

**The curious compatibility of consensus, corporatism, and neoliberalism: The Finnish business community and the retasking of a corporatist welfare state**

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# **The curious compatibility of consensus, corporatism, and neoliberalism: The Finnish business community and the retasking of a corporatist welfare state**

Abstract: This paper addresses the apparent paradox of simultaneous neoliberal change and welfare-statist, corporatist continuity by presenting an empirical case study of the advent of neoliberal ideas in Finland in the 1970s and 1980s. The paper focuses on the attempts of a free-market think tank EVA and the employers' association STK to advance policies such as economic deregulation, international competitiveness, welfare retrenchment, and active social and labour market policies through the neoliberal retasking of the corporatist Finnish welfare state. EVA and the STK utilised seemingly non-neoliberal means, i.e. an economic policy consensus and tripartite corporatist arrangements, and reformulated their content to better correspond with business interests. Instead of demolition, the outcome has been the redefinition and incremental transformation of the state from a provider of welfare to a promoter of competitiveness, productivity, and employment.

Keywords: neoliberalism, think tanks, employers' associations, business interests, business political activity, business interest associations, consensus policy, welfare state, social policy, corporatism, incomes policy, active labour market policies, industrial relations

## **Introduction**

Business history needs to address 'big questions' that have general, even universal, significance. This is a view expressed by leading business historians in reaction to their sense of neglect of their field. Despite increasing interest in the economy and economic actors in other branches of history and in social sciences, business history is seldom cited. To improve the situation, business historians need to engage in a closer dialogue

with the broader discipline of history by widening the scope of their study from firms as economic actors to the political, social, and cultural role of business locally, nationally, and globally. (Friedman and Jones, 2013; Jones, van Leeuwen, & Broadberry, 2012, pp. 228–230; Scranton and Fridenson, 2013, pp. 5, 9.) This paper responds to the call by studying one of the biggest questions of our time: the rise of neoliberalism.

According to social scientists, neoliberal ideas and policies are characterised by their ability to adopt different forms and to adapt to varying local conditions. This, of course, makes the phenomenon difficult to define. A working definition can, however, be provided: neoliberalism is an intellectual and political project that considers free markets to be a superior mode of social organisation and market solutions to be ideal answers to social problems. Contrary to a common misconception, neoliberalism is not about rolling back the state but about retasking the state. Accordingly, and in contrast to classical liberalism, neoliberalism considers a strong state necessary; its task is to secure the free workings of market forces. (Ban, 2016, p. 3; Mirowski, 2013, pp. 40–41, 56; Mudge, 2008, pp. 705–707; Peck, 2010, pp. xv, 30; Schrecker and Bamba, 2015, p. 13.)

As a concrete set of policies, neoliberalism has included, e.g. economic deregulation, privatisation of state enterprise, and retrenchment of welfare services. In the realm of industrial relations, neoliberal measures have included increasing flexibility in the labour market and the decentralisation of wage bargaining. Flexibility has been pursued through active labour market policies, such as promoting employability and skills development instead of income maintenance in case of unemployment. (Martin, 2004, p. 44; Schrecker and Bamba, 2015, pp. 13, 15–17.)

In general overview, it seems evident that a neoliberal turn has come to characterise the Western world from the 1970s and 1980s onwards. Under intense

political and economic pressure in the 1960s and 1970s – the oil crisis, galloping inflation, the collapse of the Bretton Woods system, rising unemployment, student riots, and leftist radicalism – faith in the social democratic post-war policies of state interventionism, regulated capitalism, and redistributive welfare systems crumbled. This faith was replaced by a belief in unrestricted markets, economic deregulation, and decentralised industrial relations. The usefulness of an economically active state and extensive welfare services was questioned, and privatisation and welfare cuts were adopted as ideals. (Berend, 2012.)

The realisation of neoliberal ideas has, however, been an incoherent process filled with contradictions. As noted by Mudge (2008, p. 723), the most effective advocates of neoliberal policies in Western Europe have often been either sympathetic to or representatives of the left and centre-left. The European welfare model has only been altered, not destroyed (Berend, 2012, p. 414). In North European countries, neoliberal monetary and fiscal policies have been adopted while simultaneously preserving strong welfare-state ideologies, progressive tax regimes, and corporatist industrial relations (Ban, 2016, pp. 8, 14–15). Despite an alleged common trajectory toward deregulated and decentralised labour markets, divergent industrial relations regimes remain and corporatist institutions persist in several countries (Baccaro & Howell, 2011; Hermann, 2014; Traxler, 2010, pp. 151–152; Wood, 2001, pp. 369, 407).

This paper addresses the paradox of simultaneous neoliberal change and welfare-statist, corporatist continuity by presenting an empirical case study of the advent of neoliberal ideas in Finland in the 1970s and 1980s. As an example of the Nordic model (see Greve, 2007; Ryner, 2007 for more detail), it has combined free market capitalism with comprehensive welfare services and tripartite corporatism;

Finland thus provides a particularly interesting setting in which to examine the advance of neoliberalism.

