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<td>Rapporten dokumenter at dereguleringen av den norske og finske økonomien først og fremst handlet om politikk og politiske prosesser, og i liten grad begrunnet i økonomisk teori. Heller ikke neoliberal filosofi slik vi kjenner den fra USA og Storbritannia spilte noen stor rolle i de to landene. Istedet handlet det om forestillingen om, og fremveksten av, en ny type velferdsstat med behov for en moralsk legitimering av autonomi.</td>
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<td>The report documents that the deregulation of the Norwegian and Finnish economy primarily was about politics and political processes, and to a much lesser extent about justifications rooted in economic theory. Nor neoliberal philosophy as we know it from the US and Britain played a major role in the two countries. Instead, it was about the notion, and the emergence of, a new kind of welfare state in need of a moral legitimization of autonomy.</td>
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Pekka Sulkunen:

What is Neo-liberalism? Justifications of deregulating financial markets in Norway and Finland.

Second, Revised Edition
CHAPTER 1
FINANCIALIZATION AND NEOLIBERAL IDEOLOGY

Introduction

Neo-liberalism is commonly understood as a political doctrine that recommends the free market to replace state involvement in the economy and in societal welfare regimes. As the political and ideological aspect of financialization (Poppe 2011) it is associated with a tide of “conservative” governments that were in power in the 1980s, notably those led by Ronald Reagan in the USA and Margaret Thatcher in the UK, but also occurring in several Western European countries including Norway’s Kåre Willoch, Denmark’s Poul Schlüter and Finland’s Harri Holkeri. Quotation marks around “conservative” are necessary, because in many ways these governments represented change, even radical change to the state-driven modernization process that dominated Western and especially Western European countries since the Second World War, whereas it is difficult to say what these governments were about to conserve. In their views individual freedom, self-responsibility and the right to choose one’s way of life without state paternalism, were the dominant values, not traditionalism or moral prudence.

These governments played an important role in the first phase of deregulating the financial markets and the banking system, but they started many other processes to roll back the capitalist states’ traditional role in infrastructure and public service provision, consumer protection, education, lifestyle regulation such as alcohol policy, and regulation of business practices. Furthermore, they introduced market principles within the public sector itself, in a wave of reforms that came to be called New Public Management. Many of the consequences are visible today, but surely not attributable to non-socialist governments alone, as many of them were short-lived and soon replaced by much more state-friendly labour or social-democratic leadership. The direction of the change in the public sector and its role in the capitalist economy has continued almost irrespective of the political coalitions in power.

The persistence and similarities of the transformations can be understood in two possible ways. First, it may be thought that external factors related to the structure of world capitalism force governments to streamline national economic and public sector structures to face competition between national economies and the power of transnational corporations. Secondly, neo-liberalism – or whatever other names may be used in its place, such as advanced liberalism (Rose 1999) - can be thought of as a kind of ideological mega-trend that favours the market over the state, echoing Karl Polanyi’s visions of the long transformations in the two and a half centuries of Western industrial capitalism.

At a closer look, both of these views appear uncomfortably circular. They amount to little more than giving a name to what happens. To explain it we need to
account for the factors that make market-based practices understandable and acceptable to the public, either as an alternative to state involvement or as a mode of governance within the public sector itself. In this study I am solving the circularity of explaining market deregulation by market-friendly ideology at the very heart of the issue: deregulation of the financial markets in its initial phase in two very similar small countries, Norway and Finland, by non-socialist governments led by Høyre and Kokoomus-Samlingspartiet respectively in the 1980s. Neither of these governments invented the idea of free financial markets, nor were they very successful in implementing the change. In Finland the very first legislative reforms leading to financial deregulation were introduced by a Government led by Social Democrats with Kalevi Sorsa as Prime Minister (1983-1987). As will be shown below, this early phase aroused little political debate if at all, and political discussions on deregulation arose only later under the Holkeri Government and the banking crisis that followed in the 1990s.

In the literature on the subject the theoretical and moral arguments by market-friendly thinkers such as Friedrich von Hayek and Milton Friedman are accorded a central place (e.g. Ilmonen 2011: 10-30; Mjøset 2011; Polanyi-Levit 2013: 23-53), but it is unclear to what extent political action actually was guided by such ideologies. Obviously, Nordic politicians were influenced by international political rhetoric, but they seldom made reference to authorities, as is to be expected of top political leaders. And they only started the process, to be continued by later governments either of the same persuasion or by governments of other types of parties. Therefore it is not clear how important their neoliberalism actually was for what they did. But they were indeed voted in on the platform of deregulation and fight against bureaucracy, both in the economy and in the public sector as a whole.

The question is, to what extent did neoliberal theory actually guide the politicians’ justifications of actions that resulted in the most radical change not only in the economy but also in the mode of governance as a whole since the Second World War.

Greta R. Krippner (2012) has argued that the neoliberal turn in American economic policy during the 1970s and 1980s was political rather than economic. It was politicians’ reaction to the social crisis of distributional issues, and to the fiscal and legitimation crisis of the state. In this study I shall show that although the Nordic countries are of course very different from the USA, the difficulties that their politicians faced were similar, and conservative politicians in both countries were strongly committed to the Atlantic side of the Cold War then approaching its end. The question is to what extent their policy justification actually was based on systematic social theory of the neoliberals, or on Reagan’s and Thatcher’s influence. Very little, is the answer. After the irreversible legislative steps were taken, non-socialist governments continued the process in Finland, but as in Norway, leading labour politicians were actually quite as anxious to continue the deregulation of the credit market, however strongly they felt about the hardships that followed in the form of the fiscal and banking crises only a few years later.
My analytical approach is based on the theory of justification (Boltanski and Thevenot 1991). Any society must have some mutually shared principles to justify the social order. These principles do not necessarily make inequalities in power, wealth and welfare acceptable, but with them they are at least understood and can be negotiated. The logic of the reforms of the neoliberal turn was an example of what I have earlier called “critical awareness of the present”, which is constituted by much more abstract principles of justification than elaborated theories of the economy, the state and the social. (Sulkunen 2009: 9).

The key to this awareness was the maturation of the principle of agency, especially autonomy of individuals, business firms, states, and politicians themselves, as the fundamental justification of the modern social order. All political movements, most of all leading politicians, both left and right, were in agreement about this fundamental principle. Where they differed was their critiques of the incompleteness of this principle: its causes, forms and the fairness of how it inflicts different parties of social co-operation. Agency as a principle of justification in modern society is nothing new. It is the cornerstone of all modern social theory since the Enlightenment. But in “the three golden decades” of vibrant economic growth, technological, social and cultural change, expectations of universal autonomy were higher than ever. This, I submit, is the reason why the social, fiscal and legitimacy crises demanded a solution with unprecedented force.

My data consists of autobiographies and biographies of top politicians who were in office during the period of deregulating the financial market. My focus is on the right-wingers Willoch and Holkeri, but for control I also analyse the views of Gunnar Berge, Mauno Koivisto, and Kalevi Sorsa. Sorsa was prime minister of the red-green (green then referred to the previously agricultural or rural party, now renamed as Centre) when the first, and, what proved to be key legislation, was passed in Finland to allow deregulation of the financial and monetary market a few years later when Holkeri’s blue-red government took over (Sulkunen and Kotanen, forthcoming). Berge was a prominent labour politician who served as Finance Minister in Gro Harlem Brundtland’s (Norwegian social-democratic labour party) cabinet after Willoch’s government 1986-1989. Koivisto was a labour politician who was a long-time senior official in the Bank of Finland before his two terms as President 1982-1994. Additional light to the fiscal reform is shed by the autobiography of Rolf Kullberg, the Governor of the Bank of Finland in 1983-1991.

**Theory of justification and the politics of financialization**

The neoliberal turn can be conceptualised in various ways depending on what specific aspect of it is under the loop. The term neoliberalism itself puts emphasis on ideological aspects; deregulation draws attention to economic and social policy. Financialization is a broad term to describe what happened when the credit and monetary market grew and was globalised. Financialization itself can be looked at from different complementary perspectives. Krippner (2012: 27-28) defines it as growing importance of financial activities as a source of profits in the economy. Alternative, and somewhat narrower meanings of the
term refer to the growing importance of “shareholder value” in corporate governance, or to the economic power of the international rentier class. Poppe and Kjaernes (2011) add to these macro-economic approaches the increasing dependency of social activities on investments and loans at all levels of society, including the public sector and households alike, as well as business firms.

Three types of sources of this development have been suggested. The first, and now prominent one in the literature, is the claim that the mechanisms that generate financial growth are endogenous to the financial markets themselves. Expectations that the prices of equities and real estate will grow, generate demand, which will raise the prices even higher, as well as induce innovations to increase their quantity. As a result, financial crises will regularly occur as the bubbles thus created will inevitably explode at some point. A second explanation refers to the changing structure of capitalist corporations, which is condensed in the “portfolio theory of the firm”. Big size involves big risks that must be diversified into different branches of production, and much of the profit earned depends on the skilful management of such portfolios disregarding the quality of the products. A third suggestion is macro-structural theory of capitalism, either based on ideas related to long waves of the Kondratjev-type, or theories of monopolistic competition of the Baran and Sweezy (1966) tradition. Financialization follows, in the first case, from a cyclical incapacity of the world capitalist economy to absorb its surplus value in increased production, and in the second case from lack of incentives for monopolistic firms to increase material production for fear of loss in prices and profits. (Krippner 2012: 3-16)

Whatever the source of financialization, in the circumstances of the period of about 1970-1990, it did require state action to allow financial operations without regulation that earlier was exercised by national central banks and finance ministries, supported by legislation and implemented by a decreasingly efficient control mechanism. Krippner argues that politicians did not intentionally cause the financialization spiral; they felt these measures to be necessary as a response of a triple crisis that occurred towards the end of the 1970: the social crisis, the fiscal crisis and the legitimation crisis. The first refers to heightened distributional claims at the face of social conflicts. The period saw a massive wave of strikes and protests everywhere in the Western world, as Boltanski and Chiapello have shown (2005). The second refers to the consequent increase in public social and infrastructure expenditures (e.g. O’Connor 1973), and the third to the fading confidence in the capitalist state in general (Habermas 1973; Offe 1976).

The gist of these crises was the “steady expansion of the state’s role in managing the economy over the post-war period, which led to the illusion that economic events were redefined as the product of state actions rather than the blind operation of the market”, as Offe (1984) had observed (Krippner 2012: 219). As a result, economic conflicts were highly politicized. The direction and management of the economy fell in the hands of unwilling and incompetent political classes, and the blame for every hardship, be it inflation, high interest rates, scarcity of capital, unemployment or state budget deficits, fell on them. The response was, according to Krippner, a growing willingness to shed off this responsibility to the market: enterprises, financial institutions, and consumers.
Krippner's analysis is very convincing and also bears out in the Nordic cases studied here. However, it leaves open two questions: why were these solutions (and I wish to emphasise that they were not limited to deregulating the financial market but cut across a wide field of policies on infrastructure, lifestyle regulation, and health and social policies) acceptable, despite strong and well organised resistance of the extensive public sector and other parts of society that were dependent on the state? And why then, not earlier? These are particularly important questions in the Nordic countries with a well-developed welfare state.

According to the theory of justification (Boltanski and Thevenot 1991), societies must have answers to three types of questions to maintain justifiable social order. First, who are entitled to belong, and what are the principles of differentiation? Second, what are the principles of dignity and human worth? Third, what is the sense of the common good? Different societies have different types of answers to these questions. In theocratic societies, belonging to the faithful is important, and closeness to god is a measure of dignity and worth. Secular societies define the limits of belonging and worth differently. Different regimes of justification can be distinguished on this basis.

Answers to such questions are articulated in different types of discourses, including political rhetoric. The answers are not usually consensual; there are disputes over the fairness of belonging and differentiation, and principles of dignity and worth are often contradictory. Debates over the common good are daily business of politicians, although the justifying principle is the same.

I have argued earlier (Sulkunen 2009), following Hobsbawm (1990), that the nation was the framework of the social bond in modern industrial societies of the late nineteenth and early twentieth centuries. To belong to a society one had to be a citizen of a nation state; one could not be just "someone". The principles of differentiation that define the internal structure of modern society have been and still are the object of class theory. The principles of dignity and human worth have undoubtedly been associated with freedoms and the well-being of individuals, measured by their degree of autonomy and right to intimacy, including physical and psychological integrity and satisfaction (Honneth 2004). Thirdly, the common good has been widely understood in terms of progress in these principles of nationhood and individual freedom since the late eighteenth century until the break-through of consumer capitalism.

