

Why Finland and not Eastern Europe? Economic nationalism and industrialization during the interwar period¹

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«[...] economic nationalism remains alive and well in today's global economy.» (Helleiner 2005: 226)

The fall of the Berlin Wall and the increasing internationalisation of the economies in the early 1990s made us believe that economic nationalism was a relic of the past and that the globalisation would triumph of nationalist reflexes. At the beginning of the 21st century, it becomes clear, as pointed out by Eric Helleiner, that economic nationalism, far from being moribund, is still relevant. In the former communist countries – in Russia, in the former Soviet republics and, to a lesser extend, in East Europe – there is, partly because of the failure of the liberal policies, the resurgence of discourses and practices proclaiming economic nationalism (Abdelal 2005; Tsygankov 2005; Eichler 2005). Yet, this regain of influence does not only affect the countries of the European periphery. Even within the European Union, some states seem to want implement policies of economic nationalism or patriotism (Chavagneux 2006), an evolution worrying some people. Thus in a recent report entitled “Economic Nationalism or Progressive Globalisation”, one can read in the introduction: “Criticism of globalisation – once confined to academia and the margins of politics – is

¹ This paper was presented in Bordeaux and at UCLA. I would like to thank participants to these conferences, in particular Jean-Charles Asselain, Bertrand Blancheton, Ivan Berend, Hubert Bonin and Jürgen Kocka for very helpful comments. For a more detailed analysis of economic nationalism in Eastern Europe and Finland during the inter-war period, see David 2009.

becoming increasingly mainstream. Understanding the costs of globalisation, and reducing them, will be crucial to improving our standard of living over the next decade. However, the emergence of economic nationalism as a popular alternative to open markets works against such a future.” (Issac 2007: 1).

Should we fear the comeback of economic nationalism? The experience of Eastern Europe could confirm these fears as this region tried over the last two centuries to implement policies inspired by this ideology without any success (David 2009). In particular during the interwar period, economic nationalism in Eastern Europe constituted, according to Sydney Pollard, a huge failure : «Tariffs did not correlate with recovery, while they clearly depressed income levels. Moreover, they greatly increased fluctuations and insecurity. Worst of all, the climate of blocks and autarky, of economic nationalism [...] was part of the milieu out of which the Second World War arose [...]» (Pollard 1981: 305-306).

However, the Finnish example moderates this pessimistic assessment. In fact, this country adopted during the inter-war period a policy that could be qualified as economic nationalism and it experienced a strong industrial growth. External circumstances contributed to this economic success: the strong international demand for forest products, favourable terms of trade and the rivalry between the United Kingdom and Germany have thereby constituted favourable conditions. However, internal factors enabled Finland to seize these opportunities. This article is divided in three parts. The first one presents a conceptual framework of economic nationalism. The second one analyses the policies of economic nationalism in Finland during the inter-war period. In the third one, I emphasize the main elements of the Finnish experiment in a comparative perspective. In the conclusion, I put forward the necessity to rediscover Friedrich List’s work.

1. Economic nationalism: a conceptual framework²

My definition of economic nationalism can be summed up as a body of economic policies, which were aimed at bringing backward countries on par with the developed nations. In order to achieve this goal the state makes the national economy as opposed to individual enterprises or firms the basic unit of reference in international economic relations. However, this development strategy occurs within a specific context. We can identify three delineating

² For a more detailed presentation, see David and Spielmann 2006 and 2011.

attributes. First is the rejection of *laissez-faire*. It may include the use of tools, which allow a certain degree of autonomy in national economic policy towards both private interests and the world market, such as protectionism, foreign exchange restrictions and the creation of public enterprises. Secondly, it follows a program of industrialisation. Thirdly and most importantly is the central role of the state.

After the Second World War various attempts were made at defining economic nationalism. One basic approach has been to describe economic nationalism as neo-mercantilism (Kohn 1944; Wallerstein 1979). It is true that in many ways the roots of economic nationalism can be traced back to mercantilism. Mercantilism was a loose aggregation of economic policies aimed at increasing the wealth and power of the state. In fact wealth and power and not economic prosperity or development were the ultimate ends of national policy. As such mercantilism was not based on economic principles but on political objectives and aided the creation of a strong state. The underlying assumption was that in a world system of competing states and limited resources, growth in one state entailed decline in other states. The state strove to maintain a positive balance of trade so to minimise the dependence on foreign sources of supply, above all in case of war. To achieve this goal the state strove to minimise the outflow of silver and gold reserves and supported protectionism as a means to curtail imports, encourage exports and reduce unemployment. It also cultivated certain industries in order to decrease imports and show off the power of the state. In essence the fundamental importance of prosperity was to serve and enhance political power.

Nevertheless mercantilism diverged from later departures from free trade theory in some important ways. The most important of which was that the basis for measuring economic prosperity was strikingly different. For mercantilists wealth was synonymous with the possession of precious metals. For their successors wealth was the equivalent to the goods and services produced and consumed by people (Heilperin 1960: 71). Moreover the concept of nation changed considerably between the era of mercantilism and the onset of industrialisation. For mercantilists the king was the nation. The modern concept of nation could only appear when the belief that society naturally centred on the monarch, who ruled by some form of divine right, disappeared (Anderson 1983: 29-40).

Going beyond the concepts of mercantilism and neo-mercantilism, Heilperin developed the notion that economic nationalism purported to insulate, as opposed to isolate, a country from the rest of the world. Thus it allows the nation to have more autonomy in its economic life than it would have under liberalism. He defined economic nationalism as “a body of

economic policies aimed at the loosening of the organic links between economic processes taking place within the boundaries of a country and those taking place beyond these boundaries.” (Heilperin 1960: 27). Heilperin recognised diverse motivations for following the policies of economic nationalism such as war preparation, economic development and full employment. However, his definition was rather narrow and did not generally take into account influences that were not of an economic nature.

Other interpretations have attempted more comprehensively to incorporate the role of socio-economic factors, in particular that of societal actors. One such study is Albert Breton’s “The Economics of Nationalism”. Breton argued that “nationality or ethnicity can be considered as a collective capital good and that the monetary rate of return on this capital takes the form of high-income jobs for the nationals of a given territory.” (Breton 1964: 379). Foreign assets are transferred to natives and the former owners are usually fully indemnified from public funds. The catch is that the income redistribution tends to take place within one national group, usually from the working class to the middle class and the working classes end up paying the remuneration to the former foreign proprietors.

Harry Johnson also stressed the discriminatory component of economic nationalism against the lower classes and in favour of the middle classes. He argued that focusing largely on Third World countries the state attempts to create and develop a bourgeoisie by creating public ownership and redistributing wealth to the middle classes. Johnson’s line of argument is similar to Breton’s except that he stressed the psychological gains of economic nationalism, in the form of nationalistic satisfaction at the expense of material income (Johnson 1968: 1-16 and 124-141). The emphasis he placed on the development of industries, which are symbols of national identity or which are essential to the preservation of the state, are part of the psychological benefits derived from economic nationalism.

Both Breton and Johnson went beyond the traditional approach of economic nationalism as state-directed industrialisation and looked to some extent at how economic nationalist policies were affected by and consequently affected society. However, for Breton economic nationalism was only a sub-category and a form of political nationalism. He largely ignored the potential non-material benefits for the working classes or the country as a whole. Neither Breton nor Johnson clearly defined their concepts of middle class and working class. While they both used Marxist-type approaches to class they analysed the economics of nationalism in neo-classical terms.

