

Subsidy Reform in Finland – Case: Public Enterprise Financing of MTI

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Outline of presentation

- I. Historical remarks on public enterprise financing in Finland
- II. Reasons for change of focus in policy
- III. In what ways public enterprise financing of MTI changed
- IV. Conclusions

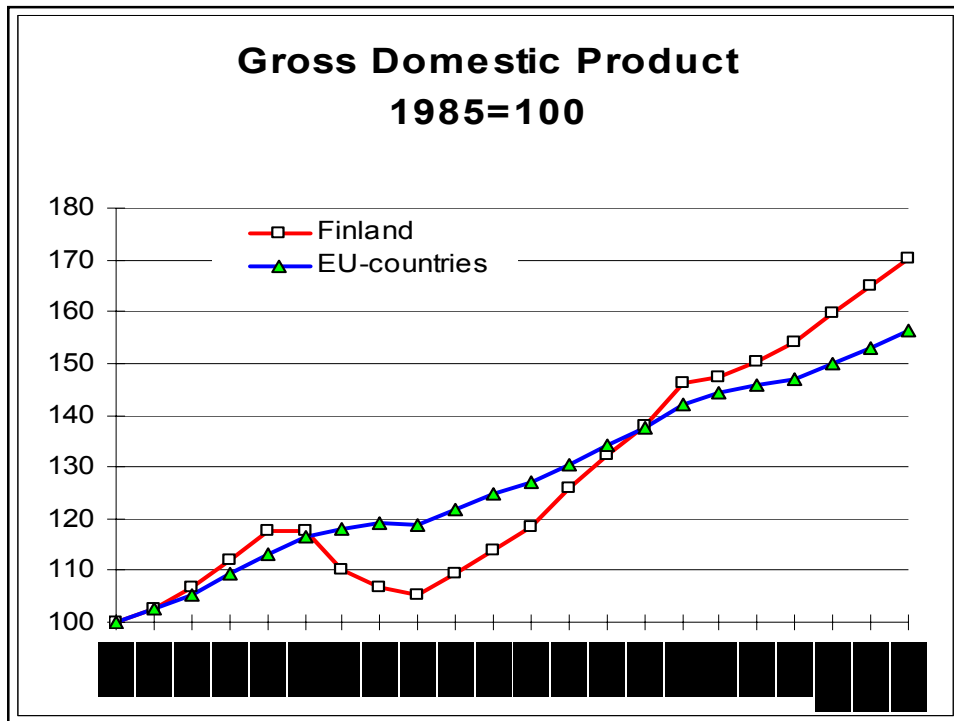


I. Historical remarks on public enterprise financing

- The state had a strong role in economy and industry through ownership and investment
- Domestic market was suited to boost export manufacturing industry
- Economy was closed for a long time, characterized by high regulation
- Periodic devaluations of currency boosted further export manufacturing industry at expense of domestic market

II. Reasons for change of focus in policy

- A very severe recession in Finland in early 1990's caused by
 - collapse of Soviet Union and related extensive bilateral trade
 - fast liberalisation of financing market
 - low growth in global market
- Rigidities of the economy were revealed
- Focus was changed from protecting status quo to enhancing real (intangible) competitive advantages of firms, efficiency in the economy and restructuring of industries
- Competition and regulatory reform were placed on political agenda

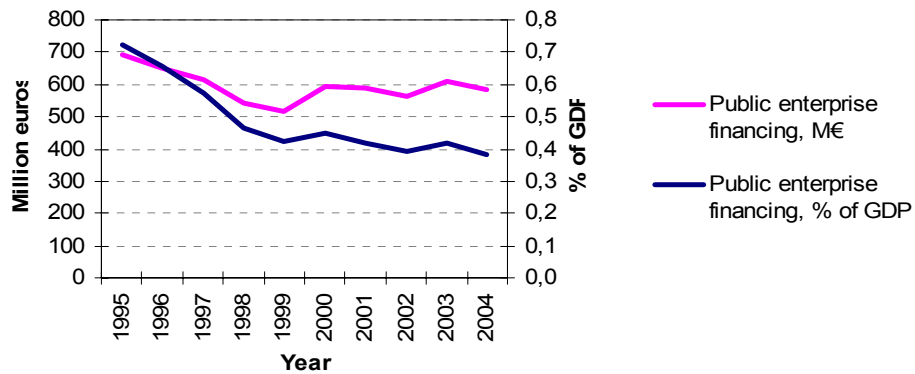


III. How public enterprise financing of MTI was changed

- Influential policy report in mid 1990's together with a government's programme made change of subsidy paradigm mandatory
- Manufacturing support rate was twice the OECD average support rate still at end of 1980's
- Guidelines for change:
 1. Overall decrease in public enterprise financing
 2. Increase share of R&D
 3. Aid to skills and competences (intangibles) instead of roof and walls
 4. More indirect and less direct support
 5. Preferring recoverable support to direct enterprise support

