

**The impoverished insophisticate: Human and economic development  
in Finland, 19th-20th centuries**

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## **The impoverished insophisticate: Human and economic development in Finland, 19th-20th centuries**

A central tenet of the Scandinavian development narrative has been the notion of synergy between human capital and economic growth – a model Lars Sandberg (1979) famously elaborated by referring to mid-19<sup>th</sup> century Sweden as an “impoverished sophisticate” characterized by high life expectancy, high levels of literacy and low GDP. The human development characteristics were seen to facilitate later take-off in terms of growth. It is a well-worn practice in Finnish economic history literature to use Scandinavia as the primary reference group when assessing Finnish economic and social development, although by many standards Finland was midway between this group and what is now termed Central and Eastern Europe. This paper assesses the Finnish case from this perspective by reconstructing and deconstructing a historical human development index (HHDI) for Finland and comparing it both to the usual suspects from Scandinavia and Western Europe and to a select set of countries more similar by initial state and geopolitical economy (E.g., Ireland, Czechoslovakia, Hungary, Poland). Comparison are made not only in terms of timings of convergence and timings of take-offs and accelerations, but also timings of divergence.

Methodologically, the paper also discusses characteristics of the HDI as a representation of development by unpicking how perspectives change when moving from a composite “mashup” index of development to a “dashboard” of dimensions, and how this affects the plausibility of the Nordic narrative. A systematic comparison of HDI and contributions to HDI of its subcomponents in the Nordic countries over different historical periods à la Prados de la Escosura will be included. Despite a rather complete convergence with the Nordic pattern by the late 20<sup>th</sup> century, Finland emerges as an “impoverished insophisticate” where economic growth was the first dimension to diverge from the periphery, education lagged behind not only other Nordics but also parts of the European periphery surprisingly long by many metrics, and the evolution of health was far from linear. The observations are discussed in detailed historical context.

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The narrative of Nordic development is a narrative of a virtuous circle between human and economic development. In Scandinavia, an early lead in literacy, schooling and mortality decline interacted with late but impressive catch-up growth. Increasing incomes became evenly distributed by virtue of equitable economic structures (dispersed ownership of key resources and means of production) as well as evolving, democratically governed public intervention, particularly in schooling and social insurance, including health care.

All countries are always different, and it has been pointed out that e.g. in terms of state-capital relationships at the initiation of modern economic growth, the Nordics appeared quite diverse. Juhana Vartiainen has characterized Sweden as a “spontaneous capitalist breakthrough”, Norway as a case of “management of a large natural resource base”, and Denmark a “spontaneously organized society of small businessmen”; the Finnish growth regime in the postwar years, then again, was from this angle more akin to an “interventionist developmental state of the Asian type” (Vartiainen, 2013). In terms of GDP per capita, in the early 20th century, Norway was clearly poorer and Denmark clearly richer than Sweden. However – ignoring Iceland -- Finland was more obviously the odd one out (Figure 1). At the eve of WWI in 1913, Finnish GDP per capita was 86 % of the Norwegian, 73 % of the Swedish and 54 % of the Danish one, respectively.

What about the key dimensions of human development so central to the Nordic story? Even if dubious late 19th century indicators on reading ability have suggested otherwise, Finnish economic and social historians have been aware for long that in terms of education, Finland was a laggard. Compulsory schooling was decreed late, and even more importantly, implemented slowly, reaching maturity only in the early 1950s. As for health, due to its history as the eastern part of the Swedish realm, Finland has

enjoyed high quality population statistics, indicating an early onset of mortality decline since the 1870s. Still, life expectancy was much lower than in Scandinavia, and remained so for long. In terms of policy, although the picture is not simple, Finnish choices prior to WWII have been characterized as non-Scandinavian. While Sweden embarked upon building a “people’s home” from the 1930s, Finland stuck to residual welfare policy and classical liberalism in the interwar decades. (Kettunen, 2001; Kalela, 1987)

When Finnish development has been looked comparatively, the context has typically been leading Western economies and Scandinavia. The plot has been one of catch-up. The point of this paper is to offer a broader comparative look at the dimensions of Finnish economic and human development.

A key exercise of the paper is to reconstruct and deconstruct a historical Human Development Index (HDI) for Finland. The motivation is practical rather than prescriptive. The HDI has its own peculiar history and problematic tendencies discussed below. However, it is a known quantity, and captures key dimensions of what have been considered essential features of the attractive Nordic development path: a combination of decent health, education and income for all. Indeed, its own history arguably relates to a will to rank societies anew in a way that would augment the position of countries like the Scandinavian ones.<sup>1</sup>

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<sup>1</sup> Its underlying philosophy of creating a metric for the potential for free self-realization is also compatible with democratic, liberal social market economies. As the 1990 UNDP Human Development Report states, “Human freedom is vital for human development. People must be free to exercise their choices in properly functioning markets, and they must have a decisive voice in shaping their political frameworks.” (UNDP 1990, p.1)

Taking this metric apart and looking at its components one by one both as contributors to the total and as separate indicators comparatively illustrates the peculiarity of the Finnish development path. In addition to contrasting with Scandinavia and Western Europe, and looking at differences and convergence, two further perspectives are added. The paper will look at the timings of take-offs and structural breaks in the different indicators themselves. Furthermore, the paper will expand the set of reference cases to the European periphery in order to analyse divergence as well as convergence. Using a set of non-Nordic countries that were at a similar level in terms of incomes, and also geopolitical economy (histories of imperial dependency), the paper will ask how Finland ranked against such cases, and when did Finland begin to decidedly move away from this set and towards Scandinavia in terms of human and economic development. From the perspective of “serial history”, when did Finland actually begin to “become Nordic”?

In addition to an empirical treatise, the paper discusses two problem areas: the quality of educational data in some commonly used databases, and the recent history of the HDI and its historical applications, characterized by changing virulence and constant mutations.