The above interpretations not only presented economic nationalism in a negative light but they also tended to focus on only part of the story. Dealing predominantly with interwar

Eastern Europe Kofman and Szlajfer have offered a more balanced assessment of economic nationalism in their attempts to synthesise the political, economic and social facets of nationalistic economic policies. Their definition is helpful to our investigation (Kofman 1990-b; Kofman 1997: 191-249; Szlajfer 1990: 55-130; Köll and Valge 1998). In addition to our three basic criteria, i.e. the rejection of *laissez-faire*, the program of industrialisation and the central role of the state, they stressed the notion that economic nationalist states also tended to create corporatist institutions in most spheres of society. Certain tools were adopted and used in a consistent manner. Examples of such tools may include some of the following: measures to encourage domestic industry in the form of export subsidies and government orders, customs' barriers through tariffs and foreign trade restrictions or prohibitions, monetary policy such as foreign exchange restrictions, the creation of public enterprises, planning and legislation concerning the operations of foreign capital, minorities or foreigners, government control over the labour market and ideological propaganda in support of economic nationalism.

Kofman's and Szlajfer's approach is particularly interesting because of their comparatively more positive assessment of economic nationalism, i.e. in the context of the interwar experience of economic backwardness. They argued that economic nationalism provided a viable model for the development of underdeveloped nations in a period that was characterised by political and economic crises: «[...] there are grounds for viewing the so-called economic nationalism (and even autarky as one of its manifestations) in a backward state as a development stage which in the contemporary world is to some extent unavoidable and which leads to the modernization of the economy [...].» (Kofman 1990-a: 241).

Lastly, some studies have proposed a re-evaluation of the concept of economic nationalism on the basis of its nationalistic character: "Economic nationalism is not as much about the economy as it is about the nation — the economic dimensions of specific nationalisms only makes sense in the context of a particular national discourse, rather than in the context of general debates on economic theory and policy." (Pickel 2003: 105-106; see also Helleiner 2002). This new perspective has one major implication. Economic nationalism takes various political shapes depending on the period in question: it evolves in function of the representation of the nation. Rarely have historians attempted to differentiate these policies on a temporal basis³.

³ David (2009) and David and Spielmann (2006 and 2011) showed that it was possible to distinguish four variants or phases of economic nationalism in Eastern Europe during the nineteenth and twentieth centuries: Proto-economic nationalism (1780–1860); Liberal economic nationalism (1860–1914); Economic nationalism

To sum up, we can define economic nationalism as a policy which included a (partial) rejection of laissez-faire, the program of industrialisation and the central role of the state. Moreover, economic nationalism of the periphery thereby appears as very distinct from the policies in wealthier core nations. In the latter, policy often emphasized military and economic expansion, whereas in the former, it tended to have a defensive nature, often engendered by the imperative to protect the country from world economic fluctuations and by a related desire to hoist a country from the depths of dependency by developing domestic production.

2. The industrialisation of Finland during the inter war

2.1. Finland's situation at the end of the First World War

At the end of the First World War, Finland was a peripheral country in many ways comparable to the nations of Eastern Europe. First, if we define a peripheral country in Europe during the inter-war as a nation with more than half of the labour force working in the agriculture sector and a GNP per capita representing less than two-thirds of the average of the developed countries, then Finland can be considered as a peripheral country in 1930. Indeed, in 1929, while the income per capita in industrialized countries amounted to 4620 dollars of 1990, it was not more than 2639 in Finland (Maddison 1995). Furthermore, in 1930, more than half of the Finnish workforce was occupied in the primary sector (Tables 1 and 2).

Second, on the eve of the First World War, there was an important rural proletariat, a situation which caused very serious social tensions in the Finnish rural area, much alike the situation in Eastern Europe (Peltonen 1988; Haavisto and Kokko 1991: 186-188; Kaukianien 2006; Jørgensen 2006), a situation which remained during the interwar period.

Third, the belonging of Finland to the Russian Empire constituted another similarity with Eastern Europe. The First World War and the Russian revolution forced the Finnish economy to adapt to a new geopolitical configuration. Around 1914, Finland was economically speaking strongly bound to Russia. Almost 30% of its imports and exports came from or were destined to Russia. The dependence was particularly strong in terms of agriculture – the imports of grain and flour from Russia covered almost half of the consumption – and the

(1918–1939); Socialist economic nationalism in Eastern Europe (1945–1989); see also Batou and David (1996), Szlajfer (1997) and Niklas Jensen-Eriksen's and Pål Thonstad Sandvik's contributions in this session.

Russian market was a vital outlet for some Finnish industries. However, after 1918, the commercial exchanges between the two countries were nearly reduced to nothing: on the eve of the Second World War, the Soviet Union imported no more than 1% of Finland's exports (Hjerppe 1993: 57-61).

Table 1. GDP per capita in Europe (United Kingdom = 100,0)

	Maddison	Bairoch		Maddison	Bairoch
United Kingdom	100.0	100.0	Portugal	51.3	63.8
Belgium	91.8	105.8	Ireland	56.2	49.8
Netherlands	103.4	97.1	Italy	29.3	30.8
Switzerland	115.1	121.9	Finland	42.6	37.6
Germany	73.6	74.2	Hungary	45.0	40.8
Austria	92.2	91.0	Spain	49.8	43.8
Denmark	70.3	86.4	Greece	49.4	56.8
Norway	67.2	69.4	Poland	38.5	33.7
Sweden	63.1	99.5	Yugoslavia	20.9	31.9
Czechoslovakia	55.3	56.5	Bulgaria	24.8	32.9
France	85.6	94.6	Rumania	21.4	29.5
Industrialized countries	83.2	98.4	Agricultural countries	41.9	41.7

Source: David 2009 : 31.

Table 2. Share of agriculture's employment in the total labour force in Europe in 1928 (in %)

United Kingdom	6.8	Portugal	50.5
Belgium	17.4	Ireland	50.6
Netherlands	20.8	Italy	51.6
Switzerland	22.2	Finland	51.7
Germany	29.9	Hungary	55.7
Austria	33.9	Spain	56.4
Denmark	35.2	Greece	60.1
Norway	35.6	Poland	70.1
Sweden	37.1	Yugoslavia	79.7
Czechoslovakia	37.7	Bulgaria	81.0
France	37.8	Rumania	83.0
Industrialized countries	26.7	Agricultural countries	64.2

Source : David 2009 : 30.

Finally, as Hungary, Finland faced a severe civil war in 1918-1919. After the brief revolutionary period (January-April 1918), the repression of the “white” troops, mainly constituted of representatives of the independent peasantry and of the middle and upper classes was terrible: 5.600 persons died during the last two weeks of the war and immediate post-war and 12.500 persons died in the prison camps. These events deeply influenced the political and social life of the inter-war period, weakening the labour movement and favouring the supremacy of a conservative bourgeoisie (Alapuro 1988: chapitre 10; Kalela 1976: 108 and f.; Kirby 1979). Although, Finland had been relatively spared during the First World War, it was economically very weakened – especially because of the loss of the Russian markets –, as well as on a political and social level and presented some striking similarities with Eastern Europe in 1918: «Thus, as measured by the share of the agricultural population, Finland resembled more the Eastern European countries than Scandinavia or the Western European countries in the interwar period. [...]. As finally became evident from the cruel lesson of the Civil War in 1918, the preindustrial class structure in Finland, despite a Scandinavian heritage in the strong position of the peasantry, was developing rather close to the bi-polar model characteristic of Eastern Europe, where the class structure was above all dominated by the deep cleavages between the upper class and the rapidly growing proletariat of landless rural people and urban workers.» (Alestalo 1986: 25 and 143).

2.2. Finland’s economic performances during the inter-war period

In spite of these difficulties, the Finnish economy experienced a very strong development during the inter-war period, comparable or even better than during the previous and following periods (Table 3).

