking families, which had adopted the Swedish language, because otherwise they could not have climbed the social ladder.

During the early part of 19<sup>th</sup> century, nationalism as an ideology spread from other parts of Europe to Finland. Many occupants of Finland adopted the slogan “We are no longer Swedes and we don’t want to become Russians, so let us be Finns”, a statement commonly attributed to Adolf Ivar Arwidsson (1791–1858), an early proponent of nationalism in Finland. Modern scholars of nationalism usually argue that a “nation is what the people believe is a nation”,<sup>18</sup> and this subjective definition fits well with the Finnish case. Many early Finnish nationalists represented traditional Swedish-speaking elite of the country, but nevertheless chose to learn Finnish and became strong advocates of Finnish nationalism. Most Swedish-speakers, roughly 15 per cent of the population at the end of the 19<sup>th</sup> century, kept their mother tongue, but nevertheless considered themselves Finns, not Swedes who just happened to live in another country. Many Finnish-speakers were not, however, equally convinced of the Finnish status of Swedish-speakers, and resented their dominant role in the society. The new *Fennoman* movement wanted to make Finnish, before mainly the language of peasants and other lower social classes, the leading language of country, and build a sophisticated culture based on Finnish traditions.

J.V Snellman, the most influential figure in the Finnish national movement, managed, inter alia, in 1863 to persuade the Emperor/Grand Duke to raise Finnish to status of an official language of the country and henceforward Finland has had two official languages, Finnish and Swedish. By the end of 19<sup>th</sup> century, the Fennoman movement spread its influence from political and cultural fields to economy. The industrialisation of Finland had started gradually during the mid-19<sup>th</sup> century, but most of the new manufacturing and financial companies were in the hands of the old Swedish-speaking elite. This was hardly surprising because its members had the education, financial resources and connections needed to build new companies. At the end of the century, the

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<sup>18</sup> Nakano, “Theorising Economic Nationalism”, 217.

Fennomans began to set up companies of their own. These included the insurance company Pohjola and the commercial bank Kansallis-Osake-Pankki (KOP), both of which eventually became leading enterprises in their respective business sectors, as well as manufacturing companies like Kajaani Oy, a forest industry enterprise.

### **Building international industries in Finland**

The Finnish historiography has traditionally underlined that foreign capital played only a relatively small role in the country's industrialisation.<sup>19</sup> This might strictly speaking be true, because multilateral companies played a minute part in the industrialisation of Finland as investors, and some of the individual foreign entrepreneurs that set up companies in the country acquired funding from Finnish sources. Yet, a recent quantitative analysis by a group of historians has shown that the role of foreign entrepreneurs should not be underestimated. They compiled a list of thirty largest industrial companies (by employment) in Finland in various years of the 19<sup>th</sup> century, and classified them on the basis of nationality. This revealed, for example, that 17 of the companies that made to the list of 1860/1862, were set up by foreigners, while the list of 1890/1891 included 12 such enterprises.<sup>20</sup>

Some of the foreign-owned enterprises were transferred to Finnish hands after bankruptcies or other difficulties. In many other cases the businessmen gradually assimilated to the domestic business elite. This was by no means a new phenomenon, because from the Middle Ages onwards Finnish cities had attracted foreign merchants, who had moved to the country and then gradually became a part of the local society.

Economic nationalists often see strong foreign involvement in the economy as a threat to country's independence. *Kauppalehti*, a business newspaper, argued in 1910 that foreign capital and immigrant craftsmen "bring economic profit for the country, but simultaneously they break up the national culture. With them we have to accept foreign habits and languages the damaging impact of which on a nascent nation just creating a modern, distinguishing culture using its own vernacular is perhaps impossible to evaluate."<sup>21</sup> The Finnish and Russian authorities placed first restrictions on

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<sup>19</sup> For example, Myllyntaus, "The Finnish Model", 630; Hjerpe and Ahvenainen, "Foreign Enterprises", 286.

<sup>20</sup> Timo Särkkä, Maare Valtonen, Olli Turunen, Heli Valtonen, The economic and social networks of business leaders: Immigrant businessmen in the nineteenth century Finnish economy. Revised version of the paper presented at the 14<sup>th</sup> Annual Conference of the European Business History Association 2010, University of Glasgow, 26–28<sup>th</sup> August 2010.