The paper focuses on the role of the business community in introducing neoliberalism in Finland. Three specific questions are addressed:

- How and to what extent does a corporatist welfare state adopt neoliberal ideas and policies?
- What kind of neoliberal policies did Finnish business promote?
- What kind of means did they utilise to push these policies, and how successful were their attempts?

The Finnish business community is studied through the lens of two business interest associations: a business-funded, free-market think tank called *Elinkeinoelämän Valtuuskunta* (EVA, the Council of Economic Organisations in Finland) and the central employers' association *Suomen Työnantajain Keskusliitto* (STK; the Confederation of Finnish Employers).

The body of archival data consists of the proceedings, memoranda, and the manuscript collections of EVA. Regarding the STK, the proceedings of the highest decision-making bodies, the board and the executive committee, are utilised. These are complemented by the proceedings of *Suomen Teollisuuden Keskusvaliokunta* (STKV; the Central Committee of Finnish Industry), which was a joint organ and a discussion arena for the employers' association and Finnish industry's trade associations. The approach of this article is qualitative. In analysing the primary sources, the methodology used has been the core historical method as described by Kipping, Wadhvani, and Bucheli (2014), which combines source criticism, triangulation, and hermeneutics.

EVA and the STK have had very distinct roles among Finnish business interest associations. Think tanks, such as EVA, are research and advocacy organisations that

produce information, take part in public discussion, and provide policy recommendations about issues that they consider important (McGann, 2007, pp. 5–6, 11; Rich, 2004, p. 11). Employers' associations, such as the STK, traditionally concentrate on industrial relations issues, wage bargaining, and labour and social policies (Lanzalaco, 2008, p. 295). Earlier literature has noted the significant role of think tanks in advancing neoliberal ideas in various countries (Blyth, 2002, p. 156; Denham and Garnett, 1998, pp. v, vii, 16; McGann, 2007, p. 49; Pühringer and Stelzer-Orthofer, 2016). The relationship of employers' associations with neoliberal ideas has been studied less but some literature exists (e.g. Amable, 2016; Kinderman, 2017), in particular concerning active labour market policies (e.g. Martin, 2004; Martin, 2005).

Some social scientists suggest that support from business explains the resilience of corporatist industrial relations and social democratic welfare regimes (Martin, 2004; Thelen & van Wijnbergen 2003; Traxler, 2010; Wood, 2001, p. 408). In contrast, others claim that even in countries with strong corporatist and/or welfare state institutions, business pursues an aggressive neoliberal agenda and aims to bring down any constraints on market activity (Kinderman, 2017). However, scholars agree on the need for more empirical research on the preferences, motivations, and actions of business regarding welfare and labour market policies and their transformation toward a neoliberal direction (Kinderman, 2017, pp. 590, 609; Martin, 2005, p. 128).

Kinderman (2017, p. 591), while strongly arguing for employer's aggressive neoliberalism, admits that 'their strategy is more complex than blanket opposition and an all-out assault on non-liberal institutions'. Taking this observation as a starting point, this paper argues that business can, in fact, push neoliberal ideas by exploiting seemingly non-neoliberal policy-making practices and institutions. In the Finnish case, this argument translates into an ostensibly paradoxical advancement of a neoliberal

agenda through utilisation, not demolition, of consensus policy and corporatist industrial relations.

The paper is divided in six sections. The next section introduces the context and the main actors EVA and the STK. The following two sections examine the attempts of EVA and the STK to advance the goals of competitiveness, economic deregulation, welfare state reform, and active social and labour market policies through consensual and corporatist decision-making. The penultimate section analyses the reception and impact of EVA and the STK's initiatives, while the concluding section highlights the contributions that the Finnish case makes to both business history and wider social scientific discussions concerning the relationship between business and neoliberalism.

### **Business under pressure**

The period from the late 1940s until the turn of the 1970s has been characterised as an era of post-war settlement in Western Europe. A central feature of the settlement was the state's strong economic role, which had expanded notably during the Second World War and thereafter included tasks such as economic regulation, state-owned enterprises, redistributive taxation, and public welfare services. (Eley, 2012.) Other essential elements in the system were also tripartite cooperation and coordinated wage bargaining. Their main objective was to encourage economic growth and an increase in productivity through wage moderation. (Crafts & Toniolo, 2012.)

Following pan-European trends, the Finnish economy became extensively regulated. State authorities controlled prices, wages, rents, the movement of capital, and interest rates (Outinen, 2017, p. 392); regulations on financial markets remained in place until the 1980s. The employers' association STK and *Suomen Ammattiyhdistysten Keskusliitto* (from 1969 onward *Suomen Ammattiliittojen Keskusjärjestö*, SAK; the

Central Organization of Finnish Trade Unions) played a central role in the implementation of wage and price regulations. In the post-war decades, Finland gradually became a corporatist society in which social and economic policies were established in tripartite negotiations and agreements between the state, trade unions, and employers (Bergholm, 2009; Kiander, Sauramo, & Tanninen, 2011).