Table 3. The performances of the Finnish economy in a long-term perspective (growth rates formulated in %)

	1860-1890	1890-1913	1920-1938	1950-1973	1973-1990
Industrial Production	3,8	4,3	7,3	5,7	2,7
GDP per capita	1,2	1,9	3,8	4,3	2,5

Sources : Hjerppe and Jalava 2006: 52 ; Maddison 2003: Tableau 1c.

Compared to other European countries, these performances were impressive. They allowed Finland to catch up with developed countries concerning the levels of industrialisation and the GDP per capita: whereas in 1913, these indicators represented only half or two-thirds of the European average, in 1937, they surpassed them. Finland was thus the only peripheral country in Europe that underwent a process of convergence with industrialized nations (David 2009, chapters 17 and 21).

2.3. The reasons for the Finnish economic growth during the interwar period

2.3.1. A favourable external demand

During the inter-war period, the evolution of the international trade was indeed particularly favourable for Finland. Its exports came mainly from forest products (Table 4) – timber, pulp and paper – which met with a steady demand in the developed countries, especially in the United Kingdom, because of the post-war reconstruction, but also because of the social housing policy. Due to this high demand keeping the prices of the forest industry at a rather high level, Finland experienced during the inter-war period a favourable evolution of its terms of exchanges, particularly in comparison with countries exporting agricultural products, which suffered – mainly during the thirties – a severe depreciation of their exports' prices compared to the prices of their imports (Vattula 1983: 459; Kuisma 1993: 245-247; Kalela 1976: 152; Federico 2005-b, tableau 1).

Table 4. The composition of the Finnish exports during the inter-war period (in percentage of the total value of the exports)

	1921-25	1926-30	1931-35	1936-37
Timber	57.3	54.8	42.5	43.6
Pulp and paper	30.9	29.7	40.2	39.8
Total of the forest industry	88.2	84.5	82.7	83.4
Milk products	10.0	9.1	8.8	7.0
Others	1.8	6.4	8.5	9.6

Source: Singleton 1987, p. 58

Do we have to conclude that for peripheral countries the integration in the world economy was the only path to development? The Finnish economy was able to take advantage of the

booming export-industry insofar that the state pursued a policy allowing the distribution of the benefits to the entire population.

2.3.2. The agrarian policy

During the inter-war period, the Finnish authorities led an agrarian policy to intensify the domestic cereal production. In this perspective, one of the principal measures taken after the independence was to introduce an important customs duty on cereal imports, which was several times increased. The effects of this policy were quickly noticeable. On the eve of the Second World War, the food imports were limited to 10% of the entire consumption whereas around 1914 this proportion was of 61%. It should be noted that this policy was partly dictated by the events of the First World War and the Civil War. In fact, some of the former politicians thought that there was a link between the supplying difficulties during the winter 1917-1918 (partially related to the events in Russia, at that time Finland's principal cereal supplier), the rise of the agrarian prices and the social unrest in connection with the Civil War. To avoid repetition of such situations, a policy of self-sufficient agriculture was pursued during the inter-war period (Haavisto and Kokko 1991: 190-192; Voionmaa 1939: 10 and f. and 43-45; Singleton 1987: 39; Hjerppe 1989: 74-76 ; Myllyntaus and Tarnaala 1998: 40; Jørgensen 2006).

The introduction of the agrarian reform during the post-war years was also established, at least partially, because of political concerns (Haavisto and Kokko 1991: 189-190; Alestalo 1986: 22-24; Singleton 1987: 36; Hjerppe 1989: 75 and f.). The impact of these reforms was to reduce significantly the number of tenants as well as the proportion of poor farm workers. The government's aim was at the same time politic, economic and social: to reduce tensions in the country in order to prevent new coalitions between the rural proletariat and the urban labour movement that characterized the Civil War. On the whole, this objective was successfully achieved.

Another factor was even more decisive. One of the particularities of the Finnish agricultural was that the main part of the forest domains belonged to the farmers, the work in the forests often being a secondary occupation for the farmers and farm worker in winter time. This activity was also a source of additional income, which was quite important. For this reason, the profits of the exports of forest products were not monopolized by a small fraction of the

population, but were beneficial to the poorer social classes (Hjerppe 1985: 53 and f .; Ahvenainen 1974: 12-13). This sector was thus not an enclave, an isolated area of the Finnish economy. Therefore, a relatively equal distribution of income was one of Finland's characteristics. At a time when data were rare, the Gini index of the distribution of land property is a good indicator (Table 5). The state contributed to this phenomenon with the help of the agrarian reform carried out at the end of the First World War, which improved the tenants' status. Above all, the authorities limited the right of the big industries to own forest estates, allowing thereby the farmers to benefit from the income of the timber exports as emphasized by Kuisma: «By preventing the accelerating erosion of the peasants' lands into the hands of the big timber companies, the reforms had an effect that speeded up overall economic progress and stabilized social conditions. (...) earnings from timber, which supported the active participation of the rural population in the economy, was distributed among ten of thousands of peasant forest owners, instead of a few large companies. The expansion of forest-based industrialism was thus connected to the interests and welfare of agriculture, farmers and countryside.» (Kuisma 1993: 251)

The intervention of the State was by no means limited to the agrarian policy and the economic take-off of Finland can also be explained by the measures taken in favour of the industry.

Table 5. The distribution of land holdings in Europe during the inter-war period (in descending order)

Countries	Date	Gini index
Hungary	1935	0.66
Germany	1933	0.64
Czechoslovakia	1930	0.62
Italy	1930	0.61
Austria	1930	0.59
Spain	1930	0.58
Poland	1930	0.55
France	1929	0.54
Great Britain	1930-31	0.52
Pays-Bas	1930	0.49
Rumania	1930	0.46
Sweden	1932	0.45
Ireland	1931	0.44
Greece	1929	0.45
Belgium	1929	0.40
Denmark	1929	0.39
Switzerland	1929	0.34
Yugoslavia	1931	0.34
Norway	1929	0.31
Finland	1929	0.30
Bulgaria	1934	0.23

Source: David 2009 : 318.

2.3.3. The industrial policy in Finland during the inter-war period: “a selective dissociation”

Some years ago, Menzel (1988) published an important book on the successful industrialization of four small countries (Switzerland, Denmark, Sweden and Canada). In the words of Menzel (1988, part 3), their strategy towards international markets was “associative-dissociative”: associative because of their dependence on international markets for exports and imports, and dissociative because these countries also introduced different measures to reduce the pressures of world markets on specific economic sectors or actors, such as import-substitution policies, state intervention or other subtler forms of protectionism and public subsidies for some economic sectors (agriculture or industries producing for the domestic market) (see David and Mach 2003). The industrial policy of the Finnish authorities during the inter-war period was very similar to this “associative-dissociative”. It was articulated around four axes: the creation of state-owned industries; a pricing policy, selectively protectionist; the cartels and the development of infrastructures (see also Kuisma 1993 and 1998).

a) The nationalisation of the domestic resources

The will to preserve the country’s independence by maintaining the natural domestic resources under national control was one of the key facets of economic nationalism in Finland during the inter-war period. This political ideology materialized in a “very restrictive attitude vis-à-vis foreign capitals”, even though direct foreign investments were very limited at the end of the First World War. The Finnish authorities indeed took very restrictive measures vis-à-vis capitals and managers of other nationalities once the independence proclaimed. Furthermore, this position became more and more tougher: on the eve of the Second World War, when foreign investors began to show a continued interest in the country’s natural resources (wood, copper and nickel), a law was even enacted to prevent them from acquiring property in Finland without the permission of the government (Hjerppe and Ahvenainen 1989: 286-298).⁴ Due to this economic policy, a large state-owned industrial sector was created, representing about 5% of the GDP (Haavisto and Kokko 1991, p. 194-195). Mainly, three

⁴ To be more precise, the state nationalized the enterprises considered as strategic and/or essential for the wealth of the country and, at the same time, «followed a kind of intelligent follower’s strategy by selectively allowing western influences while integrating business targets of foreign multinational enterprises with national development goals and projects.» (Michelsen and Kuisma 1992: 350)

sectors were concerned, above all the forestry, the mining and the armament industry. At least, four factors explained the formation of an industrial state-owned complex in Finland during the inter-war period (Kuisma 1993, p. 265):

- The considerable needs of capitals required by some sectors (railways; hydro-electricity).
- The economic and political issues in connection with some sectors, dominated by international cartels (chemical industry).
- The important risks or insufficient profits of some activities: domestic private capitals were therefore reluctant to invest and foreign investments were not allowed (the mining industry for example)
- The desire to ensure the country's national security (armament; natural resources).