<sup>21</sup> Quoted and translated in Timo Myllyntaus, *Electrifying Finland: The Transfer of a New Technology into a Late Industrialising Economy* (Basingstoke: Macmillan in association with ETLA, 1991), 61.

foreign business activities in Finland from 1830s onwards. For example, in 1851 it was decreed that foreigners (except Russian noblemen) had to get permission from the Czar to buy land. This meant that the country's forests could not move permanently to foreign hands. After 1883 foreigners could not engage in mining operations without a license, and three years later they were forbidden to enter banking business. In 1889, they lost the right to build or operate railroads, and finally in 1895 it was decreed that majority of the board members of a limited liability company had to be Finnish citizens.<sup>22</sup>

As a remote country, which had relatively few natural resources and a small domestic market, Finland could not hope to attract as much foreign direct investment (FDI) as many other Western countries. The new restrictions probably discouraged foreign investments even more, but not as much as one could expect. For example, the Norwegians, who had substantial experience in sawmilling, recognised that Finland with its considerable forest resources offered them attractive business opportunities. One did not have to own the land where the trees stood, because wood could be bought from landowners or from businessmen who had acquired rights to utilise forests owned by the government or private owners. Many Norwegians moved to Finland from late 1860s onwards. Best known of these was Hans Gutzeit, whose company W. Gutzeit & Co., is a predecessor of the today's giant Stora Enso. He soon lost control of the company to other, mainly Norwegian investors, but according to Professor Jorma Ahvenainen the enterprise was "in spirit" Finnish and operated in the same way as other Finnish companies. He therefore feels it would have been hard to argue that foreigners were exploiting Finland in any way.<sup>23</sup>

Foreign entrepreneurs brought with them new technology and knowhow, which Finland as a late industrializing country desperately needed. But foreign technicians and other professionals played a central role also in Finnish-owned enterprises. For example, in the Finnish pulp and paper industries it was up to the beginning of the First World War customary to hire German, British, Swedish or Norwegian experts and technical managers to supervise production. Many of these foreigners left the country when the war broke out, but during the interwar period some leading Finnish-owned companies again hired experts from abroad to key positions.<sup>24</sup>

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<sup>22</sup> Hjerpe and Ahvenainen, "Foreign Enterprises", 287.

<sup>23</sup> Jorma Ahvenainen, *Enso-Gutzeit Oy 1872–1992. Osa I: 1872–1923* (Jyväskylä: Enso-Gutzeit, 1992), 136–137.

<sup>24</sup> Niklas Jensen-Eriksen, "Kansallinen Teollisuus, Kansainvälinen Ammattitaito. Saksalaiset Ammatilliset ja Suomen Modernin Metsäteollisuuden Synty 1860–1940," in *Kahden Kulttuurin Välittäjä. Hannes Saarisénin Juhlakirja*, ed. Aleksanteri Suviola and Erkki Teräväinen (Helsinki: Helsingin yliopiston Historian laitoksen julkaisuja 20, 2006).

## **Building a national economy**

In short, the emerging Finnish industry was during the era of “first globalisation” very international in outlook. Substantial proportion of owners and management, as well as technical expertise was in the hands of foreigners. Yet, it was not self-evident that foreigners posed a threat to Finnish nation or independence, as *Kauppa-lehti* feared. Many newcomers were gradually assimilated to the general population, and truly multinational companies had not set their foot in Finland.

More threatening plans had, however, appeared in the horizon. Foreign investors were planning to exploit the Imatra Rapids, which were located in Eastern Finland, to generate energy for St. Petersburg, the Russian capital. The rapids were among best-known tourist attractions of Finland, but they were also the most important potential source of hydropower for the country, which had few other sources of energy. If the electricity was directed to St. Petersburg, the Finnish industry could not utilise this crucial source of power, except perhaps in a limited scale.<sup>25</sup> A German company, Metallgesellschaft, was also planning to start copper mining operations in Outokumpu, and export the ore to Germany for refining.<sup>26</sup>