The development culminated in 1968 with the conclusion of the first comprehensive incomes policy agreement (*tulopoliittinen kokonaisratkaisu*). In the incomes policy negotiations, labour market matters became tightly intertwined with economic and social policies. The agreements reached applied to virtually all wage-earners and covered a wide range of issues, from wages and worker rights to taxation and social security benefits. (Kettunen, 2006; Kiander et al., 2011.) The first incomes policy agreement was primarily a counter-measure against a potential wage-price spiral after the significant devaluation of the Finnish Mark in 1967. Since all parties were satisfied with the results, they continued tripartite negotiations in the following years. By the early 1970s, incomes policy had become a central feature in the Finnish policy-making system.

The employers' objectives for incomes policy were ambitious: the STK aimed at securing Finnish competitiveness, keeping inflation in check, maintaining industrial peace, and limiting wage growth to follow productivity increases (STKV, 1970; STK board, 1970a, 1971). These goals were important enough for the employers to accept the concessions they had to make, such as tax increases, a solidaristic wage policy, and the growth of the welfare state, the funding of which was supported by employers' contributions (Kiander et al., 2011, pp. 520, 523).

The political climate of the early 1970s forced the employers to compromise over their goals. Like their colleagues in other Western countries, Finnish business



leaders found themselves in a predicament (e.g. Blyth, 2002; Useem, 1984; Waterhouse, 2014). They felt that the intellectual climate of Finland was increasingly critical, even hostile, towards private enterprise and the whole market economy system. The political left seemed to both strengthen and radicalise, loudly calling for the nationalisation of private business. Extensive state intervention in the economy aggravated the distress of businesspeople, who felt that when in conflict, 'political realities' without exception overrode 'economic facts' as the determinants of decision-making. (Jakobson, 1976a; Wuokko, 2017, p. 285.)

In the realm of industrial relations, the zeitgeist took the form of widespread (and in part politically motivated) strikes. The STK executives suspected that the trade union movement's radical Communists were collaborating with their Soviet comrades. According to the employers' worst fears, the ultimate goal of the strikes was a revolution supported by the Communist Party of the Soviet Union (STK board, 1970b; see, also, STK executive committee, 1973). Under these pressures, the principal motivation for the Finnish employers to engage in incomes policy agreements was the maintenance of social order. Because of this underlying rationale, the STK became the buttress of incomes policy in the 1970s. Through incomes policy agreements, the STK bought social peace although industrial peace was not always achieved (see, Savtschenko, 2015, pp. 20, 29–30).

Centralised wage bargaining was not the only means with which the business community defended social order against leftist radicalism. A parallel means – adopted both in Finland and elsewhere – was the political mobilisation of business in the form of intensified lobbying and the establishment of new, more efficient interest associations (Wuokko, 2017, 284–285). As part of this counteroffensive, a pro-market think tank called *Elinkeinoelämän valtuuskunta* (EVA) was established in 1974. Founding

members included employers' associations (the STK and *Liiketyöntajain Keskusliitto*) and the interest associations of Finnish industries (*Suomen Metsäteollisuuden Keskusliitto*, *Suomen Teollisuusliitto*, and *Teollisuudenharjoittajain Liitto*), banking (*Suomen Pankkiyhdistys*), and cooperatives (*Pellervo-Seura*). (EVA, 1974.) The first CEO of EVA was Max Jakobson, a widely respected former diplomat with Western sympathies, who was well connected both in Finland and internationally.

EVA's task was to create a general atmosphere that was friendlier toward private enterprise and the market economy system. This was to be done by initiating and taking part in public discussion and fostering contacts with leading politicians. The strategy of EVA was two-pronged and aimed at influencing both the public opinion and the views of decision-makers. (EVA, 1975a.)

EVA was part of a wave of neoliberal think tanks that emerged throughout the West in the 1970s and 1980s. EVA was linked to these through its free-market ethos, condemnation of economic regulation, and critique of the public sector. EVA does not seem to have been in touch with the most central organisations of the neoliberal movement, such as the Mont Pelerin Society or the Atlas Foundation. (Plehwe, 2009, pp. 4–5; Plehwe & Walpen, 2006, pp. 29, 42.) In its early days, EVA's list of potential partners included organisations such as the Swedish *Studieförbundet Näringsliv och Samhället* (SNS), the Norwegian *Libertas*, and the British *Aims of Freedom and Enterprise* (known previously as the *Aims of Industry*) and *Political and Economic Planning* (EVA, 1975c). Of these, earlier scholarship has linked at least the SNS, *Libertas*, and *Aims* with neoliberalism. These contacts place EVA in a reference group that did not, at any rate, oppose neoliberal ideas (Blyth, 2002, pp. 215–219; Olsen, 2014, p. 149; Tribe, 2009, p. 89). Judged by reports from international conferences and

other trips abroad, EVA was soon able to engage in exchange of ideas with foreign organisations with similar interests (Piepponen, 1975; Sipilä, 1975).

EVA proudly waved the flag of free-market ideas and adopted the strategy of attack as the best defence. Accordingly, EVA praised the free market as a prerequisite of democracy, freedom of choice, and economic growth (e.g. Jakobson, 1976b; Tiivola, 1978). However, as EVA saw it, the 'autonomous sphere of influence of the market mechanism' was becoming narrower and narrower (Jakobson, 1975). The state encroached on the market through a myriad of economic regulations, which threatened to cripple private enterprise completely (EVA, 1976a; Jakobson, 1976b; Tiivola, 1978).