It should be noted that the public industrial sector played an important role in the long-term development of the Finnish economy. It contributed to establish the essential infrastructures, facilitated the introduction of modern technologies in the heavy industry and allowed the diversification of production (Michelsen and Kuisma 1992: 349).

Finally, another characteristic of these state-owned industries lied in their management, since they were mainly administrated on an economical profitable basis (Haavisto and Kokko 1991, p. 194-195), element which had important economic consequences: «The state was the largest shareholder in these companies, but in practice they operated under their top managers as salaried entrepreneurs implementing capitalist business principles. As a matter of fact, in the most successful corporations, the strong chief executives were able to gather in the same hands both the power of a capitalist, the organizational capabilities of a "Chandlerian" manager and the creative function of a "Schumpeterian" entrepreneur.» (Kuisma 1998: 435). This point is interesting as studies on the role of the government in emergent Asian countries after World War II have shown that the standards of performance presiding the allocation of subventions explain to a large extend the success of these state policies (Amsden 1992: 61).

b) The protectionist industrial policy

The Finish trade policy during the inter-war period was determined by three objectives: the protection of the domestic agriculture, of the domestic industry producing for the domestic

market along with the safeguarding and the development of the exports. The industrial protectionism was less extensive than the measures taken in the primary sector. Nevertheless, during the inter-war period, Finland adopted an industrial protectionism that could be described as selective, in particular during the thirties.

The product structure of the Finnish imports during the years 1909-11 and 1936-38 illustrates very well the impact of the trade policy as well as the country's industrial development (Table 6).

Table 6. Commodity composition of Finnish imports, 1910-1937 (in % of total value)

	1910	1928	1937
Food	46.4	31.0	17.6
Raw animal products	0.6	0.1	0.1
Processed animal products	1.9	1.3	0.2
Cereals	6.2	6.3	4.6
Flour and cereal transformations	16.5	5.4	0.9
Colonial products	5.5	4.5	2.8
Miscellaneous	15.9	13.3	8.9
Raw Materials	11.7	9.4	11.7
Textile fibres	5.6	4.1	5.0
Metalliferous ores	0.1	0.0	0.2
Miscellaneous	6.1	5.3	6.5
Fuel and electrical power	3.6	6.1	9.6
Coal	2.2	2.5	4.8
Oil derivative	1.4	2.3	2.8
Manufactured Products	35.4	53.6	61.1
Chemicals	4.2	6.1	9.2
Yarns	2.1	2.4	2.5
Fabrics and finished textile goods	7.9	10.3	6.7
Metals	6.2	11.5	17.0
Machinery	5.5	7.5	10.7
Transport	0.6	6.7	7.1
Miscellaneous	9.0	9.0	7.8
Military Equipment	0.0	0.2	0.2
Total	100.0	100.0	100.0

Source: David 2009: 389.

Note: 1910 = average 1909-1911; 1928 = average 1927-1929; 1937 = average 1936-1938.

This table highlights three principal points. On the one hand, as we observed, the policy of agricultural self-sufficiency was bearing fruit. On the eve of the Second World War, the agricultural imports represented less than 20% of the total, while they rose up to nearly 50% in the years 1909-11. On the other hand, there was a trend towards industrialization of the consumer industries (food; textiles) in order to substitute the imports, particularly after 1927-29. However, the important increase of the imports of manufactured products, concerning mainly the chemistry, the metallurgic industry and the machines, revealed the rapid industrialization of the country during the inter-war period. The two goals of the selective protectionism policy (promoting the agricultural production and the industries producing for the domestic market) were therefore fulfilled, without that these protectionist measures compromised the exports or the imports of essential manufactured goods for the industrial development of the country.

It should also be noted that, between 1925 and 1937, the export industries were growing in a similar way as the industries producing for the local market (Voionmaa 1939 : 42). Unlike the East European countries, the industrialization by the bias of exports and the import-substitution didn't constitute alternatives but represented the two interrelated parts of the development process.

c) The cartelization of the industry

In literature, the cartels are often held for responsible for the low industrial growth in Europe during the inter-war period insofar that these agreements tended to increase the prices of manufactured products and often served the interests of foreign companies (David 2009: chapters 16 and 19). However, Kuisma showed convincingly that in Finland the creation of export cartels enabled small Finnish companies, especially in the paper and pulp industry, to conquer foreign markets: «It was cooperative networks and cartelization that emerged as the strategy of the relatively small family firms [...]. Finnish corporations eliminated their mutual rivalry, concentrating the creation and construction of their sales and distribution channels in export cartels which unified the entire industry and all producers into a strong, organic entity.» (Kuisma 1993: 253). These cartels made it possible for Finnish companies, small internationally, to cooperate and be competitive at an international level. These industrial agreements became important: it seems that during the inter-war period 50% or even 70-80% of the exports came from centralized sales organisations established by the forest industry and

an equally important proportion of the production was also under control of these arrangements (IKW 1941: 23-24; Ahvenainen 1985: 190).

The importance of cartels was also indicative of the close cooperation between firms in Finland. This cooperation was for companies a necessity because of the lack of capital – in the very capital-intensive industries, financing was often made possible by the collaboration of large circles of entrepreneurs – and human capital. Cartels were thus playing an important role in the diffusion of information (on markets; technology) to their members. For some authors, this cooperation was «a major competitive advantage for Finnish firms and the national economy.» (Ojala and Karonen 2006: 99).

If some of these factors – strong government intervention; cartellization; state-owned industrial corporations – have been put forward by some historians (see for example Kuisma 1993 and 1998), others, such as the nature of the state, the social capacities or the international context, have received less interest even if they also played a very important role.

2.4. The nature of the State in Finland during the inter-war period

We have seen that the State played a significant role in the economic development of Finland during the inter-war period, promoting a relatively equitable distribution of the income of the exports and by leading an industrial policy adapted to the economic situation of the country. We would like to show that the structure of the State favoured the nature and the efficiency of this policy. The Finnish case analysis showed that an efficient bureaucracy constituted an important factor of development. The bureaucratic tradition in Finland promoted the schooling of government officials corresponding to the model advanced by Max Weber: competent, not much corruptible and identifying themselves with the State.

Furthermore, the State was not isolated but maintained close relations with the civil society. At last, the industrial policy in Finland was characterized by its selectivity and the standards of performance were respected in the administration of the public companies.

2.4.1. A long bureaucratic tradition

First of all, at the end of the First World War, Finland disposed of a competent bureaucratic tradition dating from the period of independence (1809-1917). As from the beginning of the

19th century, because of the relative non-interference of the Russian authorities in the local affairs and the absence of a parliament as a forum for public politics, the bureaucracy occupied important political and administrative functions in the Finnish government. One author even believes that at the beginning of the 19th century, Finland was an all over bureaucratic society (Alapura 1988, p. 25).