Real and imagined attempts by foreigners to exploit Finland’s natural resources provided fuel for rising economic nationalism. In 1917, when Finland declared itself independent after the collapse of the Romanov Empire, nationalist notions rose forcefully to the surface. The same happened in many other new independent states, which emerged from the ruins of Austro-Hungarian, Russian and German empires in the Eastern half of Europe. For relatively backward countries, which had just freed themselves from foreign domination, economic nationalism offered a way to assert their independence and to promote economic development.<sup>27</sup>

The public opinion and politicians were eager to limit foreign activities in Finnish business life, and new regulations instituted in 1919 reflected this fact. From now on, foreigners had to get a permission to set up a business in Finland, and to guarantee in advance that the government and the municipalities would get required taxes and other charges.<sup>28</sup> A new law specifically forbid the

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<sup>25</sup> Myllyntaus, *Electrifying Finland*, 61–71.

<sup>26</sup> Michelsen and Kuisma, “Nationalism”, 349.

<sup>27</sup> For comparative perspective, see Thomas David’s paper in this session.

<sup>28</sup> Hjerpe and Ahvenainen, “Foreign Enterprises”, 289–290.

export of electricity that had been generated from indigenous sources, and hence the hydropower resources of Imatra were reserved for domestic use.<sup>29</sup>

It proved easy to push foreign investors out, because many of them were eager to go. A bitter Finnish Civil War in 1918, and political conflicts suggested that the country was politically unstable, and possible re-emergence of Russian Empire might lead to the loss of Finnish independence. Before the collapse of Imperial Germany in November 1918, the Germans also had considerable influence in Finland. The fall of Romanov Empire had left a power vacuum, which the Germans managed to fill for the short period. Allied victory in the Western front and German revolution led to the withdrawal of German troops from Finland, and other parts of the former Russian Empire.

Some of the key foreign assets in Finland, like the Norwegian-owned forest industry companies, were soon put on sale. The Finnish government bought W. Gutzeit & Co., and Tornator Oy, while some other enterprises ended up in the hands of private Finnish investors.<sup>30</sup> The government also bought the rights for the Outokumpu mine, and eventually set up a new company Outokumpu Oy, which became an important mining company, and later a steel producer.<sup>31</sup> Energy company Imatran Voima was set up to utilise hydropower resources of Imatra rapids. In the 1930s, the new power plant and other establishments in the same Vuoksi river produced more hydropower than all the other similar plants in the country together.<sup>32</sup>

The government had acquired Gutzeit in order to ensure that the company would not end up in the hands of new foreign owners. The Imperial German government had behind the scenes urged the Finnish government to act so that the company would not end up in the hands of British investors. The Finnish government did as they were urged, but in reality there were even more concerned about the possibility that the company might otherwise get German owners.<sup>33</sup>

Yet, the government officials who had organised the purchase of Gutzeit did not only try to enhance the independence of the country, but also shift a balance of power within industry from old Swedish-speaking elite to the rising class of Finnish-speaking managers. This became clear soon

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<sup>29</sup> Myllyntaus, *Electrifying Finland*, 71.

<sup>30</sup> Markku Kuisma, *Sodasta Syntynyt. Itsenäisen Suomen Synty Sarajevon Laukauksista Tarton Rauhaan 1914–1920* (Helsinki: Werner Söderström Osakeyhtiö, 2010), 136–137.

<sup>31</sup> See ———, *A History of Outokumpu* ([Helsinki]: [Outokumpu], 1989).

<sup>32</sup> Myllyntaus, *Electrifying Finland*, 86.

<sup>33</sup> Kuisma, *Sodasta Syntynyt*, 149–154

after W. Gutzeit & Co. had moved to Finnish government's hands. A consortium of Finnish investors offered to buy it from the government. They also agreed to keep the enterprise in their possession, and not to resell it to foreign investors. The offer was rejected,<sup>34</sup> and instead the management of Gutzeit was given to V.A. Kotilainen, Finnish-speaking managing director of Kajaani Oy. Gutzeit, and other state-owned companies were now filled with Finnish-speaking professionals, and hence they became important avenues through which Finnish middle class could undermine the relative position of Swedish-speakers in the economy. A new breed of executives, which Michelsen and Kuisma have branded as "patriotic managers", was born.<sup>35</sup> Many Swedish-speaking executives, in turn, moved to those enterprises still dominated by "old money".