The remedy that EVA suggested was the adoption of a consensus policy, which the next section examines in more detail. What did EVA's idea of consensus entail, and how was the initiative received? What was the relation between consensus and corporatism, and how did the STK react to consensus policy?

### **Corporatism, consensus, competitiveness**

EVA commented on the corporatist decision-making system of Finland in a reserved tone, arguing that centralised bargaining limited individual choice and freedom. The growing political clout of interest groups tarnished the decision-making system. As a result, sound and simple decisions were being replaced by expensive compromises. (EVA, 1976a.)

Interestingly, however, EVA did not want to throw the comprehensive negotiation system away. As CEO of EVA Max Jakobson put it, incomes policy was a step in the right direction but it was not far-reaching enough. Speaking during the recession induced by the oil crisis, Jakobson proposed the establishment of a wide national consensus on an economic and social policy strategy that should be followed in

order to overcome the prevailing difficulties and to secure Finland's international competitiveness. (Jakobson, 1976a.)

EVA called for negotiations between representatives of the government, the Bank of Finland, local authorities, business, and labour market parties. The purpose of the negotiations would be creating a national consensus on the suitable measures and goals of Finnish economic policy. The negotiation partners would also decide on the allocation of the national economy's 'meagre resources' in a way that would best guarantee prosperity for the Finns. This main goal was to be realised through sub-targets, such as balanced economic growth, stable price levels, restoration of international competitiveness, high employment, and social progress. (EVA, 1976c, 1977a.)

EVA's initiative was primarily directed to the leadership of *Suomen Sosialidemokraattinen Puolue* (SDP, the Social Democratic Party of Finland). The SDP was a true powerhouse in Finnish politics: from the mid-1960s until the early 1990s, the SDP was almost always among the government parties. The party could not be waved aside by anyone willing to influence Finnish politics – including EVA, which was therefore keen to establish contacts with the Social Democrats (EVA, 1975b, 1976b).

Controversy remains regarding if and to what extent EVA contributed to a change of heart among the SDP leadership (e.g. Koroma, 2015, pp. 84–85; Lipponen, 2009, pp. 384, 475). Whatever the stimulus, the SDP executive members reformulated their thinking on economic policy and accepted business-friendly, pro-market ideas during the mid-1970s recession. In order to keep employment at a high level and to secure the tax base necessary for the maintenance of welfare services, the SDP adopted the international competitiveness of the Finnish industry as a fundamental economic–political goal. (Outinen, 2017; Savtschenko, 2015, pp. 114, 193.)

Consequently, it was relatively easy for the representatives of EVA and the SDP party executive to see eye to eye in a series of low-profile negotiations in 1976 and 1977 (EVA, 1977b, 1977c). These negotiations paved the way for the adoption of a consensus policy after the formation of an SDP-led Kalevi Sorsa cabinet in May 1977. The cabinet's economic recovery program aimed to resuscitate the economy by supporting private industry, promoting competitiveness, restricting the growth of the public sector, and limiting increases in taxation (Outinen, 2017).

The Sorsa cabinet is generally regarded as the initiator of a consensus policy in Finland. Consensus has been characterised as a trade-off between the political left with the political right and business circles. The former acknowledged the importance of international competitiveness of Finnish business for the common good while the latter gave approval to extensive welfare services (Saari, 2010, pp. 482–483). At the heart of consensus thus lay an understanding that national interest demanded an adjustment to 'economic necessities'. To cope with tightening international competition, the cost-competitiveness of the Finnish export industry was adopted as the overriding objective of economic and social policy. (Kettunen, 2006, p. 309.)

Consensus policy was in many ways favourable to business interests. In addition to prioritising competitiveness, consensus helped business circles in their efforts to thwart the threat of leftist radicalism. Consensus curbed social conflict, depoliticised decision-making, and concentrated political power in the hands of interest groups – including those presenting business interests. Last but not least, as EVA put it, consensus supported the market economy system in the sense that the economy was regulated through negotiations and cooperation, instead of forced control by the state. (EVA, 1977d; Jakobson, n.d.a; Saari, 2010; Smolander, 2001.)

Kauppinen (1992, p. 285) has characterised the adoption of a consensus policy as an extension of the compromise that had been reached over labour market issues in 1968; consensus broadened the labour market compromise into an agreement on the fundamentals of economic policy. The extent of either compromise should not be overemphasised. Incomes policy did not spell an end to disputes between the labour market parties either on the shop floor or between the SAK and the STK (see, Bergholm 2018, pp. 49, 95). Neither did consensus always translate into actual economic policies that would have completely satisfied the Finnish business leaders.

Nevertheless, Finnish corporatism and consensus formed a mutually reinforcing whole. The adoption of a consensus policy strengthened tripartite labour market negotiations in Finland when the foundations of corporatist decision-making were crumbling in the Anglo-American world (Schmitter, 2010). Incomes policy and consensus shared the same underlying rationale: the prioritisation of competitiveness as the first and foremost goal of economic policy. Both also had the same downside, i.e. having to accept social reform in return for the acknowledgement of competitiveness as an imperative.

