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of the Finnish financial markets in the 1980s: a study of legal history]

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Suomen rahoitusmarkkinoiden murros 1980-luvulla: Oikeushistoriallinen tutkimus [The transformation of the Finnish financial markets in the 1980s: A study of legal history] by Markus Kari, Helsinki, Into Kustannus Oy, 2016, 563 pp., 32 €, ISBN: 978-952-264-631-6.

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The liberalisation of Finnish financial markets in the 1980s is one of the most hotly contested and criticised processes in the country's economic history. Many commentators have argued that these reforms either led to or contributed to the overheating of the Finnish economy at the end of the decade, and that this, in turn, made the economic depression of the early 1990s especially severe and damaging. At the same time, the Soviet Union and Finnish-Soviet trade collapsed, and the Finns also faced problems in Western markets. Hundreds of thousands of Finns lost their jobs, numerous companies went bankrupt, the banking sector was in crisis, and the government borrowed as much as it could to cover huge gaps in its annual budgets. Economists analysing the origins of the national crisis have tended to see it as combination of bad policies, bad banking and bad luck.

But why and how were the reforms in the financial sector designed and implemented? There has been surprisingly little research on this topic. Those who have studied it have often analysed events from the point of view of the 1990s depression. Markus Kari, a young legal historian from the University of Helsinki, has chosen a different path. In his Ph.D thesis, which was also published immediately as a book, he starts from the era of “chained (kahlittu) markka”, a concept invented by economist Juha Tarkka, and describes in detail how certain regulations were gradually removed. Before the reforms began, the financial markets were so heavily regulated that Kari questions whether we can talk about markets at all. There were foreign exchange controls, credit controls, and various other policies. Many of these regulations had been introduced during the Second World War, and had never been removed.

Kari tries to find out what the policymakers did and why. In order to answer these questions, he has utilised a wide variety of printed and archival sources. The previously closed Bank of Finland archives are now open to researchers and Kari has utilised this opportunity in full. He has also studied interviews of leading policymakers by scholars after the depression in the 1990s. These are deposited in the Finnish national archives. Kari did not perform extensive interviews himself, even though they could have shed light on the events he studied.

Kari points out that policymakers and also previous scholars have usually talked about the reforms in the passive voice, without identifying actors or analysing their motives. In Kari's account, the Bank of Finland emerges as the key actor. It planned and implemented crucial reforms and was not always particularly eager to explain its motives or actions to outsiders. Politicians were often unaware of and unable to understand what was going on. It is easy for a reader to conclude that the process was not fully compatible with democracy. “No evidence suggests that the Bank of Finland communicated its future plans to other economic policy makers or the general public,” Kari writes in his English-language summary of the thesis.

Kari is not, however, entirely successful in his efforts to identify actors, as Finnish government documents do not fully reveal the role of individual civil servants or shed light on internal quarrels and disagreements. Hence, in this thesis the Bank of Finland resembles a more monolithic actor than it probably was.

The reforms of the 1980s have sometimes been described as neoliberal, but Kari finds little clear evidence to support this. The Bank of Finland took a series of small steps for pragmatic reasons. Together these formed the big leap we now know as the liberalisation of the financial sector. Many of the abolished regulations had turned out to be ineffective or counterproductive. The Bank also felt that the country had to adapt to an increasingly globalised international economy, and to the European integration process. It is clear that the key officials increasingly began to prefer open, free and unregulated systems instead of more controlled ones. The old system of national capitalism was replaced with an international one.

Kari's thesis officially belongs to the field of legal history, but it is really a combination of political, economic, administrative and legal history. He describes, occasionally in too much detail, various relevant economic and political processes such as European integration and Finnish policy towards it. Kari nevertheless pays special attention to legal aspects, but does this in a manner that is easily accessible to those who lack expertise in the field. Kari describes the legal thinking behind the reforms, but it turns out that this was not very sophisticated. The Finns had little knowledge or tradition in many fields of financial or European law. Expertise began to emerge only gradually and after many key reforms had been implemented.

One of the most important conclusions of the thesis is that we should not only talk about the deregulation or liberalisation of the Finnish financial sector, as people usually do. Kari shows that, in addition, there was extensive reregulation, as new laws were passed which formed the legal framework for the modern Finnish financial sector. This process of reregulation helped Finland to integrate more extensively into international financial markets, and to channel new funds to Finnish businesses. It also created new business opportunities for financial companies. For example, the first Finnish mutual funds were set up in 1987 after a necessary law had been passed.

On the whole, Kari's book shows that the story of the reforms of the Finnish financial sector in the 1980s is relevant not only to those wishing to study the origins of the 1990s depression. It also helps us to understand how Finland was integrated into international financial markets and into the globalised economy.

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