It is a great paradox that modern societies in the early twentieth century stressed individuality and self-control but turned to state-centered solutions in producing them. Furthermore, while the goal of the modern nation state has been the civilizing process and democracy, the state itself has been normative and authoritarian. Its efforts to establish self-control as the norm have employed the disciplinary techniques of the school, the army and penitentiary institutions to educate and keep individuals in line. Credit control was one aspect of this discipline. Progress involved more production and investments, not immediate consumption. Work, prudence and frugality were part of the progressive ethos, which in many ways was tangled with the idea of the nation. The national interest was exceptionally important in the small countries Norway and Finland that had gained political independence only a few decades before the end of the
Second World War, at the beginning of the twentieth century. On the other hand, loyalty to national elites was to be gained only through sufficient guarantees of universal citizenship, rule of law and a transparent political system (Slagstad 1998; Stenius 2012).

As also Krippner (2012: 17) points out, it was during the 1970s, with the coming of age of the postwar generation, when citizens of nations started to make claims to resources that their parent generation could barely dream of but which now seemed to be within reach. And more, the claims were extended to individual autonomy and intimacy in consumption, sexuality and the private family, in a way that Colin Campbell (1987) called the Romantic ethic of consumerism.

This was the context of political actions to deregulate the financial market, and consequently the rapid growth of financialization in all of its four facets outlined above. One would expect that politicians, especially in retrospect, would give fairly simple and straightforward justifications to decisions with such historical dimensions. And what were their arguments? As said, almost none in explicit terms. To understand the logic of their actions, one must not only read between the lines, but also look elsewhere, to actions that were parallel and simultaneous, and possibly easier to deal with on the political scene.
Political context and the Willoch governments

The decisive steps in the deregulation process were taken during the non-socialist governments led by Kåre Willoch 1981-1986. These governments broke a long-standing political tradition. Norwegian politics in the post-war period had been dominated by the labour party (Arbeiderpartiet) on the one hand, and on the other hand characterised by a very fragmented political right and centre. It is easy to categorize the left as a traditional Keynesian welfare state party, oriented towards labour issues such as income equality, collective bargaining, extended public services and social security, and anti-cyclic fiscal policy (Mjøset and Cappelen 2011). As in other Nordic countries, Arbeiderpartiet has been pulled further towards “working class politics” by the socialist left party (Socialistisk Venstre) but socialism as an alternative to capitalism or market-based economy has gradually withered away from its ideals.

In contrast, the political centre and right is perhaps exceptionally difficult to characterise, being composed of the traditional nationalistic Høyre, the Christian People’s Party (Kristelig Folkeparti), the mainly rural or agrarian centre (Senterpartiet), and the Progress Party (Fremskrittspartiet), the latter representing what is sometimes called populist extreme right, with an anti-immigration and isolationist agenda combined with moral suspicion of the state as well as of large corporations and other bureaucracies. Calling these parties “conservative” would be misleading, given that the short period of their rule, 1981-1986, has actually been a moment of radical change, although the Christian Party and the Centre Party also have represented the traditional middle class and rural codes of frugality and sobriety in moral issues such as sexuality, alcohol use and other worldly matters. Market liberalism and low taxation have been strong in Høyre’s and Fremskrittspartiet’s agenda, but on the other hand the state has been important also for them, and even more for the Senterpartiet, whose constituency, occupied largely in agriculture, mining, fishing and other rural activities, has depended on state subsidies and other ways of state involvement in the economy, education and regional policies.

After some reflexions, one of the most prominent Høyre politicians ever, Kåre Willoch, Prime minister 1981-1986, decided to define his political line as bourgeois (borgerlige) rather than conservative (Willoch 1988: 195). It is difficult to judge how justified this terminology actually is. Høyre’s NATO-oriented cold-war nationalism suggests an affiliation to the educated old middle classes that Ernst Gellner (1983) called “ruritarians”, the non-socialist nation-builders of small, mainly rural countries in the late nineteenth and early twentieth century. As in other small freshly independent countries, the ruritarians were allied with the local bourgeoisie, and in that sense the terminology applies. However, at the moment when this type of parties experienced a world-wide boom in the 1980s, their main supporters consisted...
mainly of wage-earners, not capitalists or even owners of small and middle-sized enterprises, and this is still the case today. Accepting that, Willoch (1988: 195-199) adds that the term bourgeois also involves “moderation”: “The word borgerlig can be associated with a social ideal that involves liberal attitudes, social harmony and even welfare, with a great emphasis on private ownership, which should benefit the largest possible numbers. … protect society against unrest that radical changes in economy, social relationships or moral views bring with them. The concept therefore has something to do with moderation.” Therefore non-socialist or right-wing are not adequate terms either, given that his party is in many issues in fact less extreme than the so-called centre parties, not to speak of the Progress Party.

The policies Høyre has pursued have been “liberal” in the sense of deregulating the economic sphere, including the monetary and credit market, streamlining the public sector and privatising state-owned companies, as well as in some cases also outsourcing public services and infrastructure.

Willoch's ideological background

Willoch explains his liberal ideological background in the first volume of his autobiography, telling about his studies in economics and about an essay on saving that he wrote in 1954, soon after graduating. His argument was that unlike some (obviously Keynesian) theories then maintained, a high rate of saving does not retard growth. “Domestic saving must be as high as possible.” (Willoch 1988: 112-117). He goes on to stress that saving is not only a macro-economic advantage but a moral one as well. Saving gives safety and independence to individuals and strengthens the social bond between autonomous agents co-operating in society and the economy. Ownership is a basic right in a free society, and to protect this right for “the largest possible number of people”, “owners’ democracy” (sjelveierdemokrati) is necessary. It should not be a privilege of the wealthy few but, in contrast, it should assure wealth and freedom for the many. Autonomy as a principle of justification cannot be achieved without universalism – if only a few are owners, others will be dependent on them. Although the state apparently represents the public interest, in fact it operates as a selective power that favours particular interests. High taxation, restrictions on ownership, inequalities between different types of property, and above all state ownership of enterprises, are violations of owners’ democracy. Such restrictions have been established and maintained by the Labour Party throughout its long period in power, and one of Høyres primary political objectives has been to dismantle them in the interest of the common good.

Saving money makes sense only if its value is stable. In another essay written in 1958, already a Member of Parliament, Willoch argues that the only way to achieve price stability is by eliminating excessive purchasing power in the economy through fiscal and labour market policy, and by allowing free competition to take care of the rest. At the banquet in the occasion of publication of this essay, the Governor of the Bank of Norway Gunnar Jahn stated that this doctrine may appear outright monetarist to some. Willoch writes in response: “In politics there have always been too many of those who do not make a clear
distinction between economic theories about the significance of the quantity of money for price stability on the one hand, and on the other hand the political content of Milton Friedman’s excesses.” (Willoch 1988: 123-124). He mentions Ronald Reagan, often seen as the political arm of American neoliberal turn once, but critically as “the most extreme Keynesian of his time” (p. 70). Margaret Thatcher and Jacques Chirac are mentioned in a positive manner as forerunners of liberal privatisation and stock market policy, “which we shall see in Norway, too.” (p. 114, 151)

Willoch’s economic reasoning was clear and simple. Demand maintenance was to be replaced by a policy favouring supply (tilbudsekonomi). Freer supply of credit and money would lead to investments directed by the market. Competitiveness can be maintained by lower income taxation as well as a well-organized and sufficiently funded research and innovation complex. But lest this policy lead to inflation and overconsumption, it must be compensated by cuts in public spending, which is anyway necessary because of the well-known mechanisms that increase social and health expenditures even without further improvements in benefits. The oil revenues must be kept separate from the rest of the economy to avoid what then was called the “Dutch Disease”, where inflow of revenue into the economy from oil and gas from the sea increases demand and prices but not productive investments in other sectors, and cuts down international competitiveness.

As a rough policy-line this appears indeed as straightforward monetarism, where liberal monetary policy is compensated by austere fiscal policy. In practice, the weak political backing of the Prime Minister seems to have resulted in only modest and contested success in the former, and an almost complete failure of the latter. But also the justifications of the policy were practical rather than theoretical, and often contrasting with Labour’s inflationary anti-cyclic fiscal policies (motkonjunktur-politikk): “..the economic trend we were undergoing, with inflation and sinking competitiveness, could lead to unemployment. ... to avoid this misfortune I stressed that it was necessary that Labour’s dreaming of longer vacations, shorter working days and lower pension age creates inflationary expectations and are examples of what should not be done.” (Willoch 1990: 35). Lower income taxes and less punitive income tax progression would not be justified in terms of demand promotion, as the Labour Party argued demanding for lower gross tax levels, but as encouragement to work: “The unreasonably high income tax takes away the will to contribute while it also presses salaries upwards without individuals getting more for their work. Working must be remunerated and extra effort should be rewarded. Therefore Høyre will lower tax progression.” (Willoch 1990: 33). But there was no attack on the welfare state: “Attention to sick, old and families with children must go before claims for more comfort to others.” (Willoch 1990: 35)

**Deregulation**

The need for deregulation was felt and recognized already by the social-democratic government before Willoch’s time. Gunnar Berge (2011:191-193) recalls how Odvar Nordli’s labour government, with Per Kleppe as finance minister, experimented with deregulating interest rates and the credit market, as
a reaction to the injustices created by shortage of loans. Wealthy loan-takers got away with low rates whereas lower-income customers had to queue for loans, save up and pay more – if they got credit at all. The experiment ended up with a freeze on prices and wages 1978-1980. The restrictions on foreign exchange markets were lifted in 1978 as the first step towards international supply of credit (NOU 1989).

The market was restless and political criticism against higher interest rates was hard also on the labour side, and credit institutionalized pressure on the government and the Bank of Norway.

Høyre’s Finance Minister Rolf Presthus, without any advice from his expert staff, announced at the end of 1983 that the first half of 1984 would be a transition period to free financial market. Direct regulation of banks would be discontinued, transactions in the financial investment sector and trade with foreign currencies would be deregulated. The Bank of Norway would control the supply of money by market-based operations such as buying in or selling out bonds, thus transferring an essential amount of power from the Finance Ministry to the Bank. (Lie and Venneslan 2010: 339). In 1984, the primary reserve requirements were terminated, leaving it up to the financial institutions to decide the credit volume. A year later, in 1985, the low interest policy was abandoned leaving it for the market to decide the price of money. By the mid-1980s, rather than cooperating in a cartel, lenders found themselves in a fierce competition for market shares (cf. Ecklund and Knutsen 2000; Lie and Venneslan 2010; Mjøset and Cappelen 2011).

Already in September 1985 it was clear that lending out from banks was twice as high as it was expected to be, and raising reserve requirement from 10 to 20 percent did not stop the credit explosion. Direct regulation was reintroduced in January 1986 (Lie and Venneslan 2010: 353-354).

Inflation rate at 6 to 10 percent and tax-deductible interest payments on housing led to negative interest rates for many households (Mjøset and Cappelen 2011; Steigum 2010). Between 1981 and 1988 the total amount of loans to households increased by 243 % (Stortingsmelding nr 9, 1989) and 44% of Norwegian households moved to new homes (Barlindhaug and Skogstad 1990). A debt crisis followed and the first Nordic banking crash arrived 1989-1992.

The biggest problems resulted from three factors. First, the interest rate on money supply from the Bank of Norway was politically set. The Bank itself demanded that the rate should be allowed to rise, and this is what the government also insisted on in several occasions (Lie and Venneslan 2010: 223-225; 338-342), but the Centre and Labour Parties strongly opposed, and wanted to lower the interest rate instead. This was strongly against economists’ advice, and based on political needs (pp. 306-312). There was no tax reform, and the post-tax interest rate was negative at the time when credit markets got loose (Mjøset and Cappelen 2011: 195). Secondly, the increase of money created by bank loans would have had to be compensated by cuts in public spending, but the weak support enjoyed by the government made this impossible. (Lie and Venneslan 2010: 354-355). Thirdly, the banking sector as well as its clients were not accustomed to assess the new risks involved, having been protected by direct

**Justifications**

Willoch’s autobiography describing his years as Prime Minister has surprisingly little to say on what came to be the most important consequences for posterity of his short regime: the first wave of liberalisation of the financial market.

With hindsight, it is difficult to understand that the Prime Minister as well as the Finance Minister were passive in the process, led by the Bank of Norway under active lobbying by the Banking Association (*Bankforeningen*) (Lie and Venneslan 2010: 338-339). The great transformation was not politicized. The only issues related to the liberalization discussed by Willoch in his autobiography of the period were the regulations concerning the management of commercial banks (*forretningsbankene*), the management of oil funds, and several political disputes over taxes and interest rates.

The treatment of even these issues reports on tactical and technical political processes, not major ideological or theoretical debates. The only comment he makes on the deregulation of banking is about the governing boards (*representantskapene*) of commercial (other than savings banks) banks, which in 1977 had been ruled by the socialist government to have a majority of 8 over 15 publicly appointed members, with three representatives of the employees and only four representing the shareholders. “This was socialism. That this happened so close to the moment when socialism blundered down both philosophically and economically shows how long Labour believed that more direction by politicians means more democracy.” (Willoch 1990: 120) One of the first moves of the minority government was to put the majority on the shoulders of shareholders, with only three publicly appointed members out of fifteen. This was “privatisation”, according to the author. Against those who have argued that this contributed to the banking crisis later, Willoch points out that savings banks had a clear majority of publicly appointed and employee members, and they did no better than commercial banks in facing the deregulation. Bank managers had no experience of how to act in a competitive credit market. Many felt that there was an unavoidable pressure to grow and went to excess in their loaning, to face losses when the crisis arrived. “Problems that arrive when regulation is eliminated are part of the price for introducing them”, is his terse conclusion (Willoch 1990: 121).