Secondly, there was a close relation between the civil society as a whole and this bureaucracy. After the annexation of Finland by Russia (1809), the elites tried to consolidate their internal power by winning the Finnish population to their cause. By creating close connections between the administration and the population, these elites also hoped to strengthen the country's autonomy vis-à-vis Russia, as emphasized by Alapuro: «All these factors combined to create a nationalism in which both aspects – nationalism as protest of underdeveloped peoples and as civic religion – seem to have intertwined exceptionally closely. Nationalism in Finland did not play the role of a liberating force in the typical Eastern European way; practically from the beginning it served strong elements of a civic religion for the territorially centralized state as well. The upper classes in Finland, with their Swedish culture, found exceptionally strong incentives to adopt or accept the language and culture of the large majority of the people, both because of the country's political dependence on a great autocratic state, Russia, and because of their own need, as state bureaucrats, to establish a sense of obligation to the Finnish polity. As a consequence, a rather unified national culture grew up.» (Alapuro 1988: 92).

2.4.2. The Finnish democratic corporatism

In a study on industrial policies in South-East Asia, in Latin America and Africa after 1945, Peter Evans (1995) showed that the State played an important role in the economical development of Korea, Japan and Taiwan. The success of this interventionism can be explained by two characteristics of the state apparatus of these nations: on the one hand, the importance of internal bureaucratic coherency as a precondition of the effective participation of the State in the economical life of the country and on the other hand, the even bigger influence of external networks, the links between the State and the private actors. The author defined this double characteristic by the embedded autonomy of the State: «This embedded autonomy is the mirror image of the incoherent absolutist domination of the predatory state and constitutes the organization key to the effectiveness of the developmental state. Embedded autonomy depends on an apparently contradictory combination of Weberian

bureaucratic insulation with intense immersion in the surrounding social structure [...]. It is an autonomy embedded in a concrete set of social ties which bind the state to society and provide institutionalized channels for the continual negotiation and renegotiation of goals and policies.» (Evans 1992: 154 and 164).

This concept allows us to understand the importance and the efficiency of the economic policy of the Finnish State during the inter-war-period. The autonomy and the coherency of the Finnish bureaucracy were based on a secular administrative experience. The State had also close contacts to the big private business organizations, representing the agricultural interests, the export industries and the ones turned to the domestic market (Lamberg 1998; Vartiainen 1995: 142; Ojala and Karonen 2006: 108) By their participation in governmental commissions, these organizations played an important role in the definition of public policies (Eloranta 2007; Lamberg 1998).

It should be noticed that the corporatist structure was part of the whole society. Cooperation prevailed more often than competition in the relations of the economic elites. The trade policy during the inter-war-period was therefore as beneficial for the export industries (by the bias of trade negotiations) as for the agriculture and the industries producing for the local market (protectionism) (Lamberg 1998: 95-96).⁵

The corporatist dimension of the Finnish inter-war economic policy refers inevitably to the researches of Katzenstein on the industrial policies of small European countries (Switzerland, Austria, Belgium, Holland, Sweden and Norway) after 1945 (Katzenstein 1984 and 1985). Katzenstein shows that democratic corporatism was central to the understanding of the economic successes of these nations during the years 1960 and 1970. This model has three characteristics: 1) an ideology of social partnership on a national basis; 2) a relatively centralized and concentrated system of interest groups; 3) a voluntary and informal coordination of controversial goals by the bias of continual political negotiations between the interest groups, the State bureaucracy and the political parties. This democratic corporatism,

⁵ Markku Kuisma also underlined this collaboration by pointing out that this was connected with the failure of the representatives of the peasantry and the forest industry to impose their interests, a policy exclusively agricultural for the first ones, the extension of the forest estates for the big industries for the seconds: «The "success story" of Finland may after all be encapsulated in one sentence: Because all the key power groups failed to achieve their most radical objectives, the whole turned out to be a reasonable success. If inter-war Finland, by this token, was an "intelligent follower" like Japan, this was not actually because of her "intelligence". It was more a question of the economic tools available and the conflicts of interest between the internal power groups, especially the struggle between a politically dominant agriculture and export-oriented industrial capitalism, resulting in a combination that was not actually desired by anyone but nevertheless acted as a development strategy strengthening the economy, promoting growth and appearing in hindsight as a wisely constructed national project.» (Kuisma 1993: 267-268).

the origins of which went back to the Depression of the years 1870-1890 (Mach 2006), however really developed after the Second World War and, according to Katzenstein, allowed the small countries to lead a policy of flexible adjustment: they were therefore able to profit of the internationalization of the economy by maintaining a certain social peace because of the instauration of compensatory policies for the social groups and the industries threatened by the economic opening.

One of the most interesting points highlighted by Katzenstein was to establish a distinction between a social and a liberal corporatism. In the first case (Austria, Norway and Denmark), the countries were characterized by strong labour movements and by politically weak economic communities, which were little internationalized and relatively decentralized. In the second case (Switzerland, Holland and Belgium), the groups of professional interests were politically strong and turned towards the international market, while the representatives of the labour class had little influence.

This classification allows the reintegration of the social cleavages in the study of the Finnish case.⁶ During the inter-war-period, this country's political and economical configuration presented strong similarities with Katzenstein's concept of democratic corporation, but more in a liberal version. After the civil war, the Finnish society was indeed marked by the political and economical domination of the bourgeoisie (Alapuro 1988: 204; Kalela 1994: 168; Hannikainen and Heikkinen 2006).

As an author remarked: "«[...] Finnish corporatism had from the outset acquired a clear probusiness bias.» (Vartiainen 1995: 160). During the inter-war period, the employers were leading an aggressive policy, the labour unions weren't very strong and the social Democrats had very moderated positions (Knoellinger 1960). Due to the weakness of the labour movement, wages dropped much more in Finland than in other Scandinavian countries during the thirties: «[...] a most important explanation is, of course, that the power of resistance of the Finnish unions at that time was virtually nil.» (Knoellinger 1960: 90; see also Peltola 1998: 225). However, without denying the weakness of the labour unions in Finland, in our opinion, this quotation underlines one of the problems of most of the studies, which are dedicated to the Finnish labour movements: the other Scandinavian countries form the basis of comparison. However, we have noticed that, because of its economical structures, Finland presented similarities with the East European countries. Replaced in this context, a more

⁶ It is interesting to note that an author regretted in a critical review of these two works that Katzenstein did not take Finland into consideration (Hicks 1988).

favourable point of view is possible regarding the evolution of the labour condition in Finland. Three elements illustrate this point.

First, the level of the real wages in Eastern Europe on the eve of the Second World War rarely exceeded the levels of 1913, although in some countries the industrial growth was strong. In Finland, the wages of the less qualified labourers of the industries and the agriculture were largely superior to their level of 1913, although this progression was not linear (Table 7). It seems that the authorities contributed to this improvement: «The government supported the unions in many ways by legislation, and at the same time tried to encourage peaceful development of the labor market. For example, freedom of association was confirmed, collective bargaining was legally recognized, and mediation machinery for labor conflicts was organized. As early as 1918, specially appointed representatives of the central labor organizations were called on as advisers at the preparation of important labor matters in the government office concerned, the Social Board.» (Knoellinger 1960: 68). The intervention of the state in the labour relations was nevertheless limited. As prove: although a law on collective agreements was passed in 1924, it was hardly applied because of the opposition of the employers (Kalela 1994: 167; Kirby 1990: 51-53).