The Finnish-speaking managers of state-owned companies worked hard to build vast industrial enterprises, which reflected both their personal ambitions and a more general desire to promote the diversification and development of the Finnish economy. After the Second World War, the next generation of "patriotic managers" led new state-owned companies like Rautaruukki Oy, an iron and steel company, and Neste Oy, an oil refiner.

### **Who are we?**

Finnish private companies watched with certain anxiety the expansion of the role of the government in business. Yet, the forest industry, the most important branch of the manufacturing sector, had a bigger potential threat to think about: many influential Finns were not at all convinced that the country should place its fate on industry.

Industrialisation is often considered to be one of the most important aims of economic nationalists. Yet, this is not always the case. Alexander Hamilton and Friedrich Lists did not reject the importance of agriculture, but rather aimed at balance development of a society, where both industrial and agricultural groups could survive and prosper. Uneven development of a society could weaken the cohesion of a nation, which from the point of view of nationalists, would have been highly unsatisfactory.<sup>36</sup>

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<sup>34</sup> Ibid., 157.

<sup>35</sup> Michelsen and Kuisma, "Nationalism", 351–352.

<sup>36</sup> Nakano, "Theorising Economic Nationalism", 226.

According to Rawi Abdelal, “What societies want depend on who they think they are”.<sup>37</sup> In the early decades of the Finnish industrialisation, many nationalist believed that populous independent Finnish-speaking peasantry represented the most “genuine” and “natural” part of the country’s society. Hence, it should be supported and expanded. Industry, in contrast, was seen as a foreign ingredient, that was mainly run by Swedish-speaking “alien” elements and foreign entrepreneurs, and which undermined traditional social structures of an agrarian society. The civil war of 1918 seemed to prove that these critics had a point. Urban industrial proletariat had formed the backbone of the rebellious “Red” forces that had tried to take over the country. The victorious “White” army, i.e. the government’s troops, had mainly consisted of Finnish-speaking independent peasants and, to lesser degree, members of the middle classes which were now seen as the saviours of the country.<sup>38</sup> Furthermore, a severe shortage of foodstuffs during the First World War and the cessation of traditional imports from Russia encouraged the Finns to expand domestic agricultural production.<sup>39</sup>

The vision of Finland as a prosperous self-sufficient agricultural country consisting of free men cultivating their own plots of land clashed with the desire of the industry to secure its supply of raw materials by acquiring vast tracks of lands. This was a battle the industry did not win. The agricultural interests managed to push through legislation that stopped the efforts of the industry to acquire substantial tracks of forest lands. As a result of this legislation, the ownership of the country’s best forests remained mostly in the hands of tens of thousands of farmers. The growing production of forest industry increased demand for wood and made the companies dependent on these farmers, and ensured that a substantial part of the country’s export revenue flowed to the peasants.<sup>40</sup>

The peasantry and their political representatives gradually learned to appreciate the considerable stumpage income the farmers got from the industry that had to buy their wood and processed to products sold to the foreign countries. Hence, the agrarian interests eventually accepted the vision highlighted by List and Hamilton, namely a balanced society where both industry and agriculture could prosper. Strong role of forest industries gradually became a strong part of Finnish national identity. In short, the relationship between economic processes and nationalism turned out to be a

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<sup>37</sup> Abdelal, *National Purpose*, 1.

<sup>38</sup> Kuisma, *Sodasta Syntynyt*, 172–177.

<sup>39</sup> Riitta Hjerpe and Juha-Antti Lamberg, “Changing Structure and Organisation of Foreign Trade in Finland after Russian Rule” in *Economic Change and the National Question in Twentieth-Century Europe*, ed. Alice Teichova, Herbert Matis, and Jaroslav Pátek (Cambridge: Cambridge University Press 2000), 395.

<sup>40</sup> Kuisma, “Cooperation”, 419–422

two-way street: nationalism influenced Finnish economic development, but the latter eventually also changed the way majority of Finns viewed their country: successful and modern industry became a “natural” part of Finland.<sup>41</sup>

In general, it would be wrong to classify Finnish forest industrialists, regardless of their mother tongue or ethnicity, as anti-Finnish or anti-nationalistic persons. In comparison to most other Finns, export-oriented industrialists were certainly more cosmopolitan in outlook, because they had extensive international trading links, better language skills, and greater knowledge of foreign cultures, but their behaviour nevertheless revealed an implicit but clear *national* perspective to world trade. The forest industrialists saw themselves as representatives of Finnish industry, not simply independent businessmen. This social cohesion reflected largely economic realities, and in particular a lack of resources that had forced entrepreneurs throughout the centuries to co-operate with each other when launching large ventures.