The only way to shed light on the logic Willoch’s government followed is to see deregulation in the context of other related policies that it implemented and argued for.

Although Willoch is silent about liberating the finance market, he is quite consistent in his reporting on actions that were aimed to pull the state away from economic activities. The labour market actually was an exception. The employees on the oil rigs had managed to gain very high salary levels that tended to pull the average wage level up. Willoch’s government attempted to interfere,
but then a strike broke out and the government had to pull out. Industrial action was repeatedly a problem throughout his government period (Mjøset and Cappelen 2011: 193).

Industrial policy was another area where Willoch’s government attempted to streamline Norwegian economy by means of the free market. For example the government tried hard to reduce state subsidies to fisheries. "It is striking that Norway’s fishing industry, with at least as good conditions as Iceland’s, does so badly compared to them although they operate without any state subsidies. Maybe state subsidies are in fact help that undermines ability for self-help, and therefore harmful in the long run.” (Willoch 1990: 107). This was one of the first victories of the minority government. Similar arguments were used in other areas of industrial policies, such as hydro energy, agriculture, and mining, with success in some cases, less so in others, especially when regional interests were on the way. The government failed to open radio and television broadcasting for commercial competition from under the state monopoly. This had to wait until later (Willoch 1990: 115-116).

The state-owned oil company Statoil was as much a problem for Høyre as it was dear to the Labour Party. For the latter it represented not only the state’s role in infrastructure, energy policy and environmental concerns but also a flagship of state’s business activity. In Willoch’s mind it was an example of state-guaranteed privileges over other enterprises, and besides, its economic power made it difficult to control by the owner. Willoch’s solution was to remove the monopoly-based oil income to the state, governed by a special fund called Statens direkte økonomiske engasjement (SDØE) Mjøset and Cappelen 2011: 192) to make more transparent the role of the company as a business enterprise. Willoch himself was satisfied with the solution “in principle”, although the income from drilling already in operation was still held by the company itself, which in his opinion encouraged it to less than well-considered risks in refinery investments (Willoch 1990: 293). Struggle against state-owned enterprises continued throughout his political career.

Two of the first economic policy measures to be launched by his government, almost thirty years after his essay on saving was written, were elimination of restrictions on acquisition of shares of companies by private persons, and deregulating the system of public housing support, both seen to be violations of owners’ democracy. Early on he also proposed measures to make saving easier for people with modest incomes; and he was fiercely opposed to Swedish type of employee participation schemes in companies that reduce the owners’ power to run their businesses.

A visible and probably the most popular political move afterwards was deregulating opening hours of shops. These were restricted by legislation that caused what the Prime Minister considered absurdities: “A person in modern Norway has actually been in prison for serving clients after hours! It is hardly possible to close every kiosk and service station early in the afternoon. But they could be penalized for selling items they have no licence for. After a certain hour one can for example sell mineral water and chocolate but not bread and milk.” (Willoch 1990: 122-123) The trade unions, Labour, Centre and Christians were
persistently against deregulation, each for their own reasons. But sooner or later the regulations had to be simplified, if for no other reason than the fact that as they were, they created privileges for some traders against others. This was, in fact, a tactic that the Prime Minister intentionally used to get his deregulation plan accepted. The law allowed wider opening hours for “kiosks” without defining what they were. Gradually they became similar to ordinary corner stores, and since the legislation could not be turned back the retail business was deregulated.

The policy that came closest to financial deregulation was housing, but also here the argument concerned state-protected privileges created by regulations rather than the market for credit as such. Ownership to homes of a standard size and quality was supported by a general right to first priority loans at fixed prices from the State Housing Bank (SHB), typically covering 55-80% of the sales value (NOU 2002). In addition, a system of housing cooperatives ensured dwellings to substantial proportions of households. The credit market funded housing outside the standards set by the SHB. However, financial institutions were subjected to both volumes and price regulations and interest rates declarations. This ensured the government’s commitment to low interest rate policy and a system of rationed credit to assure reasonable housing at manageable prices. Banks and insurance companies were also induced to form a price cartel (Ecklund and Knutsen 2000; Mjøset and Cappelen 2011). The end result was a situation where the amount of capital available for lending fell short of the demand for loans. It was the queue, and not competition, that ruled. Financial risk was practically non-existent to lenders and borrowers alike but on the other hand deliberations other than cost and profit entered the trade. Maximum prices set by officials were bypassed with payments “under the table”, the availability of housing was reduced, and so-called holding rights to housing were privileges that were not available but to a few who had inherited them. Home ownership was one of the cornerstones of Willoch’s idea of owners’ democracy. The housing co-operatives were allowed to dissolve and convert their stock to freehold units (Willoch 1988: 114). The free housing market was again “bitterly resisted” by Labour but the government succeeded. Housing absorbed the largest part of the credit expansion between 1981 and 1988 (Barlindhaug and Skogstad 1990), but Willoch’s arguments were moral rather than economic or fiscal. Deregulation of the housing market may have been part of the banking crisis later, but Willoch does not consider this possibility. Instead, he argues that those who defended the regulations would not even think of re-introducing them once they were lifted. (Willoch 1990: 126)

**Willoch’s pragmatic universalism**

Willoch’s silence about the politics that led to the liberalisation of the financial market is surprising. Either he was not aware of the importance of what happened during the last year of his first government and is embarrassed about it later, or he believed that fiscal measures could have prevented the crisis if they had been politically possible. Or both. In any case, from his perspective the price that had to be paid for having maintained the regulation policy for four decades was not mainly caused by Høyre, at least not alone, but by other parties who refused to reduce state expenditures, to eliminate tax deductibility of interest
payments, to use the interest rate to cut back domestic demand, and to raise the consumption taxes when it was necessary.

Despite the lack of explicit ideological or theoretical justifications concerning the bourgeois governments’ deregulation, Willoch’s actions as he reports them, are quite consistent. In fact, his political narrative tends to focus more on the inconsistencies and contradictions of his political enemies, especially Labour and personally Gro Harlem Brundtland. This gives the reporting a sour, sometimes even bitter taste, which Willoch himself admits (Willoch 1990: 407-209). The irritation that opponents’ self-contradicting actions, their failure to respect agreements with partners and promises given to electors, and their intentional misrepresentation of the government’s intentions evokes in him, underlines his own desire for consistency and rationality. He appears, through the pages of his autobiography, a technocrat rather than an ideologist or theorist, despite his training in economics.

Nevertheless, the political issues he highlights are not only pragmatic solutions sought randomly for difficulties that arise in social life. Nor are they – at least not explicitly – expressions of conscious interest articulation of some social groups against others, even if it is clear that his economic policies have promoted income inequalities in favour of the salaried middle class and enterprises. On the contrary, the ideological bottom line that can be read from the long list of political actions of his two governments is universalism: a fight against particular vested interests created and protected by state regulation of the market. Work, production, sound investments based on realistic profit/risk assessment, balanced fiscal policy and equality of opportunity are key themes in his commentary, albeit often in the form of criticism of his opponents rather than ideological formulations of his own thinking.

Willoch’s irritation is highest when he sees legitimate autonomy of citizens, political parties, the parliament or even states violated. As is common in small nations with relatively late independence, the idea of Rechtstaat has always been strong in Norway (Slagstad 1998). Everybody, even the weakest, must be treated fairly according to the same principles and neutral legal judgment based on law and the parliamentary representative democracy. Willoch is very strong about this in his memoirs, and cites a large number of instances in which his decisions were directed by this view. He considers at length the issue of political and particular interest groups and their influence in the Norwegian Parliament, Stortinget. The democratic principle is that all power must be in the Parliament’s meeting room, but he soon observed as a fresh MP in 1958 that in fact “parliamentarism had made the majority a servant for the government (then labour) rather than vice versa. Power was not exercised in the parliament hall but in the governing party’s central committee, the government’s meeting room, and in the governing party’s group meetings, in this order.” A special problem of such a corporatist state was the close connection between the Labour Party with the central labour union office. He interpreted such extra-parliamentary power groups to be self-appointed “veto groups”, as David Riesman (1950) would have called them, rather than seeing them as legitimate forms of interest articulation (Willoch 1988: 237-248). In another chapter (pp. 144-147) he describes the problems that dependency on pressure groups undermines democracy not only
on the left but also within Høyre itself, as the ideological think tank foundation Libertas attempted to dictate to party leaders what they should do.

Willoch’s political leading star was C.J. Hambro, the long-time chairman of Høyre, a prominent diplomat and President of the League of Nations Assembly of delegates, MP from 1918 till 1957. Hambro was a patriot, and one of the starkest critics of the Munchen treaty surrendering Czechoslovakia to Hitler’s Germany in 1938. Willoch writes about Hambro’s views: “Small states must, both for their own sake and for the sake of peace in general, claim respect for the international legal order. If they do not stand firm on this principle when politics of might triumphs over right, the world will turn out bad. Hambro saw that small states, precisely because they had so little to put up against power politics, must have a special responsibility for peace. But they must stay united…. Nations had the right to their own independent life. In good liberal tradition he maintained that right goes before power even in international politics.” (Willoch 1988: 150)

Pragmatic universalism does not imply that Kåre Willoch’s political line would be isolated from the larger neoliberal context. It must be remembered that these were also the principles that Milton Friedman launched in his attack against the state in his seminal essay Why Government is the Problem (Friedman 1993). Although monetarist in his economic thinking, also his ideological heavy fire was against the arbitrary and unequal vested interests created by the state. In general, Friedman was much less convinced than is usually believed that the freedom of banks to create money by reckless lending would be more rational in the economic sense than Keynesian incomes policy and regulated credit markets. His main argument was political, and the criticisms of government spending were almost one by one the same as Willoch’s, although the latter did not spell them out explicitly and systematically. Subsidies, income equalisation, consumer laws, government spending and especially budget deficits are bad, because “more political steering does not mean more democracy”.

Willoch’s liberalism, although not theoretically articulated, connects him firmly with classical theories of modern society, constituted by autonomous actors that can and must co-operate out of their own will and interests, without illegitimate dependencies and suppression under arbitrary power. Although we have very little explicit material in his two books on why he saw deregulation to be necessary, and how he understood its consequences to be, the stress on universalism and autonomy as the principles of the social order at least make his passive acceptance of it understandable.

Gunnar Berge and the politics of necessity

Unpopular choices

Although Kåre Willoch was a pragmatic universalist rather than outspoken ideological proponent of neoliberalism he nevertheless was a front-liner in politics of change. Gunnar Berge, the Finance Minister in Gro Harlem Brundtland’s government that took over when Willoch resigned in May 1986, represents another kind of approach to justification, which became common in the Nordic countries in the two last decades of the twentieth century: politics of necessity. There is no choice; we have to do this, with no alternatives available.
He learned from his mentor and teacher, the legendary European-minded social democratic leader Trygve Bratteli, that “people do not necessarily expect of government that it does something that is popular. Those who have responsibility must do what is necessary – a good principle for politics in general.” (Berge 2011:44)

The new government set out in an atmosphere of catastrophe. Foreign currency reserves (mostly US dollars) were spent by the Bank of Norway at a fast speed to support the Norwegian Crown, inflation was record high and productivity continued to be low. In January 1986 the oil price crashed dramatically. Something had to be done, quickly. (Berge 2011: 159) Berge’s response, supported by most of his advisors, was devaluation of the Crown by 12 percent, coupled with a number of austerity measures to cut down domestic demand and lending by banks. As Berge proposed this to the Prime Minister, “…she replied swiftly and clearly. If this must be done, and as Norges Bank and Finansdepartementet have given their unambiguous advice, we should strike at once. She would also make sure that the government decides on the necessary austerity measures. This was Gro at her best. No hesitation.” (Berge 2011: 170)

It is paradoxical that the politics of necessity resulted from too much choice available for Norwegian electors. With a severely disunited non-socialist camp, and an aggressive left in the opposition, allied with a nation-wide trade union (Landsorganisasjonen LO), the government’s economic policy had for several years combined incompatible elements: deregulation of money and credit supply together with interest rates that remained in the hands of politicians; huge expansion of credit to individuals but continued deductibility of interest on housing loans from income tax, convertibility of the currency but state-controlled exchange rates, income tax cuts with no cuts in public expenditure or even corresponding tax increases on consumption; expanding private domestic demand with no corresponding rollback of the public sector, and no essential rise in productivity either. As we have seen, these incompatibilities directly resulted from the weak position of the Willoch governments, but the same problem had perturbed Norwegian politics even before. (Mjøset and Cappelan 2011)

In one way Arbeiderpartiet was in a better position to introduce a draconian austerity policy than Willoch’s coalition. If a Labour government cannot cut back wage earners’ purchasing power, no one can. But again, the compatibility problem was there. Everyone knew and accepted that oversupply of money and excessive domestic demand must be brought to check, while productivity and balance of trade must be improved. But devaluation in a situation where the economy was already overheated was a strange move, yet there seemed to be no alternative (Berge 2011: 167-170). Normally, devaluations had been used, also by Finland and Sweden, offensively after a cycle of wage inflation to avoid unemployment and under-use of resources. Devaluation improves competitiveness for the exporting industries if pressure for higher import prices can be held back at least for a while, and if these industries can supply their investment needs domestically (Vartiainen 2011). But this time devaluation arrived for other types of reasons.
Norway had a bad reputation in the international currency market, having devaluated several times even before Willoch’s government, which did it by small steps four times amounting to a total of about ten percent (Mjøset and Cappelen 2011: 202; Lie and Venneslan 2010: 309-328). Low trust in the value of the NOK was greatly deepened by the drop in oil prices, but also by the inconsistencies in Norway’s economic policy and the growing amount of debt. Expectations of yet another devaluation were high, and the decision to go for as high as 12 percent was partly based on the hope of ending the currency speculation. “This must be the last in the 1980s.” (Berge 2011: 170) The time horizon for trust was short.