Table 7. Real wages of urban unskilled workers in Europe, 1911-1938 (1913=100)

	BEL	DEN	FRA	GER	UK	IRL	ITA	NL	NOR	SWE	FIN	YUG	POL	RUM	HUN	BUL
1911	90	n.d.	98	96	96	101	93	96	89	105	n.d.	n.d.	n.d.	100	n.d.	n.d.
1912	94	n.d.	100	95	94	100	99	98	88	101	n.d.	n.d.	n.d.	n.d.	n.d.	105
1913	100	100	100	100	100	100	100	100	100	100	100	100	100	n.d.	100	100
1923	113	144	101	n.d.	96	n.d.	121	156	114	124	102	n.d.	68	71	n.d.	99
1924	107	144	100	78	98	135	117	150	106	124	104	n.d.	83	n.d.	80	108
1925	110	153	100	90	99	121	116	150	109	125	110	n.d.	80	n.d.	78	104
1927	104	160	89	96	103	129	126	159	114	133	117	88	78	63	86	103
1928	112	160	95	102	102	124	126	160	118	134	121	86	83	n.d.	85	100
1929	123	161	101	105	103	124	93	167	125	143	132	76	89	n.d.	109	89
1936	110	171	110	98	113	131	114	172	134	152	139	91	108	n.d.	85	79
1937	125	168	112	97	111	124	107	170	138	154	145	86	106	n.d.	96	73
1938	132	174	105	98	113	129	105	171	141	159	n.d.	90	n.d.	69	100	78

Sources: Williamson 1995-a and David 2009 : 293

The importance of the welfare state presents a second element showing the relatively favourable evolution of the living conditions of the labour class in Finland during the inter-war period. In 1930 the part of the social expenditure in the GDP in Finland was superior to the average of the developed European countries and without any comparison with the East European countries (Table 8). The basis of this welfare state were set during the period preceding the First World War, in connection with the rise of the socialist movement in the Finnish political life. During the inter-war period, the social policy of the state adopted a more liberal connotation because of the weakening of the unions and the social democratic party, however without questioning the gains of the preceding period (Kalela 1994; Eloranta and Kauppila 2006).

Table 8. Social spending in Europe in 1930 (in % of GNP)

R-U	BEL	P-B	CH	ALL	DAN	SUE	NOR	FRA	TCH	AUT
2.6	0.6	1.2	1.2	5.0	3.4	2.6	2.4	1.1	0.5	1.2
ITA	POR	IRL	GRE	ESP	HON	FIN	POL	ROU	YOU	BUL
0.1	0.0	3.9	0.1	0.1	0.1	3.0	1.1	0.1	0.1	0.0

Source: Lindert 1994: 10.

The position of the social democratic party in the political life constitutes a third element, which is related to the position of the labour movement in Finland during the inter-war period. At the end of the Civil War, the Finnish authorities reintegrated the social democratic party, at least the reformist wing, in the political life of the country in order to ease the social climate. Moreover, conflicts between the great bourgeoisie on one side and the peasantry on the other favoured the rapprochement of the socialists with the peasants (Kalela 1976). Indeed, unsatisfied with the liberal economic policy led during the Depression, the Agrarians, became progressively the allies of the Socialists, alike to what was happening in the other Scandinavian countries. In 1936, a common program was presented, based on the protection of the democracy. Also, the social Democrats agreed to increase the military defence and to postpone their project of an unemployment insurance; in exchange, the peasantry granted a reduction of the protective tariffs on the agricultural products. The next year, a coalition government came to power. In this sense, Finland had a different experience than the East European countries, which, at the same time, reinforced their authoritarian regime. One of the

main reasons for this difference was due to the fact that the Finnish peasantry was better organized and established in the political system, while the political elites of East Europe often controlled the peasantry (Alapuro 1988: 259).

These three elements – increase of the wages; importance of the social dispenses; the significant importance of the social democratic party in the political life – indicates that the conditions of the labour class compared to the East European countries did not deteriorate during the inter-war period and that the Finnish State was able to redistribute the benefits to the whole population, even if some benefited more of this than others.

2.5. Social capabilities

Some economists and historians have put forward that economic backwardness contains a potential of rapid growth if the country's social capabilities are advanced (Abramovitz 1993). The level of education is the highest-ranking of these capabilities. In this respect, Finland had some comparative advantages. On the eve of the First World War, Finland had already achieved a high level of literacy. Indeed, in 1910, nearly 50% of the population was able to read and write. In 1930, this proportion was of 78%. This was a high percentage considering the level of development of the country.

During the inter-war-period, the secondary schooling and the apprenticeship favoured the economic growth (David 2009). Finland also presented a significant advance in these two fields in comparison to other countries of the periphery. Already in 1910, the rate of secondary schooling, or the percent of students in the age group of 10-19, was higher than the average in industrialized countries (Table 9). This rather high rate can be explained by the creation of numerous Finnish private schools after the introduction of a Russification program of the secondary schools by the tsar Nicolas II in Finland (Schneider 1982: 215). During the inter-war period, because of the constant development of the school system, Finland maintained an advantage in this matter; in 1937, its schooling rate raised to 7,7%, against 3,7% in the whole European periphery and 6,9% in the industrialized nations.

Table 9. Rate of secondary schooling, 1910-1937 (number of students attending secondary schools for 100 children in the age group 10-19)

	UK	BEL	NL	SWI	GER	DEN	SWE	NOR	FRA	CZE	AUS	IEA	EA
1910	2.4	2.5	5.7	3.0	5.0	4.9	2.3	4.9	2.0	n.d.	2.8	3.5	2.8
1928	6.5	4.2	7.1	5.4	6.4	7.9	7.2	5.1	4.9	3.7	4.7	5.9	4.6
1937	7.1	6.5	9.7	6.7	5.8	9.9	9.6	6.3	8.2	5.4	6.5	6.9	5.3
	ITA	POR	IRL	GRE	SPA	HUN	FIN	POL	RUM	YUG	BUL	AEA	
1910	1.2	1.0	3.5	1.4	1.3	1.8	4.1	n.d.	1.1	1.0	2.4	1.5	
1928	2.0	1.4	4.3	4.1	1.6	4.4	7.1	3.5	4.9	3.3	2.9	3.1	
1937	3.5	2.1	6.5	5.5	2.5	4.2	7.7	3.2	5.3	3.8	4.0	3.7	

Source : David 2009 : 342.

Note : IEA : Average of Industrial European Countries ; AEA : Average of Agricultural European Countries ; EA : Average of European countries.

Moreover, in an European perspective, the apprenticeship was quite developed in Finland in the thirties: the training rate (the number of pupils in apprenticeship for 100 pupils in primary school) ranged this country on the fourth European rank, behind Switzerland, Germany and Sweden (Table 10). As it seems, the government was quite successful, after 1918, by promoting the training schools. In addition to this policy, training schools were established within the big enterprises of the mechanic and paper industry (Kalela 1994: 170-171).

Table 10. Professional education in Europe in 1933 (number of apprentices for 100 students attending primary schools)

UK	BEL	NL	SWI	GER	DEN	SWE	NOR	FRA	CZE	AUS
12	16	16	35	24	12	25	5	6	10	11
ITA	POR	GRE	SPA	HUN	FIN	POL	RUM	YUG	BUL	
5	5	1	2	14	16	4	2	6	3	

Source: David 2009: 343.