Furthermore, both corporatism and consensus helped to depoliticise decision-making at a time when business leaders considered the political climate unfavourable, even hostile, to their interests. The de-politicisation of decision-making on social and labour market reforms had been a consistent strategy of the STK at the latest from the 1950s onward. Since the employers considered decisions made by the government or the parliament unpredictable, the STK preferred negotiated settlements with the SAK. (STK executive committee, 1957; STKV, 1958; STK board, 1960). The dominance of centre-left governments gave a strong incentive for the employers to secure their influence through participation in tripartite corporatist decision-making.

Similarly, consensus served as an open invitation for Finnish business to sit at the negotiation table for economic policies.

The advantages of consensus did not end there. Besides helping to curb government control, consensus could be used as a means to control the state itself. The attempts of the business community to modify the size and tasks of the Finnish welfare state are the topic of the next section.

### **Retasking the welfare state**

In addition to the state intervention in the economy, Finnish business circles worried about the growth of the public sector. In the early 1970s, the Finnish fiscal policy was loose, and the expansion of the public sector only accelerated from the mid-1970s onwards (Heikkinen & Tiihonen, 2010, p. 160). Business leaders in the STK and the Central Committee of Finnish Industry criticised the high level of Finnish social expenditure and the large share of employers in their funding. They complained about the ‘demoralising consequences’ of social transfers and the detrimental effects of social security on willingness to work. (STKV, 1972; STK board, 1973, 1974).

Soon after its establishment, EVA joined in the criticism. Despite Finnish consensus being characterised as a compromise between competitiveness and social reform, already EVA’s early initiatives on an economic policy consensus aimed at limiting welfare expenditure. For instance, Chairman of EVA Mika Tiivola, CEO of Union Bank of Finland, stated in December 1976 that consensus should include an agreement on the reallocation of resources, from public spending to productive activities (EVA, 1976c). The following year after the so-called compromise of consensus, the STK prepared a memorandum which called for freezes or cuts in welfare benefits and rolled responsibility for their funding from the employers to beneficiaries themselves (STK board, 1978).

EVA's leaders saw that the wide consensus reached in the late 1970s included a general acceptance of an extensive welfare system. Nevertheless, EVA stressed that a consensus also needed to be reached on the necessity of limiting the growth of the public sector and welfare costs. As a rule of thumb, the size of the public sector should not exceed 40 per cent in relation to the GDP, or difficulties would arise. In addition, the growth rate of the public sector was to be adapted to that of the national economy, at the most. (Tiivola, 1981; Jakobson, n.d.b.)

EVA declared that it just wanted to reform, not dismantle the Finnish welfare state. It was necessary to put an end to the growth of the public sector while simultaneously securing the maintenance of the welfare system. Nevertheless, there was no alternative to the reform; the Finnish welfare system was not threatened by cuts but by failing to make them. (Sipponen, 1985, 1987a; Tiivola, 1985.) The STK accompanied by stressing the need to adapt to the conditions of unsteady economic growth through the retrenchment of welfare spending and benefit levels. Failing to do so would unavoidably lead to a funding crisis, forced measures, and painful cost cuts. (STK executive committee, 1984.)

EVA called for a welfare state reform that followed the 'requirements of the era': welfare services had to become more flexible and efficient, and private enterprises, nongovernmental organisations, and families had to be given a bigger role in their production. Social policy was to be redirected by allocating benefits only to the most disadvantaged, and unnecessary bureaucracy needed to be eliminated and market logic applied to the whole welfare system. (Jakobson, 1981; Pirttimäki, 1985; Sipponen, 1987a, 1987b.) When defining its own demands, the STK cited examples from other West European countries that had already carried out cost-curbing reforms.



Competitors' welfare cuts left Finland no choice but to follow down the same path.

(STK executive committee, 1984.)

Already in the 1970s, the STK had complained that too high a level of welfare entitlements was detrimental to work motivation (STK board, 1978). The next decade, the employers' attitudes toward 'oversized' social security only hardened. The STK suspected that the unemployment benefit system ran the risk of tempting people to choose voluntary unemployment. A potential solution to this problem was suggested by Pekka Herlin, president of the elevator and escalator maker Kone, according to whom unemployment benefit should be paid only for a fixed period, after which the level of the entitlement would quickly decline unless the beneficiary actively sought for employment (STK board, 1986).

In its 'guidelines for social policies in the 1980s', the STK emphasised the importance of measures that would encourage employment and employability, restrict the growth of the public sector and the employers' share in its funding, and reallocate resources from social transfers to the promotion of economic activity and creation of jobs. In the future, the STK wanted to see an increasing share of public spending being allocated from the provision of welfare services to the promotion of business activity, education, and culture. (STK executive committee, 1984.) Similarly, EVA wanted to transform the welfare state to a 'coaching state', whose purpose would be to educate its citizens to cope with increasing international competition. Regarding welfare services, the responsibility of the state would be the provision of only minimum security. The public sector was to be recast as a provider of education and opportunities instead of comprehensive, universal welfare benefits. (Kivelä, 1987; Sipponen, 1987b.)