Yet there was no consideration, at least not in the political quarters, at this moment of a possible change of the whole currency system. Floating exchange and interest rates still seemed to be an unthinkable dystopia from the perspective of national economies. The sense of urgency was understandable. Interest rates went very high, up to 14 percent, which still did not stop the growth of credit to businesses and individuals, including consumer credit (in the Nordic countries it was called partial payment purchase, where the customer only paid a small part of the price in cash and the rest later in monthly down-payments). Even with inflation over 5 percent this is alarming. When growth eventually will stop, many loan-takers cannot pay, and a credit crash will follow. Berge comments the situation in the mid1980s: “Every shop had become a bank... It was difficult to walk down the street of a town and not come out without several thousand Crowns of loan. Banks were afraid of losing market shares and responded to competition fiercely. The stock market was up, and the yuppie culture set in.” (Berge 2011: 195)

None of the instruments available to the Bank of Norway and the government seemed to work. The interest rate of loans to banks was already sky high, and higher reserve requirements only seemed to put it even higher, not cutting back lending by banks. Tax deductibility of interest on loans could not be reduced at this level of indebtedness (Berge 2011: 200; Lie and Venneslan 2010: 309-328). Both the techniques and the banking system had changed, and therefore “trying to control credit expansion with regulations alone would have been like squeezing toothpaste back into the tube after it has been pressed out.” (Berge 2011: 202)

Direct regulation of credit was not to the taste of Labour politicians even before the Willoch government. Regulated credit favoured high-income groups in three ways: only those who could afford to save have income tax deductions, rising property values and inflation eating up capital credit. When price level increased and the economy was growing fast it was profitable to take out loans under the price cartel for banks that the government imposed. The pressure for credit became so great that the cartel and regulations started to leak, and the Labour government led by Odvar Nordly had to lift the cartel to let interest rates go up in 1977, while there was a freeze on prices and wages for almost a year. (Berge 2011: 192-194). Until there was an effective tax reform, Nordly's Finance Minister raised the interest rate and tightened credit controls. This helped but only for a little while. Deregulation was in the cards.
Yet, Berge considers the deregulation of the financial market to be the worst prepared reform of the 1980s. As is typical of politicians, he blames Willoch for failing to take the necessary steps to keep the credit market under control, but he admits Labour’s own responsibility too. Labour defended deregulation on the basis of income equality policy but also in terms of equal rights. It was not felt to be fair that only the wealthy can have loans, and that there are queues for loans at banks, which gives them discretionary power to treat citizens in discriminatory ways. But the Labour’s failure to introduce the necessary tax reform when it was time, and its continued policy of low interest rates on social grounds, was with hindsight a mistake (Berge 2011: 199).

The demand for credit started to subside in 1987, partly because the progression of income tax was lowered (p. 202) and the currency outflow stopped. Still, Berge accepts that the devaluation was not very successful, with suddenly rising unemployment and budget deficit in 1988.

_Balance between self-realisation and security_

Berge’s formulations of his credo are brief but quite complex. In the foreword and the conclusion of his book he stresses two principles: on the one hand, the worth of life is freedom to self-realisation, but on the other hand it cannot be achieved unless one’s activity contributes to the welfare of others. Obviously the latter principle refers to his own role a politician, but it goes for other people also. Work should be meaningful, not only for one’s own benefit but also as a contribution to the welfare of society. In the interview made by Christian Poppe he contrasts this with what he calls “the three feet more” –syndrome. If you already have everything: a home, a second home in the mountains, car and everything else to satisfy your desires, getting a yacht of 33 feet may make you desire one of 36 feet, and then always three feet more, but your happiness will not increase unless you contribute to the development of society. Realising one’s own self is worthy and meaningful only if it is combined with the social bond. Security results from the social bond, institutionalised as the Nordic welfare state, but it must be balanced and coupled with individual freedom. In the interview he gives housing and regional policy as an example. People must have freedom to move to big cities, but this leads to higher costs of homes, which for many means lack of security. To achieve a balance between self-realisation and the social bond, and between security and freedom, public planning is necessary to address the complexity and interdependency of different aspects of social life.

_Conclusion_

The dead ends Berge points out in his analysis, the new kind of defensive devaluation, and the sudden shift from overheated to underperforming economy during his term as finance minister, are not specific to Norway with its huge dependence on oil income. They are first symptoms of the arrival of the end of the Bretton Woods era of national currencies and regulated credit, and the coming series of crises that followed and continue as the Euro crisis today.

What may be specific to Norway is the strongly fragmented political field. In part, the fragmentation has institutional rather than ideological causes. The system of electoral alliance between the smaller parties, without binding commitment to
co-operation in policy issues (Willoch 1990: 353), is one reason why a consistent policy is difficult. True enough, ideological and interest-related differences are real, the left emphasizing Keynesian anti-cyclic and income equalizing fiscal policy, the “bourgeois” parties and especially Høyre trusting more the market and thus monetary policy. Nevertheless, read through the self-representations of politicians themselves, the credit market deregulation does not seem to be determined ideologically. The regulated banking system at the end of the 1970s was not felt to be satisfactory on either side, and to some extent for similar reasons.

Certainly, the need to deregulate in Norway was not, as might have been the case in Finland and Sweden, due to lack of capital resources. Rather, the injustices created by market restrictions were seen as violations of the principle of universalism and autonomy, Høyre stressing the inconveniences for businesses, Labour the inequalities among citizens. Work and full employment were accepted as the legitimate principal source of income as the foundation of autonomous citizenship was taken for granted in both camps. From this perspective, the “critical awareness of the present” (Sulkunen 2009) was shared; only the solutions differed slightly in emphasis. Even the solutions were similar in the end. What one proposed in government the other opposed, and implemented the very same thing when in power. Høyre declared its will to lower income tax progression but was unsuccessful; Arbeidspartiet implemented it in 1987 to cut back borrowing. Labour’s anti-cyclic policy traditionally relied on demand regulation, which Høyre wanted to replace by the economy of supply when it was elected to power, but actually it got Norway out of the high 1983 unemployment into an overheated economy by accelerating demand, which the state budget actually covered in tax deductions of interest payments. Other examples could be given. Under both parties electoral pragmatism has applied in the tension between fiscal and monetary policy, for example in the interest rate issue. “Initiatives to move up interests normally come from the Bank of Norway, while the Finance Ministry that represents the political system tends to raise the question whether it would not be justified to consider a drop.” (Berge 2011: 213)

Undeniably there is a difference in hue in the shared universalism. Part of this is plain in the political day-to-day rhetoric, and political autobiographies give no additional light on these differences. The right is less concerned about rising income equalities than the left; the left has more trust in the state and the public sector in general. The biggest but surprising difference that a close reading of the autobiographies suggests beyond the obvious is about understanding work.

For Willoch work is valuable not in itself, nor because it produces commodities that satisfy comparable desires. As Michel Foucault described the labour theory of value in classical political economy, commodities that result from work “have value not because people experience the same hunger in their bodies, or because their hearts are all swayed by the same passions; it is because they are all subject to time, to toil, to weariness, and to the last resort, to death itself. ” The value of work depends not on the pleasures it produces but on the exertion it requires; and the wealth of a nation, as for Adam Smith, “is the opposite of satisfaction: the amount of time spent at work, and the pain and fatigue that result.” (Sulkunen
For Willoch, justice requires that work is remunerated according to merit acquired by the pain and fatigue as measured by the free market.

In contrast, Berge deems, referring to Trygve Bratteli, that the value of work is the opposite: it is a right to be useful in producing satisfaction for oneself and for the society, not only in the production of use values but also directly, as satisfaction from participation itself. He finishes his autobiography with an anecdote about his visit to an enterprise employing people with disabilities: “Nowhere else have I experienced similar pride and joy for being in a job. This is a stark contrast to the frustration of those who remain outside; asylum seekers, disabled, unemployed youth and others.”

Both views are pregnant with universalism about rights, but the value attached to how it is deserved is different. To exaggerate a little, Berge’s view of rights is closer to the consumers’ and citizens’ point of view, whereas Willoch looks at equality and universalism from the suppliers’ perspective. This difference partly explains also the different hues in justifying almost the same policies. For Høyre, universal justice implies equal rights to work and to earn money; for Arbeiderpartiet, it means equal opportunities to participate in promoting the public good and to care for one’s own welfare.
CHAPTER 3
FINLAND: POLITICAL CONSENSUS AGAINST INDUSTRIAL INTERESTS

Introduction

Except for the oil revenues, the Finnish history of liberalizing the credit market was very similar to the Norwegian situation in the late 1970s and early 1980s. The regulated banking sector started to work less and less well, the artificially low (politically negotiated) interest rate attracted loan-takers but money was scarce and grey markets for money developed (Hämäläinen 1996). In Finland the situation was perhaps even more serious in the sense that concentration of the export industries demanded larger investments while also their export activities brought in growing amounts of foreign currencies especially from the Soviet Union. As the banks were strictly regulated, companies started to grant short-term loans to each other, so that when for example one export company received an advance payment from abroad they lent it out to companies who needed money for investment, at a higher price than was available from the banks (Kuisma and Keskisarja 2012: 194). Scarcity of money for investments had been a problem for the rapidly growing but highly specialized export industries throughout the post-war period. In the early 1980s the forestry sector (pulp, paper, timber) brought in about one half of all export income, and most of the rest was metal, ship building, and consumer goods mostly sold to the USSR. With strictly regulated credit markets the biggest part of the investments required by these exporters had to be collected as savings from wage earners and forest owners, as well as from profits made by the industries themselves. As the interests on savings were under a state-imposed cartel the only way to attract customers was to set up a dense network of local offices. A cycle of inflations and devaluations, similar to that of Norway, was necessary to attract labour force to towns and cities and to keep the well-organized labour unions happy on the one hand, and to improve competitiveness on the other hand. As Norway and Sweden also were dependent on exports from the forestry, Nordic co-operation was rather strenuous at times of exchange rate changes (Koivisto 1994: 74-76; Kullberg 1996: 40-45).

The credit market was predominantly geared to serve the export industry, not only by the regulatory system and fiscal policy (tax deductions on savings accounts) but also because it was dominated by two commercial banks. Finlands Föreningsbank (SYP) was originally founded to serve the industry owned and managed by the Swedish-speaking business elite. Kansallis-Osake-Pankki (KOP) was younger but quickly gained ground on the Finnish speaking nationalist side. The other commercial banks were very small, even after they merged into one. Rural and labour-union-owned savings banks and small but widespread co-operative banks had almost nothing to do with big business. Home buyers and consumers had a very hard time to get loans out of the banking system, like in Norway.

During the post-war decades the two big commercial banks were actually controlling their industrial clients; as the clients grew and became stronger
internationally, the banks became dependent on them, but also their business outlooks became marginalized. The first decision to liberalize the currency market was taken in 1975, when a system of day credit markets from the central bank to banks was implemented. Instead of direct negotiations with the banks the central bank set a price on money, and the banks had to decide for themselves (and their clients) whether they want to pay or not (Koivisto 1996: 125-126; Kullberg 1996: 15). In 1982 the DG of KOP, Veikko Makkonen told in an interview that when a big company exporting to the Soviet Union deposited the revenue from a big delivery in a bank they received a 13 percent interest rate. When the bank loaned the sum out for investments, it only could charge the regulated maximum interest of 9.5 percent. Banking was at that point not a very profitable business overall, and competition was intense. Now the exporting companies were big enough to take loans from almost anywhere in the world, and besides, three American banks settled in Finland and opened their doors for industrial investors as well as consumers. (Kuisma and Keskisarja 2012: 195)

The banking sector was growing fast in the 1970s. Wages started to be paid through banks and the cartel on savings on bank accounts had to be lifted. Despite the regulations the banks had more money to trade with between themselves, which lessened the importance of borrowing from the Bank of Finland at regulated rates. The global financial market was flooded with money seeking investment possibilities, and the latecomers in the liberalised credit market, Finland, Sweden and Norway, were interesting countries with their AAA ratings and -- for so long -- stable banking systems. Borrowing by banks from the open market grew from three percent to 30 between 1979 and 1985 in Finland (Kuisma and Keskisarja 2012: 200-205). New technology made its inroad to international banking within a few years, changing currency flows and stock market transactions into a new kind of business in which money itself was the commodity, no longer just the medium of the exchange.