Finally, recent studies have shown that the “gender gap” is a very important variable to understand the impact of the educational system on the development: the smaller the gap of the literacy rates between men and women, the bigger seems to be the impact on the process of economic growth (Tortella 1994: 13). Two elements seem to explain the importance of this indicator. On one hand, the education of girls tends to increase their productivity on the labour market. On the other hand, it has also implications in the domestic sphere, leading to significant economic and social benefits. In particular, women with a higher education level

have lower fertility rates, which will slow down the population growth as well as improve the level and quality of the children's education : «educational gender gaps are an impediment to economic development.» (Knowles and al. 2002: 143 ; see also Birdsall and al. 1995). Yet in Finland, the gap was nearly insignificant (Table 11). In fact, during the inter-war period, Finland was certainly the country in Europe where women had the best opportunities in the school system. In 1936, this country had the most important proportion of secondary school girls in Europe: 53% of the pupils were girls. This was the same at the university where women represented a third of the students.

Table 11. «Gender gap» in Europe around 1930 (in % of illiterates being ten years old or more)

	Women	Men	Gender gap
Belgium (1930)	5.6	5.2	0.4
Bulgaria (1934)	43.3	19.5	23.8
Czechoslovakia (1930)	4.8	3.3	1.5
Finland (1930)	16.6	15.1	1.5
France (1936)	4.2	3.4	0.8
Greece (1928)	57.6	23.3	34.3
Hungary (1941)	7.1	4.9	2.2
Italy (1931)	25.2	17.8	6.4
Poland (1931)	27.9	17.8	10.1
Portugal (1940)	56.1	40.3	15.8
Spain (1940)	28.5	17.3	11.2
Sweden (1930)	0.1	0.1	0.0
Yugoslavia (1931)	57.1	32.7	24.4

Source: David 2009: 345

The importance devoted to the development of social capabilities constituted one of the features of economic nationalism in Finland : «Finland did not become a semicolony, an oppressed supplier of raw materials exploited by foreign capital. The situation was clearly different from that in Bulgaria or Rumania, for example. Finnish nationalism supported a fairly equal distribution of income, education of the masses, social mobility, and hard work; all of these were factors that tended to spur economic growth.» (Myllyntaus 1990-b: 639).

The international situation and power balance also facilitated this growth, a factor often neglected by historians.

2.6. The international situation

In a study published 50 years ago, Hirschman established a distinction between the Balkan and the Danube states where the German commercial influence was steadily growing during the inter-war period, in particular during the thirties, and Scandinavia where an “Anglo-German duopoly” prevailed and where the German preponderance was reduced by the presence of the United Kingdom as another big market (Hirschman 1945, p. 110-113).

In Scandinavia, Germany indeed faced the increasing competition from the United Kingdom: «[...] Scandinavia became a stage on which Anglo-German rivalries were played out.» (Salmon 1986: 101). For these two nations, the Nordic countries presented quite a number of attractions. Their exports included several products, which could not easily be substituted by others (Danish bacon, Finnish timber, Swedish iron ore and the Finnish nickel). Furthermore, the Scandinavian countries represented extremely profitable openings for some products (coal, petrol, fertilizer). Finally, the increasing living standard in this region constituted also a very attractive market for several industrial products. These different factors explained why Great Britain never left Finland to Germany, contrarily to what happened with the countries of Eastern Europe: «By 1935 the [English] Northern Department was becoming worried about the growth of German influence in Finland and thus responded positively when the minister in Helsinki, having warned that the country was "drifting into the German orbit", suggested that "an expression of interest from Great Britain would perhaps stay the drift to some extent, and give fresh heart to those people in Finland who feel that she should look West, and not South".» (Salmon 1997: 301) Finland, far from falling under the exclusive cut of Germany during the thirties, kept also the English market, so vital for its timber exports.

3. Finland in a comparative perspective

3.1. The controlled integration of small countries

Finland alike other East European countries – except Poland perhaps – could be considered, given their demographic weight, as small countries. However, the conditions of development of these countries differ from those of big nations: their economic growth cannot only be based on the domestic market (Kuznets 1960; Katzenstein 1985; Menzel 1988; Honko 1994;

David and Mach 2007). The participation in international trade and, to a lesser extent, the ability to have access to capital markets constitute for those countries a prerequisite for development. Nevertheless, this statement has to be moderated. On one hand, there should be a strong demand for the products of these countries and their terms of trade should not be deteriorated (see Blattman and al. 2003). This was therefore one of the fundamental differences between Finland and the East European countries during the inter-war period. On the other hand, the question is whether this model can be applied to a large number of countries. The capacity of absorption of the markets of the industrial countries is for economic and politic reasons limited (Bairoch 1992: 347), as have shown the agrarian exports during the inter-war period. Above all, the integration into the international economy does by far not constitute a necessary and sufficient condition for growth, as pointed out by Francesco Rodriguez and Dani Rodrik: « What we dispute is the view, increasingly common, that integration into the world economy is such a potent force for economic growth that it can effectively substitute for a development strategy.» (Rodriguez and Rodrik 2001: 63). It should be accompanied by dispositions, which allow to limit the uncertainties associated with economic openness and to distribute the benefits coming with it to all the sectors, thus stimulating growth (see David and Mach 2007).

Finland set up measures of “selective dissociation” in the form of protectionist trade policies, by nationalising domestic resources, or even by controlling direct foreign investments, which enabled this country to accelerate the industrial process and favoured a better income distribution, derived from the export activities, within the population.

3.2. The income distribution

Many authors have outlined the importance of a relatively equal distribution of incomes in economic growth (Alesina and Rodrik 1994; Bardhan 2000). In particular, they point out that inequalities by concentrating the economic and politic resources in the hands of a minority limit the investments in public goods and infrastructures and restrain the possibilities of cooperation within the society. Stanley L. Engerman and Kenneth L. Sokoloff summarize this argument by explaining the differences of growth and the level of development between North America and Latin America over the last three centuries: “The logic is that great equality or homogeneity among population led, over time, to more democratic political institutions, to more investments in public goods and infrastructure, and to institutions that offered relatively broad access to economic opportunities. In contrast, where there was

extreme inequality, as in most of the societies of the Americas, political institutions were less democratic, investments in public goods and infrastructure were more limited, and the institutions that evolved tended to provide highly unbalanced access to economic opportunities and thereby greatly advantaged the elite.” (Engerman and Sokoloff 2002: 4; see also Acemoglu and al. 2005 and Milanovic and al. 2007).

In a study of governmental policies in Southeast Asia after the Second World War, Alice Amsden also stressed the link: “The more the distribution of the incomes is equal [...], the faster will be the growth rate of the industrial productivity” (Amsden 1992: 78). For this economist, an unequal distribution of the profits implies that a small group controls a disproportionate share of the resources. It is therefore very difficult for the State to act independently and to impose its policy (Amsden 1992: 75 and f.; Hikino and Amsden 1994: 296).

As we have seen, Finland was characterized by a relatively egalitarian income distribution during the inter-war period (Table 5). Unlike Poland, Hungary and, to a lesser extent, Romania, the distribution of land properties was relatively homogeneous. The State contributed to this phenomenon through the agrarian reform pursued at the end of the First World War, which improved the status of the tenants. Above all, the Finnish authorities restricted the right of the big industrial companies to own forest estates. The farmers therefore were able to benefit from the profits of the forest exports.

However, the Bulgarian and Yugoslavian examples showed that this factor was far from sufficient. The weak marketing and the small size of the farms, the absence of an authentic agrarian policy, the control of the foreign exchange market by foreign nationals, along with unfavourable terms of exchange did not allow these countries to benefit from this relatively equal distribution of income (David 2009: chapter 20).

The (in)equality materialized in different ways. Contrary to Finland, authorities in East Europe adopted vis-à-vis ethnical and religious minorities discrimination policies that accentuated during the inter-war period the fractures within these communities, thereby limiting the cooperation between the different social groups (Aldcroft 2006; Bardhan 2000; Brubaker 1996).