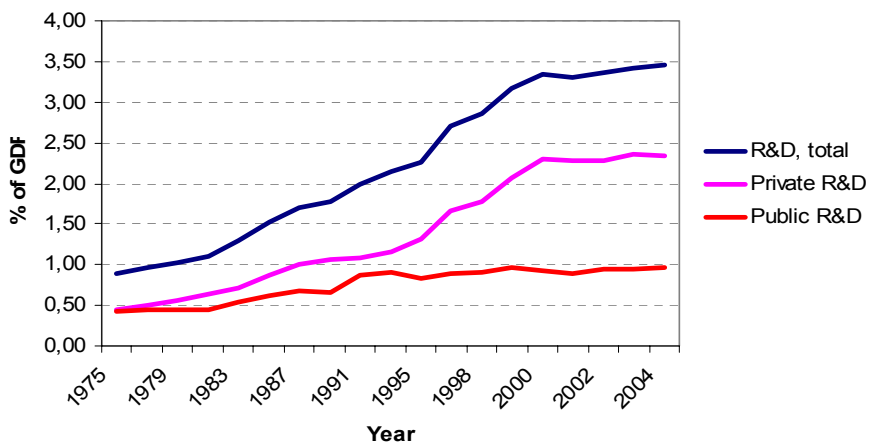
1. Public enterprise financing has been strongly cut in comparison to GDP

MTI's public enterprise financing, 1995-2004, and public enterprise financing as % of GDP



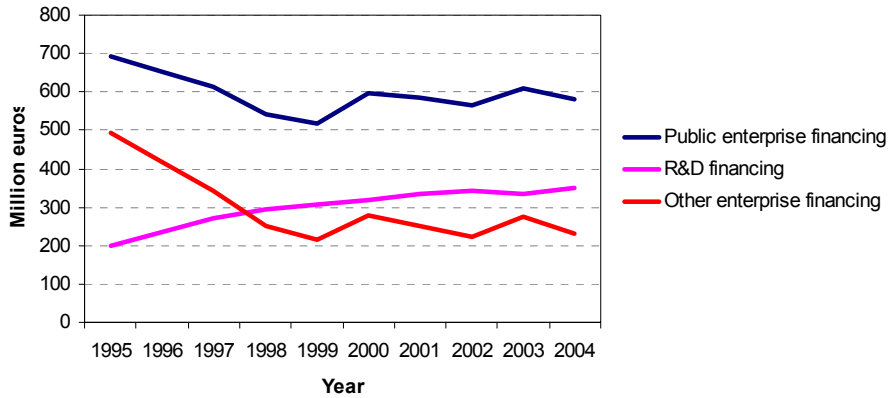
2. R&D has increased remarkably with public financing boosting that of private

Total, private and public R&D, % of GDP



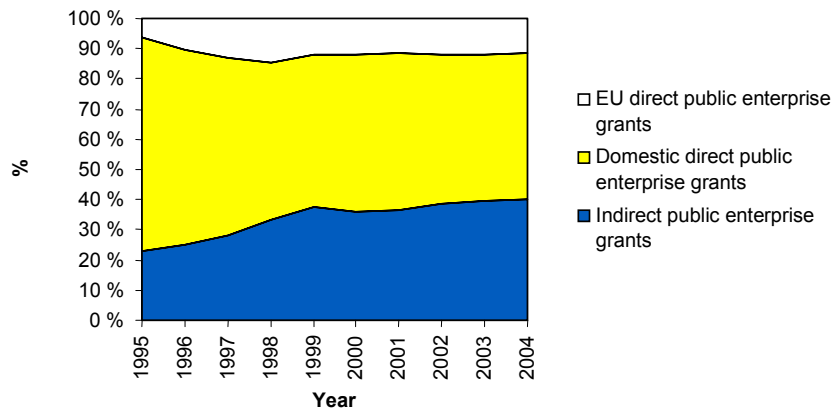
3. Public R&D has surpassed other types of public enterprise financing

R&D financing and other enterprise financing in MTI's enterprise financing, 1995-2004



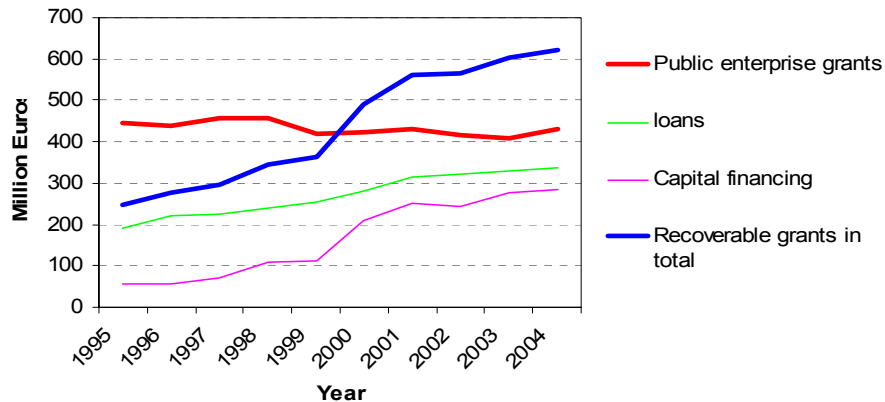
4. Indirect public enterprise support has increased at expense of direct one

Shares of direct, indirect and EU-financing in enterprise grants



5. Grants have lost their importance in comparison to recoverable aid

Development of enterprise grants and recoverable aid, 1995-2004



IV. Conclusions

- It is possible to change the composition of subsidies in a reasonably short time
- But in the Finnish case a real crisis was needed for that – otherwise it would have been much more difficult
- Of course, there was the option to go to the opposite direction – further protection – in the Finnish case the opening of the economy was accelerated
- What does all this mean for the objectives of sustainable development?