Once the inflow of money was possible, nothing could stop deregulation to go even further. The director of the monetary policy department of the Bank of Finland had stated to a journalist: the regulators try what they can but in the cabinets their efforts are smiled at; they have no effect (Kuisma and Keskisarja 2012: 195-196). A fierce competition for loan-takers had started, as in Norway in 1985-1986. The drop in oil prices in 1986, which proved fatal to Willoch's government, only accelerated the inflow of loose money into Finland. The result was a fierce competition between banks for customers borrowing at low rate and often without real assets. A series of takeovers followed, real estate prices skyrocketed, and a banking crisis similar to those experienced by Norway and Sweden a bit earlier arrived in 1991-1992, with the longest and severest recession since the war until about 1996.

The first legislative steps

The first legislative steps towards deregulation, irreversible as it appeared later, were taken by the Parliament on the proposals presented by the government led by Kalevi Sorsa (SDP) 1983-1987 in coalition with the socialist left Finnish People’s Democratic Alliance (SKDL – Suomen Kansan Demokraattinen Liitto), the Swedish People’s Party (RKP - Ruotsalainen Kansanpuolue) and the populist
right Rural People’s Party (SMP - Suomen Maaseudun Puolue). The proposals made it easier for foreign companies to operate on the Finnish financial market, and, in return, allowed Finnish banks and credit institutions to expand and internationalise their operations.1

The first amendment included three separate yet similarly oriented legislative changes to The Commercial Bank Act, the Mortgage Bank Act and the Credit Company Act (HE 223/1984). The major change relates to the investments made by the commercial banks and mortgage banks in Finnish and foreign financial and credit institutions, or rather the elimination of the distinction between such investments.

The second proposal (HE 288/1984) for amending the Act on the Right of Foreigners to own Shares in a Finnish Credit Institution and to engage in Banking Operations in Finland extended the right of foreigners (both companies and individuals) to own shares in Finnish credit institutions and to engage in banking operations.

The third proposal (HE 157/1985) intended to renew the Government's and the Bank of Finland's currency regulation authorisation. The Foreign Currency Act then in force was close to its expiry. The proposal does not include any change in the system of currency regulation. The Parliament still issues the authorisations while the Government decides whether they will be utilised and finally the Bank of Finland will decide on the action under the authorisation. The amendment proposed to exclude current day-to-day exchange transactions from regulation. The background was that the Bank of Finland already exempted the bulk of current exchange transactions from the permission procedure, and the legislation had to be changed to correspond to this situation; on the other hand, Finland’s OECD membership committed the country to liberalise current exchange transactions.

These proposals were introduced and passed in the Parliament during a very short interval, and even debated in the same plenary sessions. The legislative preparation took only a few months, and the bill was presented to Parliament towards the end of the same year. Parliament thus had very little time to dig into the substance, and it was practically very hard to make any significant changes in the proposals. The preparatory work was done in the Bank of Finland, and the Government presented the proposals as technical adjustments rather than matters of principle. The opposition led by Kokoomus represented business interests had nothing to say, with the exception of an ultra-liberal representative who considered the change insufficiently liberal. Only a few activists on the left signalled warnings of a possible influx of foreign capital, outflow of Finnish investments to abroad and loss of national autonomy in control of the financial and monetary market (Sulkunen and Kotanen, forthcoming).

Kalevi Sorsa does not even mention these legal changes in the four books he wrote later, although by then the consequences were well known. Instead of caution his attitude towards free market competition became even stronger over the years. Referring to Kenneth Galbraith he argues that it is in the consumers’ interest to eliminate monopolies, subsidies and obstacles to international trade, and insists that also the national welfare state should downplay its regulatory role to “allow citizens to take responsibility for as many aspects of everyday life”. This may not advance
social or environmental improvements but it will extend and consolidate democracy (Sorsa 1991: 127).

Fresh MP (SDP) Paavo Lipponen, later Prime Minister (1995-2003), recalls his position at the moment only by saying that in his opinion Finland should protect herself against large inflows of foreign capital, worrying also that export industries might stock their profits in well-paying financial assets rather than invest them in the Finnish economy (Lipponen 2014).

The first move to deregulate went almost unnoticed in the political system, partly because this policy area was so completely in the hands of the Bank of Finland and its experts. But even the politicians who were close to the Bank did not realize the significance of the change, and certainly were not pushing it for ideological reasons. This is clear from the posterior accounts of the process by Mauno Koivisto.

**Mauno Koivisto: President from the "Bank"**

Mauno Koivisto served his first term as President in 1982-1988. He was a man from the world of banks and politics rather than from trade unions, starting his political career already in 1947. He became a bank manager in 1956 as head of the savings bank close to the Social Democratic Party and the hub of what was called "red capitalism". He served as Finance Minister in the socialist government of Rafael Paasio 1966-1967 and as Prime Minister in 1968-1970 and in 1979-1982. He was appointed Governor of the Bank of Finland in 1967, where he served whenever not in government until he was elected President.

Given his career in banking and fiscal policy he must have been one of the best informed politicians at the time of the liberalization of the credit market. His role in the process, however, is not well known. Vartiainen (2011) even calls it a mystery. In his autobiography covering the decisive years 1982-1988, he describes in detail his discussions with politicians and his activities behind the curtain, but has only this to say about the arrival of financialization in Finland: “Capital movements had been liberalized quite far, but interest rates were half regulated still. When the rates that could be moved were raised, foreign capital flooded in and the liquidity was high. In those conditions the state’s income developed positively and fiscal balance was as easy to achieve as it ever can be.”

This was the situation in the fall of 1986. The consequence was: “The possibilities of monetary policy were seriously weakened after the capital movements were deregulated. As freedom to operate with foreign monetary flows was improved, no resources were provided to compensate for this by regulations and supervisions to prevent possible unwanted behaviour. It appears that confidence on the banks’ morality and know-how was considered sufficient. In both respects, the experience was disappointing.” (Koivisto 1994: 270-271)

The only instruments available were fiscal policy and collective labour market agreements, and as these failed politically and also economically – employers were willing to pay higher wages than agreed – negative foreign trade balance and excessively high indebtedness of the economy followed, like in Norway. The rest of the narrative deals with the coming banking crisis, which was already issuing warning signals in 1989 but fired only in 1991 (Kullberg 1996: 91-93).
Looking back to the history of the liberalisation Koivisto said in a talk in 1996: “All in all, it happened in two areas. First, the regulation of interest rates was dismantled and the financial system controlled by the central bank was geared towards a market-based one. Secondly, foreign capital movements were deregulated. When the first decisions were made, I was Prime Minister. Nevertheless, I have no memory of any discussions about these issues.” He continued to describe the policy-making process in the Bank of Finland, then colloquially called simply the “Bank”, not as a plan but adapting the system to correspond to the externally imposed circumstances. The expansion of free trade, the importance of the exporting industry and other factors created an important “grey market” for money, and the Bank of Finland adjusted its policy to the change step by step with separate decisions. There simply was no plan, and no such plan was ever considered. Nobody actually was really aware of how big these decisions were historically. (Koivisto 1996: 126; Hämäläinen 1996: 63-76).

With hindsight, he comments on the first step of deregulation positively: “...the introduction of day credit market in 1975 created the market for money. I saw this as a very important step... Until then commercial banks had individual quotas for relatively cheap loans from the Bank of Finland. If the quotas were exceeded the banks were punished. Fairness and equity were difficult to achieve. Then the political board of the bank decided to create the short-term credit. I realised immediately that this is nice. Earlier we had to discuss with the bank managers and they swore by god that they would keep the strings tight. In reality nothing happened. But after the day credit interest was put to 28 percent things started to happen. This is how it started.” (Koivisto 1992: 126)

Koivisto was, like Willoch, both a pragmatic political realist and a technocrat, although a very popular one with two terms as President. He had no great passions for state regulation as such, not to speak of socialism, but he was no ardent defender of the free market either (Koivisto 1994: 30 - 33). In contrast, the first non-socialist Prime Minister under his presidency, Harri Holkeri, his colleague from the time he served in the “Bank”, was a dedicated “bourgeois” politician representing the Kokoomus party (corresponding to Høyre in Norway). Koivisto was very angry after having heard about a secret “safety box” agreement between the big non-socialist governments before the Parliamentary election in 1987, to form a non-socialist majority government with a Prime Minister from the Centre Party. Although himself a dedicated social democrat since his youth, Koivisto asked Holkeri to form a government as Prime Minister, and was prepared even to accept a minority government (Koivisto 1994: 248). Holkeri’s government was a coalition between Kokoomus and the Social Democrats, complemented with the Swedish liberal party and the Rural People’s Party. That ended a 21-year period of coalitions between the socialists and the Centre Party, which had been President Kekkonen’s great idea since 1966.

Koivisto’s political ideology was, in other words, not committed to the free market in any theoretical sense, but he was even more annoyed with journalists who kept asking him if he was a “socialist”. We should remember that in Kekkonen’s days ideological winds blew towards the left, with global student radicalism, which in Finland sought to rally with the radical labour movement on
the export sector. In Finland the left was divided between the “Stalinists” who had good relationships with the Soviet Union, and “Western socialism” that was sometimes even hostile to the Soviet system. Koivisto, like most of the leading politicians who had matured in Kekkonen’s Finland, understood that the big neighbour was not as much a threat as it was an asset as a very swarming trading partner and source of natural resources such as oil and lumber.

The major part of Koivisto’s autobiography deals with issues of trust and honour related to the autonomy and division of duties between institutions. One of the big conflicts during his period as President dealt with his right to be treated fairly and truthfully by the media. His criticism of journalists underscored his role as a politician, and the media’s role as a reporter of, not an actor in the political drama. Another cluster of issues dealt with the integrity of politicians before law. Several allegations about politicians’ corruption were brought to court but the indictments were dismissed. Koivisto argued strongly in public that courts should not be used as political instruments. Another type of question that Koivisto repeatedly takes up in his autobiographical narration is the role of the employers’ associations and the labour unions. Like Willoch, he also understood their industrial action in terms of illegitimate veto group operations rather than interest articulation: “I was struck by the idea that central labour market organizations without any kind of legitimate authorisation interfere with our foreign trade; let through what they want, and stop what they want... Is it so that every central organization aspires to gain a strategic position as a controller of foreign trade in the same way as many states aspire to get hold of nuclear weapons, in order to be counted as states with extreme capacity of destruction?” (Koivisto 1994: 276-277)

Koivisto’s foreign policy argumentation is remarkably similar to that of Willoch’s, given the differences in the context. Norway was a NATO country, Finland’s foreign policy was built on the doctrine of neutrality between the cold war coalitions. Koivisto wrote a separate book (1992) about his views on international politics, in which he reiterates the criticism suggested in the above quotation: no state should impose a threat to others by force and fraud. In a way that suggests Montesquieu’s principle of doux commerce he argues that independent states should consider and recognize their interests, and the free interplay of these interests should be sufficient to assure coordination of the international system. Trade and other forms or economic interdependence assure peace better than armies and weapons. Although Koivisto’s major foreign policy initiative was a Nordic economic union well before the issue of integration into the EEC was possible, for him this was not an attempt to steer Finland away from the Soviet Union towards the west, as the Soviet-friendly alliance of the Centre Party and the Communists argued. For him it was a way of assuring an economically viable autonomy of a small state in the pressures between the two economic and political blocks.

The unforeseen coalition

If the attitude towards the Soviet Union was dividing the political left, the issue was at least as difficult for the non-socialists, and especially for Kokoomus. The
Centre Party, from which President Kekkonen arrived on the political arena early on, and with which he maintained intimate relationships to gain support for his doctrine of “Finnish neutrality” in the Cold War circumstances, was dominated by Soviet-friendly politicians and supported by a strong group of captains of industry with interests in “eastern trade”. In contrast, Kokoomus had a liberal left wing of young modernists, and also a fiercely anti-Communist conservative right. Harri Holkeri, Prime Minister of a historically unforeseen coalition government led by Kokoomus co-operating with the Social Democrats, the Swedish liberal party and the recently grown populist Rural People’s Party, had the difficult task of keeping his own party together. Although Kekkonen had passed away in 1981 and Koivisto was President at the moment of his government, nobody could be Prime Minister without a good reputation among the Soviet leadership. This was true of Holkeri, too.