In 1917–1918, the loss of the exceptionally vital Russian markets as a result of the disintegration of the Romanov Empire forced paper and pulp producers to join forces and to set up joint export associations in order to establish a presence in the non-Russian markets. At the same time, they tried to defend themselves against the Imperial Germany, which tried to expand its economic influence in Finland. Although the German threat soon disappeared, the co-operation continued, and for most of the 20<sup>th</sup> century, the main Finnish export industries operated in the world markets as strong national export cartels, and did so in a successful fashion. The poor peripheral small nation eventually became one of the leading producers of pulp, board and paper in the world markets.<sup>42</sup>

In a way, the strict restrictions on FDI gave a too negative impression on the attitude of the Finns towards international economic exchange. They were eager to keep raw material sources and production capacity in domestic hands, but at the same time tried build increasingly export-oriented economy. Both the government and private investors, such as commercial banks, which had a strong role in the economy, channelled funds to large forest, engineering and shipbuilding companies that relied on foreign demand. Although these companies were large entities in Finnish

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<sup>41</sup> Compare with Tore Fougner, “Economic Nationalism and Maritime Policy in Norway”, *Cooperation and Conflict* 41, no. 2 (2006), 177.

<sup>42</sup> See more in Niklas Jensen-Eriksen, “Predators or Patriots? Export Cartels as a Source of Power for the Weak”. Paper presented at the 14<sup>th</sup> Annual Conference of the European Business History Association, University of Glasgow, 26–28<sup>th</sup> August 2010.

context, they were small in international comparisons, and hence it seemed wise to join forces, and set up various co-operative export ventures.

## **Second World War and the Cold War**

New restrictions did not entirely stop the flow of foreign investments to Finland. Predecessors of the Anglo-Dutch food giant Unilever managed to capture a strong role of the Finnish margarine industry in the end of the 1920s,<sup>43</sup> and in the beginning of the next decade a British family company Dixon built a pulp mill in Northern Finland. The Americans, in turn, founded the Insulite Company of Finland Oy, which brought in new technology (to manufacture insulite board), and hence was approved by the authorities. The Finnish government also invited British, German and Belgian chemical giants to set up a joint subsidiary, Finnish Chemicals, in Finland. The plant produced bleaching chemicals for Finnish forest industries, but the government was more interested in the fact that it produced substances important for national defence.

The Dixon family had a close ally in Finland, Gösta Serlachius, one of the most influential industrialists of his times. He also agreed to sell a plot of land to Waldhof, a German company which built a pulp mill in Eastern Finland, where he himself did not operate. In internal meetings of the Finnish forest industry, Serlachius spoke in favour of free competition, but most other forest industrialists resented the arrival of the Germans, who were dominant actors in the Northern European paper trade, and hence dangerous competitors. Nevertheless, the government, and sellers of wood accepted the entry of Waldhof and Dixon, because their greenfield investments created jobs and increased demand for wood in the middle of the Great Depression. Furthermore, as almost all the other plants in the country were in domestic ownership, few individual foreign subsidiaries did not seem to pose a threat to national security. The authorities did not therefore employ all the legal measures in their disposal to regulate the activities of Waldhof.<sup>44</sup>

Increasing international tension changed all this. By the end of the 1930s it had become clear that a new world war might erupt, and in 1939, just before it did, the Finnish Parliament accepted proposal that significantly tightened restrictions on foreign ownership of Finnish real estate and the participation of foreigners in Finnish business life. According to these “draconian” regulations, as

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<sup>43</sup> See Mirka Avellan, ”Margariiniteollisuus Globalisaation Kourissa – Unileverin Elintarvikepuolen Edeltäjän Unie/Unionin Suomeen Tulo Vuosina 1928–1929” (University of Helsinki, MA thesis 2003).