The tripartite negotiations, in which not only labour market issues but also social policies were settled, in principle gave the STK a useful avenue through which to retask

the Finnish welfare state as outlined by the business organisations. However, in practice, the STK treaded carefully so as not to provoke trade unions and the public opinion (STK board, 1985, 1987). The 1980s were not the most opportune time to advance retrenchment policies. Welfare spending continued to grow throughout the decade, as an economic upturn helped Finland to finalise the building of a Nordic welfare system. (Kuisma and Keskisarja, 2012, p. 258.) In the booming economy, businesses preferred to pay their share of social security contributions than risk losing revenue due to industrial action. This risk was of real concern as the annual number of strikes in Finland remained high until the 1990s (Bergholm, 2018, p. 508).

It is, nonetheless, important to note the business community's unanimity about the necessity for reform of the role and extent of the welfare state. Business's discontent with extensive welfare services and spending is unsurprising in itself: business communities have, after all, grumbled over the unbearable burden caused by social legislation for as long as the labour movement has pushed for social reform – hardly a specifically *neoliberal* cause for complaint, then. Accordingly, these features alone cannot be labelled neoliberal and separated from the *liberal* ideas traditionally advocated by business leaders.

It was precisely the goal of retasking the welfare state that made EVA and the STK's initiatives neoliberal in distinction from classical liberalism: the focus of neoliberal reform is not in dismantling the state, but in repurposing the state into a defender of free markets and a promoter of competitiveness and provider of minimum social security. Accordingly, EVA did not pursue a passive 'night-watchman state', but a strong and active 'coaching state'. This paper thus lends further support for the findings of previous scholarship that place the redefinition of the state and its tasks in the centre of neoliberal reform.

The next section assesses the reception of EVA and the STK's social policy initiatives and their influence on Finnish politics.

### **A neoliberal consensus?**

Finnish public opinion was not favourably disposed to the business circles' demands for a welfare state reform. On the contrary, the Finnish public was – and still is – persistently in favour of an extensive welfare state (Blomberg & Kroll, 2017). Among leading politicians and officials, however, a decisive shift took place in the 1980s. They increasingly turned against the expansion of welfare services and adopted the public sector reform as a guiding idea. (Julkunen, 2001, pp. 60–62, 235–236; Outinen, 2017.)

Judging solely by numbers, the translation of some of EVA and the STK's demands into practical policies has nevertheless failed to hit the mark. While the goal of curtailing public sector growth was, in principle, adopted by the leading political parties already in the 1980s, its size only continued to grow from around 45 per cent in the latter part of the 1980s to over 60 per cent in the early 1990s. A deep economic depression in the early 1990s explains this phenomenal growth: economic activity froze and tax revenue dropped dramatically at the same time as unemployment costs soared, thus, increasing the size of state expenditure in relation to the GDP. (Heikkinen & Tiihonen, 2010, 322–323.)

The early-1990s depression was caused by an 'endemic' economic overheating combined with a downturn in the Western export markets and the collapse of Finland's trade with the dissolving Soviet Union. Finnish industrial production plummeted, the stock market crashed, and apartment prices tumbled. Redundancies, lay-offs, and bankruptcies became commonplace. In the first part of the 1990s, Finnish public debt skyrocketed from 12 to 60 per cent of GDP. (Honkapohja & Koskela, 2014.)

While the circumstances were far from favourable for the employers from the business perspective, it seemed to offer them an opportunity to push through a radical, pro-employer reform in the Finnish industrial relations (Bergholm, 2018, pp. 497–498). At the same time, the dissolution of the Soviet Union gave business the upper hand, politically speaking: the threat of communism, which had been among the employers' main motivations to engage in centralised incomes policy, disappeared once and for all.

The STK drew up a list of demands in 1991 that included a wage freeze for two years and a 5 per cent general wage cut, a reduction or abolition of several employers' social insurance payments, and an increase in annual work hours without salary compensation (STK executive committee, 1991). Not all of the STK's demands were realised but a centralised wage agreement froze wage increases for two years and passed a portion of the employers' social security contributions to the responsibility of employees (Kiander et al., 2011, p. 524). However, during the years of recession, the STK did not force through a thorough reshaping of the industrial relations system. A plausible explanation has been provided by Bergholm (2018, pp. 513, 516), who suggests that employers gave up a radical transformation of industrial relations because the business circles needed the support of trade unions to realise the overarching goal of Finland's EU membership, which was achieved in 1995.

The early-1990s economic depression nonetheless was a major watershed in Finnish welfare state, consensus, and labour market policies. According to Kantola and Kananen (2017) and Sorsa (2017), the Finnish decision-makers discarded the welfare state principle in favour of a competition state idea, which prioritises competitiveness over welfare. The fundamental task of a competition state is to spur production and encourage employment. The purpose of welfare services is to educate skilled workforce, create incentives to work, maintain social peace, and provide only for the least well-off.