But Holkeri was, nevertheless, a “bourgeois” Prime Minister, like Willoch in Norway a few years earlier. The big issues that his government had to deal with were Finland’s integration into the EEC, trade with the Soviet Union, the major constitutional reform (including the election of the President and the so-called basic rights programme), tax reform, labour market policy and also in Finland the overheated economy due to inflow of foreign credit.

Holkeri did not write his autobiography. The only biography about his political career is written by a political journalist, and it covers his life focusing on the period from the elections in 1987 until October 1989 (Holopainen 1989). All the issues listed above appear in the book. The years 1987 – 1988 were crucial in the liberalisation of the credit market: the interest rate cartels were dismantled, Bank of Finland cancelled its instructions to banks concerning credit to private persons, investing in and borrowing from abroad by all enterprises was allowed. The first steps towards free credit markets were taken in 1980-1986, when Holkeri was a senior member of the Board of the Bank of Finland, in charge of currency affairs (Holopainen 1989: 152). The last two years of Holkeri’s government saw the complete liberalisation of the financial markets, including credits to private persons. (Hämäläinen 1996) None of these are mentioned, not even in passing, in Holkeri’s biography.

Holkeri’s government was the first to start what later became the norm of preparing carefully its political programme, and explicit in its aim to cover the whole four-year election period. (This was a stronger statement than it seems: President Kekkonen had dispensed the government several times and also ordered new elections according to his political views.) It was necessary, because the long 21-year period of SDP and Centre Party coalitions had kept Kokoomus and SDP far apart.

The reform in the programme that later proved to have most long-term consequences was, besides liberalising the credit market, the reorganization of public sector management (Sulkunen 2010). It was mentioned briefly in this way:

"Productivity and service capacity of public management will receive special
attention, in collaboration with the personnel employed in the public sector. Systems of participation will be improved and personnel rewarding methods will be developed....The position of ministries in the direction and development of their own area or public management will be reinforced. On this basis the division of responsibilities and functions between the ministries and the directorates under them will be reassessed. The possibilities to merge directorates operating in the same area of public management will be explored.”

Most of the directorates have now been merged and research activities within them have been largely incorporated in the academic research community. The final steps in this process were taken in decisions to move the Legal Research Institute and the Consumer Research Centre into the University of Helsinki in 2013.

Finland became active in the public sector reform agency PuMa in OECD, which was used as an international resource to legitimate changes. The reform was a significant part of what in the government’s work programme was called controlled structural reform. The public relations officer Tom Westergård explained it to journalists in this way: “The authors of the government’s programme started from the premise that Finland had changed in a very short period from an agricultural society to a modern industrial state. Many structures had not been adjusted to the change. Legislation, social security, education and other systems have their roots in the rural village... Reform of the labour conditions, lack of housing in urban areas and environment are typical issues requiring structural change. It is not only a question of industrial competitiveness; the whole infrastructure of society has to be updated.” (Holopainen 1989: 286). An important change was to be a tax reform that was very similar to that proposed by Willoch in Norway, including the target of 40 maximum gross income tax rate (reduction of progressivity at the upper end of the income scale), “all revenues made equal” (which put capital income and income from land equal to wages). Particularly the tax reform aroused the patrons of industry to protest. The President of the Central Industrial Union Casimir Ehrnroth declared in May 1988: “If the tax reform will pass, everybody will suffer: competitiveness, investments, employment.” He interpreted that tax issues in the government had been dictated by Social Democrats. (Holopainen 1999: 294)

For Holkeri, politics was not an ideological issue; on the contrary. In March 1989 he said in a major public speech on the constitutional reform: “In a multi-party country with a tradition of coalition governments the prime minister cannot be an ideological leader. Ideally... the prime minister should take distance from the political game and focus on major social issues.” (Holopainen 1989: 301). He remarks to his biographer: “A bourgeois government was the aim of the group of industrial bosses who were allied with the Centre Party. Some of the younger ones dreamt about some kind of Thatcherian economic policy; the unions should be weakened, labour contracts should be made at the enterprise level and even
personally. As these two plans blundered, the primitive reaction was directed at the government and the Prime Minister. There was a lot of typical engineers' fantasy involved.” (Holopainen 1989: 303)

A view from the inside

Rolf Kullberg was the DG of the Bank of Finland from 1983 until he was forced to step down after the failure of the Bank of Finland to defend the value of the Finnish mark in 1991. He was a trained economist and had worked at the Bank since 1974. His connections were close to many leading politicians from most parties, but he was not serving on a political mandate. His story of the process of credit market deregulation and the banking crisis that followed is reported in his autobiography covering the period he was in charge of the Bank (Kullberg 1996). He wanted to clear some fundamental misunderstandings, such as the interpretation that the process was done at once and without due preparation, or that it was the Bank that precipitated the change (pp. 16-18).

It would not be fair to expect political justifications of the reform from someone who reports what happened from the perspective of a responsible expert official, but his account provides some insights to how such a major policy change could happen without politicians even noticing it. The politics of practical necessity made its appearance in this area particularly. Some absurdities were obvious in the credit market. Kullberg reports that as capital was scarce, the Bank of Finland made a voluntary agreement with the Union of Forest Industries to award 40 percent of credit to cover investments, the rest coming from the banks of the supplier and the investor. Not all investments could be made at the same time, so that the industrial companies had to wait for their turn. In this way the Bank was actually in charge of key investment decisions, which certainly was not very functional. Obviously, the role of the central bank is to administer the monetary system, not to control industrial development. (Kullberg 1996: 15-16)

The liberalisation started in 1975, when banks were allowed to get short term loans from the Bank of Finland at an interest rate that was set by the Bank and much higher than the normal basic rate. Regulations of interest rates were lifted gradually in 1983 and 1985. Exporters were allowed to protect their revenues from abroad against exchange rate changes in 1980, and they were granted the right to issue bonds in foreign currencies in 1985. This meant that they were allowed to borrow from abroad, first to a limited extent for short-term credit, but already in 1986 industrial firms (those who have income from exports) were allowed to take long-term credit from abroad. This was still safe, because exchange rate changes would not be fatal to companies that had both income and credit in foreign currencies. (Hämäläinen 1996: 76)

The essential phase of credit market liberalisation occurred in 1987 and 1988, when all enterprises were allowed to import money from abroad and to invest outside Finland. This happened under Holkeri’s government. In 1991, just before the credit crash and banking crisis, also private households could take out loans from abroad in foreign currencies. These steps are mentioned briefly in Kullberg’s autobiographical report but not in any of the other biographies or
autobiographies discussed above. Kullberg justified liberalisation in his talk on November 1983 to the Central Union of Finnish Industry in this way: "Until now, monetary policy has been used mostly as a counter-cyclical instrument... Its focus is gradually shifting to support long-term stable development. ... In these circumstances [of free credit markets – PS] direct regulation has lost its edge, and interest rates – the price of money – has gained in importance. ...The other function, besides curbing inflation, of the central bank is to support the structural change ... by assuring that capital investments can shift undisturbed from enterprises that have lost their profitability to competitive companies. This is best achieved through the market forces, and for this reason the interest rate is becoming an increasingly important instrument in our banking policy. To move from direct regulation towards an interest rate that balances demand and supply means in itself a rising level of real interests. This will also improve the cost-effectiveness of investments as well as improve the financial position of industrial enterprises, which has become weak largely because the interests have been too low (Kullberg 1996: 21-22).

Monetarist economic theory lurks underneath the surface, but the formulation is entirely pragmatic. Still, it took several years before industrialists started to understand and accept the need to replace inflationary policy of repeated devaluations with stable exchange rates, which requires that the internal wages-prices development and public expenditures are adapted to the macro-economic environment without exchange rate adjustments. Kullberg argues that liberalisation was necessary, not least because joining the EEC would not be thinkable without it (p. 20). He does not refer to any theoretical or ideological authorities but does mention that his attendance in monthly meetings of the Bank for International Settlements (BIS) in Basel “influenced my thinking thoroughly, and gradually I was perhaps more convinced than most in Finland of the importance of the stable currency policy.” (p. 34) In the liberalisation process he describes his role as “conservative” against more active deregulators in the Bank. The new law on currency of 1986 set the framework within which the Bank was allowed to manage the concrete measures mentioned above. He considered the access of local municipalities and private households to international credit markets as dangerous and excessive, but the turbulence had already started when they came, and fortunately only some few risk-prone adventurers got hurt (p. 26).

While the post hoc arguments for credit market liberalisation are slim in Kullberg’s memoirs, they evolve around another issue that was closely related to the growing credit market. He considered it to be a major responsibility of the Bank of Finland and its directors to maintain the value of the Finnish mark stable. Until the middle of the 1980s Finland used repeated devaluations to cover rising labour and investment costs and, consequently, had a high rate of inflation. In 1977 the law on money set the foreign currency value of the Finnish mark in terms of an index that was an average exchange rate between the mark and the currencies of countries with which Finland’s foreign trade was over one percent, weighted by the share of the trade in these currencies. This was thought to be a more stable way of monitoring the value of the mark than the US dollar, after the dollar was disconnected from gold in 1971.
The Bank of Finland adopted a firm stand in the early 1980s to maintain stable exchange rates of the Finnish mark, as well as to use interest rates to regulate the availability of money. In view of the necessary financial liberalisation this was thought to be important in order to assure credibility and to keep the price of foreign capital inflows reasonable. One important concern was the European economic integration, especially the European Currency Unit (ECU) and the Exchange Rate Mechanism (ERM), which Finland joined in 1991 (Kullberg 1996: 152-153). His arguments against inflation also echoed monetarist theory, but again from a down-to-earth perspective of fairness: “The inflation-devaluation cycle is the worst possible way of redistributing income and property. The losers are, above all, real savers and recipients of fixed incomes. Also wage earners are in fact among the losers. This sounds strange, since we have become used to endlessly increasing nominal earnings. Winners are those who have real property, and most loan-takers. All in all, inflation causes injustice, distortions and disruption.” (p. 30) In 1991, during his crusade to defend the mark by internal devaluation (lowering wages and through them prices), he added the fact that so many households, municipalities, banks and other companies had taken out loans in foreign currencies that a devaluation would create an impossible situation for them, and the whole Finnish indebted economy. This actually was the case after the devaluation in 1991, and another one in 1992, as could be observed afterwards, but then one might ask why the exchange rate had not been allowed to adapt earlier to the market.

The counterpart of the stable exchange rate policy, of course, was to keep wages down to the level of productivity, to maintain the balance of foreign trade and the state budget, and to allow interest rates rather than inflation to regulate the volume of credit, both internally and externally. Although wages, public spending and interests were highly politicized, and inflationary pressures remained high throughout the 1980s, the stable currency policy was so successful that inflow of foreign capital remained at a high level until the inevitable crash and devaluation of the mark in 1991. The inflation-devaluation cycle had too strong support on the side of the export sector, both among the labour unions and among the industrialists themselves, closely affiliated with the Centre Party. Among the bosses demanding “vitamin D” was Kari Kairamo, the founder of Nokia Communications. These pulled with them the rest of the political community. Kullberg tried to manoeuvre a tri-party treaty between the central labour market organizations and the government to achieve an internal devaluation, asking Kalevi Sorsa, the esteemed Social Democratic ex-prime minister to be a last minute negotiator, but the attempt failed in the end, and devaluation was inevitable on 14 November 1991. (Kullberg 1996: 118-119)

The culmination of the crisis in the 1991 devaluation was a defeat for Kullberg but also for Koivisto. Both had believed that stable currency would make it possible to shed the burden of funding decisions to the market and the non-financial investors themselves. But in Finland the traditional marriage between the state, the financial institutions and the export industry was strong. Kullberg criticized the state-reliant spirit of the capitalist class in a talk in front of the industrial union itself in 1983, commenting on a senior manager who had complained in the public media that “Today nobody seems to care for the future of our forestry”, retorting: “Not even the industry itself, then?” He continued:
“From time to time the views on our economic policy have differed between industry and leaders of the state’s economic policy. The state and the Bank of Finland are expected to help in short-term problems, as has been the case in the old days until now. When profitability and competitive edge become weaker, it is easy to demand changes in the currency exchange rates, public subventions, tax reductions and cheaper loans, but the solutions should come from the industry itself. … This is how we have in fact had to act. This old-style policy has, however, been very unsatisfactory in the end. The role of economic policy is above all to secure favourable and stable conditions for economic actors, and this is the way our emphasis is changing.” (Kullberg 1996: 32)

The change of emphasis was essential and required not only anti-inflationary monetary policy but also discipline in labour market policies, fiscal policies and responsible growth strategies of the industry. “Fighting inflation by monetary policy alone is a long, enormously painful and costly process for the society. For good results all sectors of economic policy must work seamlessly together”, he said. This signalled a sea-change not only in monetary policy but also in other areas, notably in fiscal policy that no longer was seen in Keynesian terms as anti-cyclic but as another means to secure stable conditions for enterprises to make their own investments decisions without state help.

