Economic Prosperity Recaptured

The Finnish Path from Crisis to Rapid Growth

Seppo Honkapohja, Erkki A. Koskela, Willi Leibfritz, and Roope Uusitalo
Preface

Many countries have experienced major economic changes in the period since the mid-1980s as a result of liberalization and deregulation—the two key aspects of the ongoing processes of globalization. For individual countries, the formulation and conduct of economic policies have played a major role in the ups and downs of the national economies during the resulting adjustment processes. Many countries have gone through periods of crisis and success as a result of both bad and good economic policies. In this book we focus on the case of Finland, a small country of some five million people. In recent years, Finland has been hailed as a great success story and as a role model for other countries.

The story of Finland is in fact quite complex and provides an excellent example of both successful and unsuccessful economic policies in response to changing circumstances. Deregulation of the financial system and macroeconomic policies have played a big part in the boom-bust cycle of the Finnish economy. We will analyze the initial periods of overheating in the second half of the 1980s and the deep crisis in the first half of the 1990s as reactions to financial deregulation, misguided economic policies, and negative international shocks. Macroeconomic policies were redirected during the crisis, which helped to turn the economy around from decline to growth. Since the mid-1990s economic growth has been quite rapid. This has to a large extent resulted from a rapid structural transformation of Finland into a high tech economy. Business skills and luck have played key roles in the transformation, but well-designed economic policies have also contributed to the success story of Finland since the mid-1990s.

This book is aimed at a wider audience than just those with a special interest in Finland. We compare experiences of Finland to those of other countries at various stages of the analysis. In this way we hope
the book will provide some useful lessons regarding economic management and policies for other countries amidst the processes of globalization.

This book has its origins in a study of the Finnish crisis by Seppo Honkapohja and Erkki Koskela, which appeared in *Economic Policy* in 1999. That study has been updated and expanded in various directions, especially as regards the period of rapid growth since the mid-1990s and through more extensive international comparisons. The two other authors, Willi Leibfritz and Roope Uusitalo, have made major contributions in particular to these parts of the book.

The book has to a significant extent been written in the Research Unit on Economic Structures and Growth (RUESG) at the University of Helsinki, directed jointly by Honkapohja and Koskela until 2004 and by Koskela thereafter. Honkapohja acknowledges the hospitality of RUESG from 2004 onward after his move first to the University of Cambridge and then to the Bank of Finland at the beginning of 2008. The views expressed in the book are those of the authors and not of the Bank of Finland.

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