All of this is, of course, very much in line with the visions sketched out by the business community already in the 1980s.

The shift from the welfare state to a competition state has not put an end to the growth of the public sector. While the relative growth of the public sector continued, a decisive qualitative shift has, nevertheless, taken place within the continuously large Finnish public sector. Yliaska (2015) has illuminated a reallocation of resources from welfare services to research and development and venture capital within the public sector. This reallocation is a prime example of a ‘new kind of state interventionism’ that is compatible with the neoliberal objective of retasking rather than rolling back the state.

Finnish consensus policy also transformed. Already in the course of the 1980s, the compromise between social reform and competitiveness had begun to fade. The depression of the early 1990s, at the latest, dropped social reform from the content of consensus, and eventually only the competitiveness imperative remained. Finnish consensus lived on in the form of decision-makers’ unanimity on the priority of ‘economic facts’ over political desires. Consensus renders discussions over policy choices unnecessary. (See, Kantola, 2002, pp. 276, 285–286.) In this sense, economic-policy consensus over the competitiveness imperative is a prime example of the neoliberal principle of ‘there is no alternative’.

The transformation of Finnish labour market policies has been more subtle but the trajectory is nevertheless clear. After the 1990s recession, tripartite incomes policy was taken up as a means of fostering economic recovery and solving mass unemployment (Kiander et al., 2011, p. 524). Centralised wage agreements have been concluded up until the 2010s. However, the STK’s successor *Elinkeinoelämän Keskusliitto* (EK, the Confederation of Finnish Industries) decided in 2007 to withdraw

from centralised bargaining. In 2017, the EK announced unilaterally that from then on, all future agreements would be concluded at sectoral or local level.

Despite the decentralising trend in wage bargaining, major economic, social, and labour market policy issues are still taken to the tripartite negotiation table. However, the negotiations no longer concern the expansion of welfare services (as they did prior to the 1990s) but welfare retrenchment, active labour market policies, and the promotion of competitiveness. (See, Kananen, 2017, pp. 31–35; Kiander et al., 2011, p. 528.) The development in Finland once again resonates well with scholarship on neoliberalism. According to political scientists, neoliberalism does not necessarily spell the end of corporatism but only its modification: for instance, tripartite wage agreements have been predicted to disappear and give way to individual bargaining, while the upper-level political process can still remain in essence corporatist. (Savtschenko, 2015, p. 34.)

All in all, Finnish welfare, consensus, and labour market policies have since the 1990s been developed along the lines advocated by business already in the previous decades. Thus, the adopted policies have emphasised the promotion of competitiveness, active labour market measures, retrenchment of social security, and reallocation of public resources from redistribution of welfare to fostering economic growth. However, most scholarship has accredited the change to the early-1990s economic depression, without paying enough attention to earlier developments. (Kananen, 2017; Kantola, 2002; Kantola & Kananen, 2017; Sorsa, 2017.) The argument promoted by this paper is that a decisive shift took place in the 1970s and 1980s, when the business community set to work on retasking the corporatist Finnish welfare state to better correspond with business interests and neoliberal ideas.

The role of EVA was to formulate policy ideas and leave them – in a Friedmanesque fashion – ‘laying around’ until they were accepted as politically inevitable (Friedman, 1962/1982, viii–ix). In the Finnish case, this happened during and after the 1990s economic depression. For its part, the STK translated EVA’s abstract ideas into the language of realisable labour market policies. The strategy of both EVA and the STK was to harness local policy-making traditions and institutions to the advantage of business interests. The strategy called for patience but has yielded, in the long term, favourable outcomes without risking social peace or provoking loud protests.

Smolander (2001) has earlier noted the apparent paradox that in Finland neoliberal policies have been advanced in the framework of political consensus and corporatist decision-making. However, this paradox disappears when we look at consensus and corporatism as instruments for the Finnish business community for pushing through neoliberal policies (see, Sipponen, 1986; Tiivola, 1984). The strategy seems to exemplify *embedded neoliberalism* as proposed by Ban (2016): embedded neoliberalism seeks to ensure market credibility and competitiveness while at the same time using the (welfare) state as a buffer against social problems inflicted by increased market competition.

EVA utilised consensus to prioritise free markets and international competitiveness against state-led economic regulation and expansion of welfare services. Similarly, the STK gradually foisted a reform of social and labour market policies into the agenda of tripartite negotiations. Instead of outright demolition, the outcome has been the redefinition, retasking, and incremental neoliberal transformation of the corporatist Finnish welfare state from a provider of welfare to a promoter of competitiveness, productivity, and employment.

## **Conclusions**

This paper has presented an empirical examination of the advent of neoliberalism in Finland, a Nordic welfare state with strong corporatist traditions. The paper has argued that the Finnish business community adopted neoliberal ideas and policies, such as economic deregulation, welfare retrenchment, and active labour market policies. It is hardly surprising in itself that the Finnish business community – studied here through the lens of a free market think-tank EVA and the employers' association STK – pursued policies that corresponded with neoliberal ideas. The novelty of the Finnish case lies in that EVA and the STK were able to advance these goals with seemingly non-neoliberal means, i.e. an economic policy consensus and tripartite corporatist arrangements. Thus, EVA used consensus to prioritise international competitiveness over economic regulation and social redistribution, while the STK was able to advance active social and labour market policies at the tripartite negotiation table.