<sup>44</sup> Kai Häggman, *Metsän Tasavalta. Suomalainen Metsäteollisuus Politiikan ja Markkinoiden Ristiaallokossa 1920–1939*, *Metsäteollisuuden Maa* 2 (Helsinki: Suomalaisen Kirjallisuuden Seura, 2006), 86–91.

Ha-Joon Chang has called them,<sup>45</sup> foreigners could not buy land in Finland without government approval, nor became board members or managing directors of Finnish-owned companies. The authorities were concerned that non-nationals might nevertheless acquire land indirectly through companies registered in Finland. Therefore companies' articles of association had to include a rule that foreigners could not buy over 20 per cent of their shares. Companies whose statutes did not have this regulation, were classified as "dangerous companies", and hence needed government approval for their real estate acquisitions.<sup>46</sup>

Events during the late 1940s onwards seemed to suggest that the law of 1939 had been necessary. Finland had managed to avoid Soviet occupation during the Second World War, and retain its democratic political system and capitalist economic structure, but after the war the Soviets tried to use various economic and political means to expand their influence. In the conference of Potsdam in the summer of 1945, the three victorious powers of the Second World War, the United States, the United Kingdom and the Soviet Union, agreed that the Soviets would be allowed to take over all German property not only in the Soviet-occupied parts of Germany and Austria, but also in Bulgaria, Romania, Hungary and Finland.

The Soviets had apparently mistakenly thought that the Germans had a strong role in the Finnish economy, but the strict regulations and the remoteness of Finland had ensured that Germans had not made substantial investments. The communist superpower did receive a controlling interest in 65 joint stock companies that had been registered in Finland, but most of them were small and unimportant. The Soviets were clearly disappointed on the total amount of property they acquired in Finland. They did nevertheless try to use some of their companies to further political ends. The Soviets channelled funds to the Finnish communists through these companies, and a communist training centre was set up in an impressive manor which had previously belonged to a German armaments manufacturer. Commercially, however, Soviet-owned companies turned out to be more a liability than an asset. Many of the companies suffered heavy losses, and could not stay in business without capital injections.<sup>47</sup>

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<sup>45</sup> Chang, "Regulation", 697.

<sup>46</sup> Hjerpe and Ahvenainen, "Foreign Enterprises", 290.

<sup>47</sup> Niklas Jensen-Eriksen, „Die Ursprünge Der Kreml-Ag: Die Sowjetische Beschlagnahme Deutschen Eigentums in Finnland 1945–1948,“ in *Stalins Wirtschaftspolitik an Der Sowjetischen Peripherie. Ein Überblick Auf Der Basis Sowjetischer Und Osteuropäischer Quellen*, ed. Walter M. Iber and Peter Ruggenthaler (Innsbruck: StudienVerlag, 2011).

In the mid-1950s, the Soviets eventually sold most of their companies to the Finns. “Soviet Plants in Finland Find the Capitalistic Competition too Tough”, *The Wall Street Journal* concluded, but in reality the retreat from Finland reflected a wider shift in Soviet policy. After Stalin’s death, the Soviets gave up most of their assets in the Eastern European companies. In Finland they did hold on to some companies which could play an important role in the Soviet-Finnish trade.<sup>48</sup>

After the Soviets had sold off most of the companies, there was little reason to fear foreign attempts to take over Finnish economy. The Soviets clearly had lost interest in acquiring new assets (except in those cases when these companies were involved in Finnish-Soviet trade) and Western companies expressed only limited interest in investing in Finland. Yet, the Finns continued to ensure that all foreign efforts would be blocked. Not only did the law of 1939 remain in the statute books, but restrictions were even tightened further. In 1967 the Finnish Cabinet decided that the country would take no new foreign investments to forest and mining industries. This was yet another attempt to prevent natural resources from falling into the hands of foreigners, but it is hard to understand why it was necessary. There was little evidence that foreign companies were planning to invest in Finland, and even they had such desires, the Finnish government had various administrative means to stop such attempts.<sup>49</sup> In 1970s, foreign-owned companies’ share of the total value added produced by Finnish industry was 5–6 per cent. Foreign companies employed roughly similar proportion of industrial labour force.<sup>50</sup>