3.3. The importance of human capital

In 1982, Lars Sandberg stated that one of the principal obstacles faced by poor countries was not so much their stunting than their ignorance: “[...] I believe that for a given level of per

capita income, the lower the per capita stock of human capital the slower the rate of industrialization likely to be.” (Sandberg 1982: 681). In more recent studies on the processes of convergence/divergence, economists have also incorporated the concept of social capacity (*social capability*) to explain the reasons for (non)-development (Abramowitz 1989). Among these social capabilities, the levels of education and technical competences are first ranking. Yet, we have seen that in the field of secondary education and apprenticeship – the two sectors, which, during the inter-war period, had an influence on the performances in terms of industrial productivity – Eastern Europe countries, except Hungary, was backward. Finland, on the contrary, was characterized by a high rate of literacy and schooling at the time of the establishment of the policies of economic nationalism. During the inter-war period, the government pursued an ambitious education policy, by promoting in particular the apprenticeship and the secondary schooling. And this for men as well as for women. This point is important, because the “gender gap”, meaning the differences between the education levels of men and women, has an impact on the growth: the education of the women tends to increase the productivity and involves changes within the family sphere, which have a positive impact on the economy of a country (Knowles and al. 2002).

3.4. The nature of the State

In his studies on late industrialization in some European nations of the 19th century (Russia, Italy, Bulgaria), Gerschenkron assigned a major role to the State, only actor able to initiate a real process of industrialization (Gerschenkron 1962). However, state intervention is not always synonymous with economic success and governments do not always constitute an instrument of accumulation and development (David 2009). Why? The nature of the State, particularly its autonomy and its links with the civil society, constitutes the main answer. This autonomy signifies that the State is no longer manipulated by specific pressure groups, but is placed from now on in a perspective of a national economy under construction, implying a reinforcement of the industrial sector and aiming at a qualitative reduction from foreign dependency.

The study of the structure of bureaucracies in Eastern Europe over the 19th century has shown that these were far from meeting the ideal Weberian type, that means, officials considering as their interest to execute the task, which were assigned to them, and this in opposition to the pre-bureaucratic forms, which promoted the use of prerogatives of the charge in order to pursue private interests. The development of the bureaucracy in Eastern Europe was

motivated by the desire of these new nations to be conform with international standards, but also because the educated classes wanted to occupy a position worthy of their status. Afterwards, the administration pursued its own objectives, whose ultimate aim was not the development of the country (Janos 1989; Hobson 1997). In Eastern Europe, the absence of autonomy of the State persisted during most of the inter-war period. It was not until the thirties and the emergence of a new generation of government officials who were employed because of their education and not because of their status that we can speak of a certain State autonomy vis-à-vis the economic elites in Eastern Europe (Janos 2000).

At the end of the First World War, Finland, on the contrary, already had an administrative tradition that went back to the early 19th century. At that time, the bureaucracy occupied important political and administrative functions in the Finnish government, a situation that persisted throughout the 19th century. This tradition encouraged the training of officials corresponding to the model put forward by Max Weber: competent, not much corruptible and identifying themselves with the State. Economic nationalism in Finland after 1918 was partly the result of the failure of the economic elites (agrarian world; export industries) to impose its targets: the authorities then pursued a policy in favour of the general interests. The state policy also reflected the international context: the threat of the great powers (Soviet Union, Germany) lead the government to stimulate the industrial development and to nationalize the country's natural resources. However, the autonomy of the State (*insulation*) can be contra-producing, isolating the State (*isolation*). The administration is only really efficient if it manages to build privileged ties with the society (Evans 1995). This may be done by a mobilization of the population, a situation that occurs when the elites are weakened or destroyed (Trimberger 1978; Batou 1990). Yet, the countries of Eastern Europe failed in this matter. In other cases, the State forges privileged links with some organized social groups. We have seen that the Finnish corporatism corresponds to the second variant.

Conclusion

Friedrich List (1789-1846) could be considered as the main precursor of economic nationalism. The nationalist movements of the 18th and the early 19th century were in fact mainly concerned by culture and politics, but neglected the economy. In his work *Das nationale System der politischen Ökonomie* (the national system of politic economy), List was one of the firsts relating the economic live of a nation to its cultural and political components

(List 1998). To understand his work, it has to be placed in its context. At the time he wrote his book, England had indeed an undeniable economic supremacy over the rest of the world. List then proposed a development model to Germany, yet predominantly an agrarian country, in order to catch up. He particularly insisted on the importance of industrialization: “The manufacturing industry [...] increases the general welfare, the population, the income of the State and the power of the country [...]. Only through this, the agricultural of the country will be able to achieve a high point of perfection.” (List 1998: 99; our translation). This book was a direct answer to the theories of Adam Smith and his heirs. This is the reason why List has often been catalogued as an anti-liberal, a supporter of economic autarky and that his work had little influence among the economists (Harlen 1999; Helleiner 2005; Sai-Wing Ho 2006). However, the thoughts of the German theorist deserve to be rediscovered because they bring a new light to economic nationalism.

First, as a prerequisite for any development project, List insisted on the necessity of a “defeudalization” process, extolling the elimination of the parasitic nobility. In his conception, the social and political inequalities constituted an obstacle to the industrialization, as pointed out by Dieter Senghaas: «He saw an intellectually and socially mobile society as the opposite of the stratified societies of the Ancien Régime. Defeudalization thus amounted to the mobilization of forces, which in traditional societies had lain fallow. Wherever this process was inhibited, only halfway launched, or interrupted, blockages to development necessarily arose.» (Senghaas 1991: 456).

Second, List stressed the need of a selective integration into the international economy (Harlen 1999; Shafaeddin 2000). He pointed out the importance of a protectionist policy for the developing countries. However, he was not in favour of trade barriers in all circumstances. He considered protectionism as an instrument of foreign policy designed to increase the chances of survival of upcoming industries. Only industries producing consumer goods should be protected. The agricultural and the luxury industries should not receive any assistance. When the domestic industry has reached a certain maturity and the manufactured goods have become competitive on the international markets, the return to free trade should be considered: “[...] through restrictions, they (the states) are making blooming their factories, their fisheries, their navigation and their external trade; and then finally, after reaching the highest degree of wealth and power, by a gradual return to the principle of free trade and competition on their own foreign markets, they preserve their farmers, their manufacturers and negotiators of being indolent by keeping them running in order to maintain the supremacy they gained” (List 1998: 229; our translation).

Third, List insisted on the importance of education. He distinguished actually three types of capitals: the capital of nature, of material and of intellect. The first included the land, the sea and the natural resources. The second involved all objects (machines and raw material), which are directly or indirectly used in the process of production. Finally, the “intellectual capital”, superior of the two other forms of capital, included the education, the industry, the business, the armies and the government. This notion of intellectual capital was innovative. It also had an important implication: the education (literacy; technical training; apprenticeship; promotion of the science) played a fundamental role in the economic development and one of the important tasks of the State was to establish the necessary institutions for the expansion of the educational system (Levi-Faur 1997; Freeman 1995; Winch 1998; Senghaas 1991; Shafaeddin 2000).

List was indeed convinced of the importance of the role of the State in the coordination and the instauration of constructive policies in favour of the industrialisation and the economic development. Only the State was able to introduce administrative and constitutional reforms, to develop the infrastructures and above all to establish a custom protection. List was therefore in favour of a strong government, relying on an efficient public administration. A selective integration vis-à-vis international markets, the introduction of measures to limit the social and political inequalities, an ambitious educational policy, and finally a strong state and an efficient administration. These were the foundations of economic nationalism according to Friedrich List and which were, as we have seen, at the origin of the Finnish catch-up during the inter-war period.

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