In any case, the economic policy area that changed the most was the monetary and credit market. It seems that although the liberalization did take place over a period longer than a decade, events in the mid-1980s occurred too fast for anybody to understand what was going on. For example, interest rate became a double-edged sword. To keep liquidity down it was important to raise the interest rate, but this attracted dangerous flows of foreign capital into the economy; if it was lowered, liquidity increased through borrowed Finnish marks (Kullberg 1996: 74). The banks attracted loan-takers with aggressive marketing to maintain their market shares; the labour market was restless, facing overheated demand in 1987-1989. The whole economy was chaotic. Private persons took out loans heedlessly, young financial businessmen organized take-overs and made themselves what Thorstein Veblen (2002) called “free income”; banks – and not only commercial banks – opened offices in the London City and in New York; and unions meted out wage levels far above those agreed on in the negotiations centrally organized by the government. The risk concentrations had become very large in proportion to the size of even the biggest Finnish banks, and mergers were inevitable. This started a famous “war” between the two large commercial banks SYP and KOP, with their industrial clients/owners. A series of attempts and counter-attempts to take over the other followed, which provided brilliant opportunities for the young and brave stock exchange lions, who were used by both of the big banks to secretly buy shares of the other The war gradually wore the parties out, and they voluntarily merged in 1995 into Merita, and in 1997 with the state-owned Swedish Nordbanken, incorporated into the all-Nordic giant Nordia in 2000 (Kuisma and Keskisarja 2012: 273-292; 422-441). The previously state-owned Postipankki was privatised and turned into a commercial bank, merged with one of the large insurance companies and finally merged with Danske Bank in 2007 (Kuisma and Keskisarja 2012: 460).
The stable exchange rate policy became a political dogma instead of being based on a reasonable theory, and politicized the labour market even more. Control of the banking system was under-developed and lagged behind the possibilities that new information technology offered. Legislation followed rather than directed the course of events. The impression one gets from Kullberg’s report is that the liberalisation process followed no ideological guidelines whatsoever, except his unbending conviction that stable exchange rates and cutting consumption by means of labour market and fiscal policy are the way back to a healthy economy (Kullberg 1996: 119-126; 207). Instead of theoretical or research-based justification, the moral issue of honour became the most important motive for his conviction. He tells how shamed he was during his visit to Basel right after the devaluation, sitting beside the newly elected President Helmut Schlesinger of the Bundesbank: “I started to explain how difficult the situation was, and under what pressure we had to surrender. Schlesinger, having made his career in the Bundesbank and being its sole representative in the meeting, was nevertheless a stern supporter of the stable currency policy and showed me no understanding whatsoever. I understand him. After a long period of stability Finland was the first to deviate from the stable currency policy.” (Kullberg 1996: 211)

While the defeat was bitter, Kullberg’s response was logical: let the market decide. He recalls with hindsight that before the crash in 1991 he had already thought about the possibility of completely floating exchange rate. This is what happened after September 1992, but when the Bank wanted to float the mark just over the week-end to get a feel of what its market value might be before the devaluation of November 1991, this was too radical for politicians, who wanted to fix the devaluation percent arbitrarily. At that point, the rest of Europe still applied fixed exchange rates. (Kullberg 1996: 213-224)

Monetarism defeats itself

The end of Holkeri’s government in 1991, Kullberg’s sacking from the Bank early in 1992, and the close of Koivisto’s second term as President in 1994, marked a sad stop of “the consumers’ orgy”, a sarcastic term coined by Kullberg in his attempt to cut back the credit expansion. It was time to start the payments for the free income of the brave new predators. Many bankers and industrialists ended their lives by their own hand, a wave of bankrupts occurred, unemployment rose to record heights, many lost their homes and became indebted for almost the rest of their lives. It took six years before the economy recovered, but after that the world was not the same as it was before. It is strange that such an epochal change in the social system went with so little ideological reflexion.

In terms of neo-liberalism, the situation is even paradoxical. If by neo-liberals we mean thinkers such as Friedrich van Hayek, or Milton Friedman and the Chicago school of economists, deregulation in Norway and Finland did not apply their recipe. For the neoliberals, freedom of society means freedom of the market, and freedom of the market means freedom from fiscal control by the state. Whatever regulation the economy needs concerns the supply of money, not using the state
budget as the counter-cyclical instrument. As we have seen, both in Norway and in Finland, liberalisation of the credit market meant that monetary policy lost its lever as soon as it occurred. Interest rates could no longer be used by the states, because borrowing from international markets became possible. The banks could no longer be directly regulated, and the global credit market developed all kinds of financial products that nobody could control any longer. And still cannot today. The only remaining possibility to aim at balancing the economy, either against inflation or against foreign trade deficits and related indebtedness, was -- fiscal policy and regulation of the labour market! Both of these are highly politicised and very difficult to regulate from the macro-economic vantage point. In the Nordic countries with strong and centralized labour unions and powerful “socialist”, i.e. state-friendly labour parties, even austerity policy, which would have been necessary to balance the improved liquidity caused by the free credit market, did not work.

In the end, the stable exchange rate policy combined with deregulation of the credit market turned out to be a matter of honour and trustworthiness rather than just economic theory. There were many options besides internal devaluation regarding timing, the way the rates were to be changed, and of course the liberalisation itself. When the crash approached, the situation got out of anybody’s hands. The decision to allow households to take out loans in foreign currencies was taken only months prior to the devaluation in November 1991, the central savings bank SKOP was taken over by the Bank of Finland in September, take-overs followed one another, and the two big commercial banks were at war.

The commercial bank formed by independent savings banks, SKOP (Finnish Central Savings Bank), used the possibility of taking out loans from the international finance market, to finance especially real estate speculators. The Bank of Finland was aware of the risks and warned the SKOP management early on. Kullberg issues a typical sarcastic comment reflecting the flow of events. “Many persons have asked why we did not intervene more concretely. Well, we had a rescue plan ready for the catastrophe, but it would have caused a great row had the central bank interfered with an independent financial institution’s strategy. When the difficulties mounted, we decided to wait until SKOP itself was mature to capitulate and submit itself to the Bank. ...The Bank of course was very inexperienced in its new role as a major industrialist. The government showed no interest to help. It is well possible that the Prime Minister (Esko Aho) and other leaders followed their political instincts and thought that since they cooked up the mess let them take care of it. ...The Minister of Industrial Affairs (Kauko Juhantalo) said that this is no business of the state.” (Kullberg 1996: 104).
CHAPTER 4
NEOLIBERALISM AND AGENCY: CRITICAL AWARENESS OF THE PRESENT

Finland and Norway compared

Deregulation of the monetary and financial market in Finland and Norway seem to have more similarities than differences. Even the Norwegian oil resource does not seem to have taken its financial policy to paths significantly different from those Finland took. The natural resource of forests and hydropower similarly concentrated the industry in one big cluster, closely associated with metal and machinery, just as the oil rigs stimulated subsidiary industries in Norway. The basic pragmatic problem faced by the regulated monetary and financial market in both countries was the same as in the USA. Competing needs for credit to finance industrial investments, housing for the rapidly urbanising population, infrastructure, agricultural development and consumption were debilitating by scarcity of capital, which led to a situation where politicians and top officials responsible for monetary stability were charged with impossible decisions. The size of large companies rapidly overwhelmed the powers of the state, and grey financial markets developed in both countries. On top of this, the information technology of financial transactions made control technically almost impossible.

The big apparent difference between the two countries was the conflict-ridden political atmosphere in Norway, especially between the “bourgeois” Høyre and the Labour party, as compared with the consensus in Finland, first between the Centre and the socialist parties, and then between Kokoomus and the Social Democrats. In Finland the conflicts concerning economic policy were much starker, even critical, between the political elite and the industrial capitalists, than between socialist and bourgeois political parties. The Centre party was closer to the “patrons of industry” than the explicitly bourgeois Kokoomus, at least according to the accounts by Koivisto, Kullberg and Holkeri discussed above. Nevertheless, in terms of financial deregulation the differences between what are supposed to be ideologically opposite sides of the political map were small and surprising also in Norway. Although the labour party regained power only after the dice for deregulation had already been cast by Willoch’s government, and therefore could no longer turn the course of events in this matter, this does not imply that the development had been much different had they been in charge during the first half of the 1980s. As we have seen, the Labour party was no less unhappy with the regulation than Høyre, and for similar reasons related to unequal chances of getting loans and lack of capital for industrial investments, housing, infrastructure and consumption. It is doubtful that Arbeiderpartiet would have been able to manage the change in essential respects better than Høyre did.

This can be said because the political elites on both sides of the socialist-bourgeois divide in the two countries seem to have acted out of pragmatic necessity as they themselves saw it. The issue of deregulation aroused little political debate, and the political leaders were driven by the daily drama of their own spectacle rather than ideological or theoretical considerations. The
historians of the Finnish banking system summarise the situation saying that “Political institutions had no say in the turmoil of the 1980s, or they only used their influence for passive resistance. One body, the parliamentary council of the central bank, was described as standing out there in the backyard 'like a snow doll'. Officials of the Bank prepared and executed the plans, the governments and the parliament watching from afar, if even that. The financial market was understood in Finland by a very small group of experts. The field was crammed with mysterious variables that even international specialists did not seem to understand, as was later seen with the crashes and bangs that followed.” (Kuisma and Keskisarja 2012: 199)

The absence of political justification for the deregulation that became a turning point in the history of world capitalism cannot therefore be attributed solely to the genre of political auto-biographies studied here. The statement by several of these authors that “we did not know” is not only a way of shirking off blame for the banking disasters and economic catastrophes that followed. Probably nobody knew. But that is not the issue here. Politicians are public personalities who must make what happens understandable to journalists and voters, whether it happens because of them or independently of their ideas. There was an intellectual resource available to them, monetarist economic theory and a neoliberal corpus of ideas concerning the role of the state in capitalism. The interesting question is why this resource was so little employed in the political argumentation. This is a general difficult issue that belongs to the domain of the sociology of knowledge.

Critical awareness of the present

A limitation is embedded in this analysis. This has to do with the nature of the data as well as the nature of the issue: deregulation of the financial markets. Politicians are in their jobs because they are public persons, and to be a public person the most important task is to build an image of oneself, not of the theoretical basis of their actions. This requires drama and narratives about good and bad people, heroes – usually themselves, opponents, helpers, false heroes and everything else that a drama takes. Autobiographies are full of that type of drama, characterizations of persons they involve, accidents, intentions, disappointments and frustration; even hatred. The genre itself determines that justifications of what happens cannot easily be read from other than between the lines. To understand politics, the best way may not be to listen to politicians.

However, even absence of theoretical reflexion may tell us something about what happened. The process that led to free credit markets was indeed very complex, something that even economists have not been able to model in a satisfactory way (Mjøset 2011). There are too many variables, too few relations between them that are known, and a history that was not repeating anything that had happened before. Maybe the circularity of the neo-liberalism argument is no accident: there is no explanation?

Talking about absence of justifications for political action reveals in itself a bias in our thinking. It is commonly assumed that politicians follow an ideological programme, a theoretical doctrine about the good society, which then results in their plans and decisions as exercise of power (Giddens 1979: 248-253). We now
have reason to correct this view. Although common sense in practical everyday life and ideological or theoretical social thought often match and walk down common ways, as has been the case here, there is a need to make a distinction between them. I have earlier called the former *mundane consciousness*, denoting the latter as *consciousness of the pulpit*.

Social reality is constructed on the basis of very complex ideas and values. The largest part of these ideas remain in a state of latency most of the time. We are unaware of them, not because they are unconscious or beyond human grasp; on the contrary we know them so well that we take the social reality for granted – *il va de soi*, as was one of the favourite expressions of Pierre Bourdieu. Such ideas operate as justifications, as unchallenged elements, self-evident truths that materialise in the regularities of human practices, which at the collective level form institutions and groups, and at the individual level organise our identities as parts of the social whole in positions of a complex structure. Thorstein Veblen (2002 [1919]: 1-11) called them ‘imponderables’ – we do not incessantly deliberate them lest our routines become perturbed and our normal life turns impractical.

The imponderable elements of cognition, takings-for-granted, are articles of belief that have become axiomatic by force of settled habit. They serve as justifications of action but also as the basis of criticisms of present reality. At some point the imponderables of society become self-defeating. The point beyond which more is no longer more but different, has been reached; or on the contrary, the pursuit of the ideals grounded in the critical awareness of the past may bring into being outcomes that are the reverse of those intended in the present. At such points, the forms of critical awareness of the present embedded in everyday identities, practices and institutions are no longer sufficient. They will need to be critically reviewed, re-evaluated and revised. Ideology and theoretical reflection are a modus operandi in this process; not its origin.