Yet, the same nationalistic attitudes that encouraged the government to restrict FDI also encouraged it to reduce barriers on trade with the West. Although Finland and the Soviet Union were officially in friendly terms during the Cold War, many Finns regarded their large neighbour as a potential threat, and hence it was wise to reduce economic dependence on it. The best way to do so was to expand trade with the non-communist Western countries. Students of economic nationalism have highlighted how many of those new independent states that emerged from the ruins of the Soviet Union in 1990s have for nationalistic reasons worked hard to redirect their trade towards West,<sup>51</sup> and have dismantled joint economic institutions with Russian Federation even in cases where economic reasoning suggested that they should be maintained. This same kind of logic drove Finnish authorities and companies to strengthen their ties with the non-communist during the Cold

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<sup>48</sup> “Kremlin, Inc.”. *Wall Street Journal*, 21 December 1954.

<sup>49</sup> Niklas Jensen-Eriksen, ”Metsäteollisuus, Markkinat ja Valtio 1973–1995” in *Kriisi ja Kumous. Metsäteollisuus ja Maailmantalouden Murros 1973–2008*, ed. Markku Kuisma (Helsinki: Suomalaisen Kirjallisuuden Seura, 2008), 180.

<sup>50</sup> Hjerpe and Ahvenainen, “Foreign Enterprises”, 294.

<sup>51</sup> Shulman, “Nationalist Sources”, 383–384; Abdelal, *National Purpose*.

War. From their point of view, these kinds of actions could only strengthen the “Western” nature of the country in a situation where many observers felt that it belonged to the Soviet sphere of influence. In short, the Finns had little desire to limit their dependence on foreign markets – as long as these markets were mainly Western ones.

### **Economic liberalism or nationalism?**

It was not only the government circles that opposed foreign investments in Finland. When in 1962 the Swedish electrical engineering company Asea suggested a swap of shares which would give it a minority share of its Finnish competitor Strömberg, this caused a huge outcry in Finland. Various business enterprises were particularly furious, and eventually the deal was abandoned. However, during the following decades everything changed and in 1987 Asea was allowed to take over Strömberg. By this time, the national perspective had crumbled. The Finnish companies had begun to invest themselves in foreign countries in a substantial scale. Increasingly cosmopolitan enterprises became less and less attached to their country of origin and more interested in expanding abroad.

Expansion of Finnish trade relations with the West, the decline of Soviet influence, and the intensification of European integration process encouraged Finnish government and companies to strengthen their bonds with the Western Europe from the late 1980s onwards. When the European Community (EC) and the members of the European Free Trade Association (EFTA), including Finland, agreed to set up the European Economic Area (EEA) in the early 1990s, this led to the abolishment of traditional “draconian” restrictions on foreign investments to Finland. The Finnish industry was originally anxious to keep at least some restrictions in force, but quickly realised that if they wanted to invest in Western Europe, they had to let foreigners invest in Finland. In the beginning of 1995, Finland eventually became a full member of European Union (EU), and hence ceded part of its sovereignty to Brussels, and lost the legal rights to discriminate against EU companies in most respects.

As soon as restrictions were removed, foreign investors rushed in to buy Finnish shares in a substantial scale. The rise of Nokia from a nearly bankrupt conglomerate to a leading global telecommunications firm in a matter of few years, the EU membership, and the strong growth of Finnish economy made the country increasingly attractive from a point of view of foreign investors.

By 2000, a majority of the market value of the Finnish publicly quoted companies had been transferred to non-Finnish hands.

Large and often also smaller companies became increasingly international in other respects as well. They expanded their operations abroad, hired foreigners even to top positions, and concentrated on earning profits for their (international) owners. Deregulation of financial sector and capital movements in the 1980s had also allowed them to borrow funds from foreign sources in a vast scale. National export cartels and other co-operative activities were abolished, and companies began to compete in world markets as independent entities, not as a part of Finnish coalitions. The era of co-operative capitalism had apparently ended.

