

# The Politics of Innovation in Nordic Europe

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## Nordic Europe: A Long History of “Big Leaps”

- From subsistence agriculture to resource extraction (fish, forestry, mining)
- From resource extraction to heavy industry (transportation equipment, machinery)
- From heavy industry to high tech competition (mobile communications)
- From high tech manufacturing into knowledge-intensive services (software, financial services)

## Nordic Dynamism: No Easy Explanation

- **Liberalism (Steinbock)?** But Finland and Iceland flourished under heavily regulated, statist regimes
- **Statism (Kristensen and Lilja)?** Sweden and Finland were extremely laissez-faire before World War I
- **Organized labor (Korpi)?** What about historically weak Finnish trade unions and Icelandic social democracy?
- **Employer coordination (Hall and Soskice)?** But coordination varies and doesn't predict "big leaps"

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## My Answer: Cohesive, Encompassing Networks

- Actors are connected within both formal "neo-corporatist" associations (Katzenstein 1985; Ornston 2012) and informal relationships (Campbell and Hall 2017; Rehn 1996)
- Networks are "encompassing" in that they transcend socio-economic, industrial, sectoral and regional cleavages (unlike Central Europe)
- Networks are "cohesive" in that they are characterized by trust and cooperation is relatively easy to establish (unlike Southern Europe)

## Cooperation and Economic Change

- Critics argue that cohesive, encompassing networks block political reform (Manow and Seils 2000) and delay restructuring (Eichengreen 2007; Kern 1998)
- Proponents agree, emphasizing institutional continuity (Cusack et al 2007) and incremental upmarket movement (Hall and Soskice 2001; Katzenstein 1985)
- Why such radical reform and rapid restructuring in Nordic Europe?

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## Reconceptualizing Cooperation

- **Politics of persuasion:** New ideas diffuse rapidly within tightknit social circles via persuasion and emulation (the “Bjorn Borg effect”)
- **Politics of compensation:** Easier to identify and compensate losers of reform and restructuring in a tightknit society (e.g. PM David Oddsson’s deal with Icelandic trade unions: Market reform for social benefits)
- **Politics of Coordination:** Can reform multiple policies simultaneously and enlist the support of private sector actors (e.g. postwar Swedish economic policy, which systematically favored large, capital-intensive firms)

## Finland: From Pulp & Paper to High Tech Leader

	1980	2000
High tech manufactured exports / total exports	3.6%	27.3%
Gross expenditure on R&D / GDP	1.16%	3.25%
Early stage venture capital investment / GDP	0.009%*	0.103%

\*1991

## From Paper to Phones: No Easy Answers

- **State size (Lundvall 2002)?** But Finland is a small state, five million people
- **Geopolitics (Taylor 2004)?** But Finland has a small military, no ties to military superpowers
- **Established industries (Dalum 1992)?** But Finland was producing paper, not telephones
- **Stable niches (Casper et al 2004)?** But Finland is competed in unstable areas (mobile handsets, middleware)
- **Cartels to competition (Steinbock 1999)?** Yes, but we observe a lot of cooperation as well

## Politics of Persuasion

- Sitra, a public think tank, educated Finnish elites about the importance of innovation in a series of courses on foreign and economic policy
- Entrepreneurs, such as Kari Kairamo, used industry associations and informal roundtables to persuade colleagues that R&D was an investment, not a cost

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## Politics of Persuasion

This is very typical in Finland in that it's a consensus society ... In the 1980s, the labor unions and government understood that we can no longer remain an exporter of more or less commodities ... There was broad consensus on the need for this shift. All sectors, even the construction industry, liked this

--Former forestry executive



## Politics of Compensation

- During the 1980s, heavy public (and private) investments in R&D were paired with more generous social safety nets
- In the 1990s, agreed to increase public (and private) investment in R&D, even as social benefits were cut, with the understanding that labor market reform was off limits

## Politics of Compensation

[During the recession] we were able to make decisions that normal Western societies can only dream of. [Some] public expenditures were cut by 25%. You can imagine what that means if you think of any normal Western democracy. [Cutting] 25% of public expenditure, it's quite a hard thing. But at the same time the government decided to increase R&D expenditure

--Former member, Science and  
Technology Policy Council

## Politics of Coordination

- Consensus enabled Finland to redirect *all* economic policies toward the maximization of R&D (industrial policy, research policy, venture capital, education, immigration ...).
- Nokia was also able to coordinate Finnish society, converting sewing machine and toothpaste cap manufacturers into high tech component suppliers

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## Finland Is Not Unique (Other Case Studies)

- From social protection to skill formation: High tech competition in Denmark (Ornston 2012)
- The politics of planning and heavy industry in postwar Sweden (Ornston 2018)
- From banking on fishy to fishy banks: Financial liberalization in Iceland (Ornston 2018)
- Ireland: Using informal networks to maximize FDI (Ornston 2012; 2018)

## 1. Lessons for Large Countries?

- Few parallels with federal politics in large countries such as Canada and the United States. Societies are too fragmented, polarized
- But smaller communities can and have leveraged the "politics of interconnectedness," e.g. San Diego (Walshok and Shragge 2014) and Waterloo, Ontario (Ornston 2016)

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## 2. The Importance of Economic Openness

- Tight-knit networks only work when subject to rigorous economic competition. Nordic success based on social cohesion *plus* economic openness (see Torben M. Andersen et al 2007 on the Nordic model)

### 3. Good Governance Gone Bad

- International markets punish societies for misallocating resources in bad times, but don't necessarily diagnose problems in good times
- Dynamic power of cohesive, encompassing networks can lead to policy overshooting, overinvestment and devastating economic crises



I recently [researched] what we know about the economic effects of company-provided training. I could not refer to even one Finnish study, because there are none

--Interview with economist

Marketing is our biggest problem. We are not capable of selling anything. We should hire people from Denmark. That is what I learned when I was studying ... I studied marketing and I never marketed anything anywhere!

--Interview with marketing major

## Overshooting Is Not Just a Finnish Problem

- Swedish dependence on heavy industry and growth slowdown of the 1980s
- Swedish banking crisis of the early 1990s
- Swedish dot com bubble of the late 1990s
- Icelandic collapse of the fishing stocks in the 1980s
- Icelandic financial meltdown in mid 2000s
- Danish housing bubble in mid 2000s
- ...