

## Roadmap to Finland's Future Success

***We all agree on the facts: Globalisation is reshaping the framework of the Finnish society. So is the ageing of our population. Mass unemployment has become chronic, applying to even younger age groups. These phenomena are not going anywhere – still action is not taken. This EVA report underlines, once more, Finland's challenges and presents a roadmap for the country's future success. The reports emphasizes that there is a solid ground to build on: Finland possesses numerous strengths and assets that must be utilised to the fullest.***

In the summer of 2003, the Finnish Business and Policy Forum (EVA) decided to launch a major project aimed at mapping out the elements and prerequisites of Finland's future success. The objective was to identify the factors affecting change in Finland as well as give policy recommendations on how the society's different sectors should react and adjust to these developments. The year 2004 brought us several national reports with a similar, ambitious goal. The discussion was further enriched by research results published by the OECD and WEF.

### **BUSINESS LEADERS: "A BENUMBED ATMOSPHERE"**

EVA's task was to look beyond the consensus and examine the situation from the business community's perspective. The report's author, editor-in-chief **Tapani Ruokanen** asked 57 top Finnish executives to assess where Finland is now, where it should be in ten years, and what needs to be done to attain this target. The interviewees had a surprisingly uniform interpretation of Finland's current situation. Two thirds were of the opinion that Finland no longer is a global top performer. The decline in competitiveness was attributed to a botched tax reform, a very inefficient local government (that accounts for two thirds of the size of Finland's public sector), resistance to change, rigid labour markets and lack of leadership.



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Business leaders expressed a deep concern about the complacent, glazed atmosphere prevailing in the Finnish society. The ICT sector's triumphs or Finland's high placements in international rankings do not guarantee success in the future. Many feared an unfortunate scenario: Finnish enterprises succeeding – but Finland lagging behind.

### **UNEMPLOYMENT STILL A PROBLEM**

The report singles out three phenomena that will affect Finland's future the most: globalisation, demographic developments and unemployment. Ten years have passed since the economic depression, but Finland's unemployment rate has settled at an intolerably high level. Depending on the method of calculation, 250 000-400 000 Finns are without a job. Even in a European comparison, Finland has some of the highest rates of long-term and youth unemployment. There are even indications of a vicious circle where unemployment is passed on to following generations.

In addition to being a social and economic disaster, mass unemployment is a tragedy at the individual level. The report argues that a person fit for work being cast aside from work-

ing life is an insult, not only to the unemployed, but also to the taxpayer supporting him or her. The welfare system must be altered so that it provides help to those truly in need and prevents exploitation as efficiently as possible.

Finnish working life also faces another challenge: a low level of entrepreneurship. It can be described as a historical tradition fuelled by a deeply rooted anti-risk (and envious) mindset. This problem will soon aggravate dramatically: 90 000 out of 215 000 entrepreneurs will retire in the next 15 years. Many of them do not have a successor.

### **FINLAND HAS WHAT IT TAKES**

Despite the challenges, nearly all interviewees agreed that Finland also has great potential on many dimensions. Assets such as society's security and stability, a high-level educational system, top expertise in numerous fields as well as fantastic nature are of national value but also comprise international competitive advantages.

The report draws a vision for Finland's future as a *Global Top Performer* that bases its success on these strengths. For individuals it signifies an encouraging *Society of Opportunities*, for enterprises it represents a competitive *Forerunner Society*. Implementing this vision requires actions that adjust Finland to the reshaped environment.

### **INCENTIVES FOR SUCCESS**

EVA presents a number of policy recommendations for different sectors of the Finnish society. In order to sustain a well-functioning welfare society, Finland must become a more attractive environment for working in, for company operations as well as for ownership. Taxation is one of the key tools in reaching this goal. The maximum income tax rate should not exceed 50 per cent. Consumer purchasing power has to be increased through tax relief: all housework services should be tax-deductible in higher amounts for private citizens.

Substantial changes are also needed at the municipal sector, where many of the structures and practices are hopelessly outdated. Local services need to be developed with the help of the private sector. Also, the retirement of baby boomers must be seen as an opportunity to build a lighter, better functioning and more flexible public sector.

Universities must be given real academic *and* economic autonomy. The primary academic degree must remain free of charge, after which students should participate in paying for tuition. Graduating quickly should be rewarded generously.

We must also try to amend the anti-entrepreneurial atmosphere: the report suggests creating a Feenix-award handed to an honest entrepreneur that has best recovered from bankruptcy. A significant obstacle to entrepreneurship is the threat of losing one's home in case of financial challenges. This barrier could be eliminated by protecting at least part of the value of the entrepreneur's home from the creditor.

### **LEADERS ARE TO LEAD**

According to the report, the success of our society comes down to strong leadership. In politics it is necessary to return to authentic democracy. This means that leaders, elected by citizens, are courageous enough to make decisions, justify them and assume responsibility for them. At the private sector, the challenge of leadership is in endorsing and maintaining the well-being and healthy work-life balance of employees.

Throughout history Finns have sobered up in times of crisis. This EVA Report argues that we should not continue waiting for an upcoming crisis, but should take action immediately. Change is not an enemy; it is a valuable opportunity for renewal and development.

**EXCERPTS FROM THE INTERVIEWS:**

“In a Society of Opportunities, all have the same possibilities but one must reach and grab for them.”

“Finland is an ideal test market for new products: small area, geographically isolated, early adapter.”

“Tourism is the world’s largest industry. We have a unique opportunity for developing it: a clean space. Its value just keeps on growing.”

“On a Finnish university campus students discuss the study grant system – at MIT students talk about the businesses they are planning to start.”

“In medical services 70% of costs are caused by waiting in line and 30% from the operation itself. Fifteen years ago this was the situation in industry. Well, it isn’t anymore.”

“Our demography is changing. Why must all old resources be sustained, when needs change?”

The report is available for download from [www.eva.fi](http://www.eva.fi). A paper version can also be ordered from EVA by sending a request to [sirkku.suominen@eva.fi](mailto:sirkku.suominen@eva.fi).

The project was steered by an Organising Committee chaired by **Antti Herlin** (Kone Corporation). The committee members included **Matti Alahuhta** (Nokia), **Georg Ehrnrooth** (EVA), **Olli Ernvall** (Technical Research Centre of Finland VTT), **Kari Jordan** (Nordea), **Johannes Koroma** (Confederation of Finnish Industry and Employers TT), **Erkki KM Leppävuori** (Technical Research Centre of Finland VTT), **Risto Perttunen** (McKinsey), **Veli-Pekka Saarnivaara** (National Technology Agency of Finland Tekes), **Aino Sallinen** (Jyväskylä University) and **Pentti Vartia** (EVA/ETLA).