When the imponderables of a social order enter into a crisis, as was the case in the neoliberal turn, new forms of criticism and claims for change naturally emerge, as was the case when the “conservative” governments in the early 1980s assumed “modernising” as their mission. However, we must keep in mind that criticism does not exclude justification. On the contrary, combined they form a common axis of argumentation employed in different directions, criticism pointing out dearth and failure; justification pointing out the values and beliefs against which actions are to be judged. In other words they constitute the *critical awareness of the present* in each social situation. This awareness gets the form of theoretical and ideological articulations in the consciousness of the pulpit when the practical mundane consciousness contradicts itself and crashes against the social realities that it has itself created. But as observed, we must bring back the words that are used philosophically or theoretically to those language-games which are their original homes, i.e. to bring them back to everyday contexts of use: “When philosophers ... try to grasp the essence of the thing, one must always ask oneself: is the word ever actually used in this way in the language-game
which is its original home? - What we do is to bring words back from their metaphysical to their everyday use” Wittgenstein (2001: §116) ¹

As I have shown, the relevant politicians acted out of practical necessity and engaged very little if at all in theoretical reflections on why society would work better after financialization. Indeed, their political acts were not even informed of the extent to which they were part of an historical change in global capitalism, and of the dimensions that this change were to take in their own countries. Still, in the mundane consciousness of their daily political drama they followed, without saying it or even taking a distance from them, quite systematically the guidelines of monetarist economic policy outlined by Milton Friedman in his two books (1962; 1980), with one exception. The specifically Nordic institution of collective labour market agreements between employers’ central organizations, the central unions and the government has continued more or less stable until today, despite occasional efforts to discontinue them on either practical or, less frequently, theoretical or ideological grounds (Vartiainen 2011: 65-69). Political conflicts, stark and systematic in Norway, less strong and more contingent in Finland, did not get in the way of implementing financial deregulation, combined with fiscal policy and labour market intervention by the state. They were responding to the same practical and moral stalemate as the politicians had experienced in the USA about a decade or so earlier: politicians and managers of the monetary system cannot and will not make value-based decisions for society, and therefore these decisions must be arrived at through the market (Krippner 2012).

_Society of autonomous agents_

As we have seen, political action to deregulate the financial and monetary market did not result from academic ideas dismounting to the streets of daily political drama. Instead, the reverse appears to be the case. Neoliberal academic theory, and the ideology based on that theory, are responses to practical needs of justification rather than their source. Monetary and financial regulation by nation states had become agonizing for several obvious reasons. The size of corporate firms started to overwhelm the fiscal capacity of nation states especially in small countries, the huge capital requirements of rapid industrial and social change over the three decades after the war, and growing international trade no doubt were among the economic factors dictating the need to adjust the financial regimes.

These practical difficulties were the original home of neoliberal ideology. But when it returned from the academic theory of money, the market and the state, it was again translated into a critical awareness of the present in moral terms. Unlike the consciousness of the podium, it was not articulated as theorems concerning the relationships between variables, institutions and policies but as minuscule fragments of arguments that reveal a pattern only when juxtaposed one with the other, and what is particular in this case, on issues that did not always concern the historically most significant one on financialization but partial details that were more or less indirectly related to it.

¹ This observation was brought to my attention by Dr. Sara Heinämaa.
One of the fragments closest to monetary and financial deregulation was the dialogue with the industrial managers that Rolf Kullberg, the DG of the Bank of Finland reported in his autobiography. As remembered, his sarcastic reply to the complaint that nobody seems to be interested in the future of our forestry any longer was: “Not even the industry itself, then?” Then he started to explain why stable currency rather than the inflation-devaluation cycle not only allowed but made it necessary that the industry itself takes the position of the subject of its own policy instead of seeing itself as the recipient (beneficiary) of state action. Requesting that the industry changes its actantial role he actually reorganized the narrative structure of the economic drama. It was no longer to be a matter of state-driven growth but a narrative of competition by the industry in a new kind of world where the state only provides stable and predictable conditions instead of acting as an active subject.

Kullberg’s re-construction of social reality is one of the rare occasions in which it is directly used to justify the policy sea change that was already occurring. But it is not the only one that underscores the more abstract idea of a society that should be constituted by autonomous but co-operating agents. This idea appears both as critique and as justification in various forms in our analysis above, and whenever conflicts have occurred, as they must in politics, aspects of that idea can be seen on both sides of the debate.

Of course there are differences between politicians belonging to different parties, as there are differences between any persons. The one we identified above between Gunnar Berge, the labour finance minister, and Kåre Willoch the right wing prime minister, is interesting but lays emphasis on different aspects of autonomy. Whereas Willoch defended salaried people’s right to remuneration for their work, Berge stressed the value of work as self-realisation rather than just a means of subsistence. Autonomy as a right to command one’s resources and autonomy as non-alienated self-realisation are two different aspects of the same principle of self-directing agency: freedom of dependency and critique of unjustified alien power. A similar difference in attitudes towards work can be detected between Holkeri and Sorsa. For Holkeri, the value of work was primarily in the remuneration for it, whereas for Sorsa work was part of self-realisation and participation. It cannot be confirmed from this material alone, but this might be an instance where political views between the left and the right actually differ somewhat. The political right is keen on the autonomy of individuals: their right and duty to decide about their lives and use of resources; the left defends the real self, which depends on unity with other people. These are two sides of modern individualism, all the time threatened by the capitalist society, and therefore concern of the critical awareness of the present as articulated by politicians.

Nordic universalism

As compared with the Anglo-American homes of neoliberalism as a doctrine and practical policy the Nordic countries are special in the weakness of the
consciousness of the podium. Few outstanding economists stood out as
defenders of deregulation, and even less academic attention was paid to the rest
of the neoliberal reforms in the public sector. Why was the change so easily and
quickly carried through? As we have seen, politicians were reluctant to
participate in decisions involving moral or economic risks. They emphasised
agency; choices and the responsibility for them of social actors themselves.
Another striking aspect in their argumentation was the priority of the public
good and equal opportunity over special interests, which materialised in their
parliamentarism and support for centralised collective labour market contracts.

These principles alone exclude conspiracy theories that sometimes are put
forward to explain the change. Instead, it is useful to see the universalist
principles and the rule of law tradition in the Nordic societies. Feudalism never
advanced as far as in other Western European countries, and the Catholic Church
remained too weak to resist the (Lutheran) reformation, which united not only
the people but also the people and the Nordic Kings. The political elites have
sought the support of the people in the course of the nation-building process
since the seventeenth century, and sustained the universalist ideas of the
Rechtstaat ever since. The character mask of the citizen already implies universal
individual autonomy, which was not only the source but also the aim of political
legitimacy in these countries.

Contrary to the arguments often used by neoliberal critics of the welfare state in
the last decades of the twentieth century, social security systems, universalistic
rule of law and parliamentary representative democracy aimed to achieve a
society of independent actors and voluntary co-operation between them
(Sulkunen, 2009: Chapter 7). The shift to neoliberal mode of governance, and to
the character mask of the consumer, was easy because this principle had, by the
last third of the twentieth century, become accepted not only as an ideal but as a
standard of assessing the state of the society. Shortcomings of the autonomy of
citizens, from whatever point of view they were seen, constituted the critical
awareness of the present. The consciousness of the podium articulated this
critique as opposition to the pressures for uniformity in the theories of the
sociologists such as Ulf Himmelstrand, Sten Johansson and Erik Allardt. In the
everyday consciousness the protests appeared as youth radicalism and cultural
avant-garde movements. (Sulkunen 2009).

Nordic universalism was, of course, neither the cause nor the only precondition
of the neoliberal turn. The external pressures against national regulation were
real, but the analysis here has brought out that the leading politicians and
responsible officials articulated the critical awareness of the present at the
moment. The normative welfare state and its regulation policies were in conflict
with the principle that autonomous citizens are the source and not only the
object of the political order and institutions. The almost Rousseauian
republicanism of Willoch and Koivisto was increasingly uncomfortable with the
post-war tradition of state support to the export sector and state ownership of
industry. This was the background of their support for the stable currency policy
and commitment to international agreements about it. At the same time also
other areas of state regulation appeared to be in conflict with individual
autonomy, as Kalevi Sorsa made it clear in his reflexions. The state found itself in
a moral crisis that was of its own making, no longer possessing the moral resources to regulate businesses, individual consumers and their lifestyles. The deregulation of the financial and monetary markets was, in short, part of a wider rupture in the relationships between society and the state. Neoliberal ideology was not a cause or a motive for the change; at most it was an ex post critical formulation of this rupture. It was easy to adopt in contradicting political versions, since the principles of justification on which it became attached were already there, waiting for it to come.

**Conclusion: agency in modern society and the moral deficit of the state**

Silence is more difficult to interpret than explicit expression, but it is not thereby void of meaning. Its logic, especially its axiological, the value-laden principles that guide action, must be detected and identified not between the lines but behind them, in the fragments of comments on other decisions and aims than the main issue involved. As I have shown in the analysis above, the explicit justifications of financial deregulation missing. Norwegian and Finnish politicians who were in key positions at the moment of this historical change actually had a fairly consistent view of how societies ought to be governed, irrespective of country, political party or issue, with only minor and sometimes unexpected ideological differences. Society should be organised on the principle that it consists of autonomous actors: individuals, business companies, associations, political parties, labour market institutions and even states. They should form their wills, articulate their interests, decide on their actions, and take into consideration what other actors might decide. This implies a high degree of universalism. All actors should have the same liberty of choosing for themselves, and no group – and especially not politicians – should be in charge for what others can or must do. As Kåre Willoch (1990: 120) expressed it, it is a dangerous illusion of the labour party that “rule by politicians necessarily brings more democracy”.

Where does this stress on autonomy come from? No doubt it was a reaction to what Willoch with despise called “planned economy” (1988: 92). But why now, and not earlier? Capitalism has, at least ever since David Hume's and Adam Smith’s work, been considered a form of society that assures co-operation between autonomous agents by itself, without the need for consolidating political power to maintain social order. As Robert Castel (1995) has shown, the right to work and to make one’s living on a wage was the fundamental issue that led to the French Revolution, and since then this claim for autonomy has expanded to other areas of life.

Certainly, the planned economy had its roots in the post-war industrialisation of Europe. Investment needs grew beyond what individual companies could put together, especially in small countries like Norway and Finland. The state was needed for help, but by the 1980s corporation size and investment needs outweighed even the capacity of states and national central banks. This is obvious from the autobiographical accounts, but the argument was little used to justify directly the financial deregulation. The inverse argument was more
explicit: the state, politicians and officials who represent it, and its institutions including the central bank, have no moral or knowledge-based competence to make decisions on social issues that depend, among other things, on the availability of money.

I have stressed in an earlier study (Sulkunen 2009, chapter 7) that the rise of the welfare state served not only as the organ of economic planning and concerted effort to propel the industrialisation process; it also involved a cultural change from a society of traditional ties to a society where the social bond becomes impersonal, mediated by money and citizenship. State regulation was not a wartime exception as is often argued – and also the politicians’ memoires discussed here use this argument frequently. Rather, the principle of agency progressing from the right to work to citizenship, political rights and consumer autonomy, paradoxically employed state-centred means. Autonomy, and with that also the right to intimacy, was an ideal, but realized only incompletely still in the 1970s when the post-war generation came of age. Want of autonomy was the driving force of anti-authoritarian radicalism that preceded financial deregulation, which explains why it was so easy for many young left-wing rebels, such as the currently influential Finnish bank manager Björn Wahlroos, to become neo-liberal fundamentalists at a later age (Wahlroos 2012).

Moral deficit of the state, as articulated by our politicians in so many ways, if not to justify the decisions to deregulate the financial market but in other areas beyond them, was according to my analysis not a side-effect of an ideological current imposed from the outside but a logical outcome of the claim for autonomy now become a taken-for-granted principle of justification, instead of an ideal to be fought for. It was easy to accept and difficult to resist the idea that politicians and civil servants do not have the moral competence to decide how people should live, what investments private firms should make, or where, when and how consumers should spend their money. This was the case even in societies where the state, now more and more called the public sector, was an important service provider and employer. Public sector employees are, after all, autonomous wage earners, citizens and consumers just like everyone else. State interference with citizens’ and enterprises’ freedom to choose came to be seen as moral imperfection of society, no longer as a necessary means to bring that freedom to its fullness of being.

This, I am suggesting here, is the reason why politicians had no big need for theoretical and ideological arguments in order to implement what now in retrospect appears as an epochal change in world capitalism. Neoliberal ideology, and the underlying theory on which it is erected, is not the source of this change; it is an articulation of the moral dilemmas that had become flagrant as modern capitalist society had unfolded its inherent potentialities.
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The legislative amendments analysed concern the following Acts: 1) Commercial Bank Act, the Mortgage Bank Act and the Credit Company Act (Government proposal HE 223/1984); 2) The Act on the Right of Foreigners to own Shares in a Finnish Credit Institution and to engage in Banking Operations in Finland (HE 288/1984); and 3) the Foreign Currency Act (HE 157/1985).
SIFO is a non-bias governmental institute that conducts consumer research and testing. The board of directors is appointed by the Ministry of Children and Equality Affairs which also provides the basic funding. SIFO currently has a staff of 40. The scientific staff is comprised of researchers and other highly qualified personnel from social and natural sciences. SIFO’s projects are organized into three categories: Consumption and economy, Market and politics and Technology and environment.