The downside of this strategy is that incremental change is slow and thus requires patience. Accordingly, the fruits of EVA and the STK's 1970s and 1980s initiatives only ripened during and after the 1990s, when a deep economic depression induced a change of course in the Finnish welfare policies from expansion to retrenchment. As judged by social scientists, the main goal of Finnish welfare policies has shifted from the 1990s onwards from the generation and provision of welfare to the encouragement of competitiveness, productivity, and employment – a direction envisioned by the business community already in the previous decades. Compared with a more aggressive approach, the advantage is that incremental transition is more subtle and thus provokes less social debate or protest, thereby helping to maintain social peace and stability.

From a methodological point of view, incremental change makes it particularly difficult to pin down the exact influence of EVA and the STK on the transformation that



has taken place. Dür (2008, 2018) has proposed methods for measuring interest group influence on individual policy processes, and their application and assessment presents an important task for future research. Challenging as it is to prove the influence of business interest associations on single legislative projects, it is even more difficult to discern such an influence on a more gradual process such as the incremental transition examined in this paper.

Referring to earlier think tank research, it is important to note that the ideas brought forth by EVA (and the STK) were embraced, rather than rejected, which can be interpreted as an attestation of their success (McGann, 2007, p. 44; Rich, 2004, p. 153). Moreover, the significance of the groundwork done by business pre-1990s should not be underestimated. After all, policy ideas and initiatives do come from somewhere, and they have to be put forth by someone before they can be taken up and realised by decision-makers. In the Finnish case presented in this paper, it was the think tank EVA that envisaged ways in which the Finnish welfare state could be developed in a more market-friendly and less statist direction. The STK moulded high-level concepts into practical labour market and social policy measures through participation in tripartite cooperation.

Both EVA and the STK pursued goals that can be characterised as neoliberal: economic deregulation, tax cuts, prioritisation of competitiveness, reallocation of public spending, introduction of privatised and/or means-tested social services, and active social and labour market policies. What makes these pursuits *neoliberal* is the central role that business gave to the state in their realisation. Instead of dismantling the state, neoliberalism retasks the state – or, in the Finnish case, the corporatist welfare state. Both EVA and the STK were able to utilise and redefine consensus and corporatism to suit their own ends and, accordingly, had no reason to do away with them. The end

result was the outline of an economic-policy consensus and of the reform and redefinition, not demolition of the corporatist Finnish welfare state. (See, Menz, 2017, pp. 133–135.)

Scholars have sometimes wondered how and why corporatist structures have been so resilient, despite radical changes in the political climate over the past few decades (e.g. Traxler, 2010). This paper points to the perhaps surprising compatibility of consensus and corporatism with neoliberal policies. The Finnish case presented here serves to show that business circles have benefited from corporatist arrangements and consensus policies, even though their participation was initially dictated by necessity in the leftist-oriented political climate of the 1970s. Over the course of the 1980s and increasingly so from the 1990s onwards, however, business has been able to reformulate the content of both corporatist agreements and consensus in a neoliberal manner.

The main contribution of this paper is to the debate over whether business may genuinely support corporatist institutions and social democratic welfare systems, or if business instead rallies behind a neoliberal assault on them. Based on the findings of this paper, the answer would be both: the Finnish business community advanced neoliberal policies precisely by utilising – and, thus, implicitly, supporting – the Finnish welfare state and its consensual, corporatist policy-making traditions. The support did not necessarily stem from commitment to consensus and corporatism as values per se but, rather, from their usefulness as avenues for advancing the interests of business. This answer may be unsatisfactory to theorists on either side of the debate but it is, nonetheless, the most faithful to historical empirics.

This article has supported the claims of previous scholarship that there is considerable variation in the ways in which different countries have implemented neoliberal policies. There are also various paths toward neoliberal reform. However,

there is no reason to assume that the Finnish example presented here would be unique: the curious combination of corporatism, consensus, and neoliberalism may well have occurred elsewhere, too. It would thus be worthwhile in future research to examine whether the Finnish case resonates with other national settings.

Similar questions about the role of business in advancing or opposing policy ideas and practices can and should be applied to other eras and ideologies as well. Business historians should increasingly widen the scope of their attention from the economic realm to those of politics and ideologies, including the interaction between these distinct but overlapping spheres (see, Yeşilbağ, 2016). Even if the sphere of ideas may feel too opaque and vague to study, it cannot be ignored if we want to be able to say something about the social and political role of business in the world today. When it comes to neoliberalism, doing so would allow business historians to earn their place along the more social-scientific researchers by providing precisely the historical perspective and empirical evidence that the latter have called for. Furthermore, this line of inquiry would provide one possible answer to the challenge posed by the leading business historians for their colleagues to take up ‘big questions’ that have widespread, even global, significance and are of interest to both politicians and the general public alike.

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