It seemed that economic nationalism had in a quick pace become an outdated way of thinking, which had no supporters, and could make little contribution to Finnish economy and society. The government had lost its desire and ability to regulate capital and trade flows, and export industries had abandoned their traditional coalitions. Closer look, however, reveals that in practice the old notions had not entirely disappeared. In the late 1990s, and the early part of the next decade, there was little reason to place restrictions on foreign activity in Finland, since the Finns themselves seemed to be victors in the new era of global competition. Nokia rapidly became the most important mobile phone producer in the world, and a large group of smaller IT companies emerged as important players in world trade. Finnish companies consolidated their position in foreign markets, and the country on the whole seemed to be a shining example of high tech economy that was particularly able to benefit from global trade.

Yet, it did not last. The position of IT companies began to deteriorate, and more traditional companies cut their production in the country. National perspectives, and even xenophobic attitudes rose to surface, and government and business groups began to consider how Finland as a national unit could be saved. Some politicians have even suggested that the Finns should set up new state-owned companies,<sup>52</sup> a course of action that would have seemed entirely old-fashioned few years earlier. Yet, in an era of global capitalism it is hard to resort to such traditional tools. Nevertheless, a number of scholars argue that economic nationalism in general has not disappeared, but rather its

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<sup>52</sup> ”Keskusta esittää ohjelmassaan kahta uutta valtionyhtiötä.” *Helsingin Sanomat* 29 January 2011.

advocates have resorted to new policies to support domestic industries, attract international capital, and highlight their national distinctiveness to acquire competitive edge.<sup>53</sup>

### **A success story?**

In the course of 20<sup>th</sup> century, the Finns built a strong national economy, largely based on domestic raw materials. If the authorities had not placed any restrictions, it would have seemed likely that iron ore had been shipped to Germany, hydropower to St. Petersburg, and timber resources to Britain, Sweden, and Germany. These were not theoretical fears; we know from detailed historical studies, that foreign companies had concrete plans about the export of these resources in the beginning of the 20<sup>th</sup> century. Government involvement helped to ensure that these resources formed the basis of growing Finnish manufacturing industries, which eventually became a backbone of the country's economy.

Yet, the Finns probably went too far. It was understandable that the authorities and general population were eager to keep the country's most important natural resources in domestic hands. However, instead of limiting their activities on the protection of the truly vital interests, the Finnish authorities went on to create a "draconian" system that placed severe obstacles in front of all foreigners who were willing to invest or work in Finland, regardless of what they were going to do. It is probably correct to speak, as Markku Kuisma has done, about the "nearly hysterical" attitudes against foreign involvement in the Finnish economy.<sup>54</sup> By placing too many restrictions on the few foreigners who were willing to invest or move to Finland, the Finns denied themselves the benefits, – money, knowledge, and contacts – that outsiders could have brought to the country. It seems likely that they could have been allowed to establish a presence in many sectors of the economy without endangering the nation's independence.

Karl-Erik Michelsen, a Finnish historian, has in a recent pamphlet highlighted another potential problem with the strong nationalism project: he feels that it increased national cohesion and cooperative spirit, but undermined entrepreneurship. Successful entrepreneurs who disrupt existing structures and gather great fortunes do not fit well in Finnish culture and society, where people value equality and joint projects above everything else. He explicitly points finger at the 19<sup>th</sup>

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<sup>53</sup> Helleiner, "Economic Nationalism as a Challenge", 312; Crane, "Economic Nationalism", 75; Jacqui True, "Country before Money? Economic Globalization and National Identity in New Zealand," in *Economic Nationalism in a Globalizing World*, ed. Eric Helleiner and Andreas Pickel (Ithaca and London: Cornell University Press, 2005).

<sup>54</sup> Kuisma, *Sodasta Syntynyt*, 137; See also ———, "Government Action", 259.

century Fennoman movement. The tradition of 'pulling together', which nationalism enforced helped Finns to solve a number of huge problems in the course of history, but it is less useful in a competitive global economy, where traditional large companies are shedding jobs in Finland, and invest increasingly abroad. Hence, they are no longer similar engines of growth as before. Co-operative traditions and collective activities are still preferred modes of operation in Finland, which might explain why the country has produced relatively few Schumpeterian Entrepreneurs, who develop something entirely new and upset conventional ways of action. Hence, the Fennoman traditions make it difficult for Finns to reinvent themselves.<sup>55</sup>

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<sup>55</sup> Karl-Erik Michelsen, *Yrittäjyyden Paradoksi* (Helsinki: EVA, 2005).