Assessment and Recommendations

The initial success of the Helsinki region as core of the Finnish Information Society…

Helsinki and its surrounding region emerged from the 1990s as an internationally competitive economy that had seemingly grafted the requisites of the "New Economy" onto the bedrock principles of the Nordic welfare state. Although the robustness of this model is still uncertain, the accomplishment is notable in providing a concrete example of globalisation dynamics that have been compatible with a significant scope for government. The experience corroborates broader empirical evidence suggesting that a social commitment to equity need not disadvantage the economic performance of countries. At the same time, incipient trends observed in Finland and the Greater Helsinki Region (GHR) suggest that this commitment has become more difficult to implement in the current environment of economic development. Recent widening of regional disparities within the country, greater spatial differentiation within municipalities, and an increase in inequality of the size distribution of personal income – although modest in all cases – challenge the ability of the state, regional and local economy to meet both its equity mandate while sustaining economic growth. Along several dimensions, development of the GHR is best described as transitional, compelling a reassessment of policies able to pursue competitiveness and equity as multiple objectives.

… follows a transformation induced by the deepest post-war recession of any OECD country…

The economic crisis of the early 1990s provided the painful demonstration that not all contingencies could be accommodated. The induced transformation from a planning-dominated worldview to one fully cognisant of the uncertainties inherent in the global economy is best demonstrated by the fiscal response to the crisis. A proportional reduction in spending on the range of public services was implemented across the board in response to lower

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revenue-raising capacity. The notable exception to this policy was the public funding of R&D that was perceived as the enabling investment that could contribute to a long-term resolution of the crisis. The crisis also precipitated local government management reforms. Implementation of budget cuts was accompanied by increased freedom for some 400 municipal governments to organise themselves as they saw fit. Decentralisation of powers, autonomy and flexibility, including the introduction of new management principles have led to strongly differentiated practices in providing and running municipal services in Finland.

... and the phenomenal success of its mobile communications sector.

The specialisation of the Finnish ICT cluster has been favourable for growth, contributing to significant agglomeration economies and territorial capital, while enabling the key locations to become more competitive and thereby attracting more firms. However, this specialisation has introduced considerable vulnerability, as it is dependent on a single sector rather than several sectors. While the Finnish ICT cluster has been well-positioned to benefit from continued growth in mobile communications, it is prudent to consider the potential downside risks of this strategy. Demand for mobile technologies, products and services have already demonstrated susceptibility to global economic slowdowns. In the long term, market growth may not prove as rapid as it was during the late 1990s due to the transition from original demand to replacement demand.

The opportunities and constraints of cities are changing, introducing new challenges at the international level...

The success of the ICT sector is a bellwether of a broader set of changes to the patterns of urban development, suggesting that older modes of governance may be unsuitable to meet the new challenges. For example, the recent appearance of Helsinki near or at the top of rankings of city competitiveness was met with both delight and apprehension. Although size is far from being an obvious factor of economic success, Helsinki with its 560 000 inhabitants is commonly perceived as an intermediate urban centre in European or international comparison. It fears marginalisation on the north east corner of the EU and wants to address competition from, for instance, neighbouring Scandinavian countries as illustrated by the bridge between Copenhagen and Malmö, and the new region of Öresund, or the growth of Stockholm. A

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well-managed and better co-ordinated GHR of more than 1.5 million could be a response to the question of size within the so-called competition between urban regions.

... conditioning the relationship between the primate region and the nation...

The ICT sector and the other dynamic sectors of the new economy have also demonstrated a strong urban bias in location. Economies of agglomeration exploiting the diverse collection of services and economies of localisation exploiting concentrated specialisation are thought to be dependent on a scale of economic activity available in medium to large cities. From Portugal and Ireland to France and Britain, the major city has faced continuous growth much to the irritation of the rest of the country. Rural Finns perceive the development of Helsinki with a great lack of trust, fearing that any transfer of resources to Helsinki will jeopardise their own resources or marginalise them. On the other hand, the increasing significance of the Helsinki region for the economic growth of the whole country is also quite clear. In many ways, in order to organise and sustain growth, the Helsinki region needs financial support to make major investments in terms of infrastructure and housing.

... fuelling growth pressures that may not contribute to sustainable development...

Urbanisation proceeded at a moderate pace in Finland for most of the second half of the 20th century. The inability of many smaller local economies to replace the traditional drivers of economic growth as was done in Helsinki and a number of university cities throughout the country after the economic crisis have increased rates of internal migration. In the latter half of the 1990s the population growth rate for Helsinki Metropolitan Area was 1.5% per annum compared to an average of 0.5% for other European metropolitan areas. Beyond the city of Helsinki itself, there is an organised movement of urbanisation of what were once suburban peripheries in Vantaa and Espoo. While the majority of new construction is taking place in areas already built up, some sparsely populated, outlying areas are experiencing high rates of new construction. Actually the great proportion of inbound migration is directed towards the eight municipalities around the Helsinki Metropolitan Area, the total population being approximately 220 000 inhabitants. Also, middle-size towns such as Lahti or Hämeenlinna that are some distance from the urban centre are starting to bene-

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fit from the dispersal of the growth in Helsinki, to be further aided by the development of fast trains. Concentrating growth in those towns and other built up areas and through more intensive infill of heavily urbanised areas would be preferable to uncontrolled, dispersed urban sprawl in terms of environmental sustainability, public infrastructure investment and maintaining the liveability of the GHR. Co-operation between planning authorities as regional councils and municipalities within the GHR is therefore required to achieve those goals despite the long-established autonomy of municipalities that may prevent it.

... and contributing to greater spatial differentiation.

Just as the ICT sector has been concentrated in a relatively small number of regions within Finland, it has also demonstrated strong localisation tendencies within individual municipalities. The core of the Finnish ICT sector is concentrated in a 7-kilometre radius around the bay of Ruoholahti in eastern Espoo and western Helsinki. This development with its strong demand for highly qualified workers has tended to reinforce an educational divide between the western and eastern half of the city. Although evident in socio-economic data for some time, it was only after the trough of the crisis in 1992 that these differences were manifest in growing income and employment disparities. The data also indicate greater differentiation among the major municipalities within the GHR. Although these incipient trends are not likely to challenge the effectiveness of the status quo – especially in the context of the Finnish welfare state and strong mechanisms for tax base equalisation – extrapolation of these trends poses significant threats to integrated governance and social cohesion in the region.

The increasing interdependence of metropolitan problems overtaking modest initiatives of municipal co-operation compels consideration of alternatives.

Indeed, the success that the region has enjoyed and the absence of any imminent crises provides little incentive for prospective thinking on the ability of the current system to sustain advantages indefinitely. However, maintaining the status quo – *i.e.* the present principles and policies, such as spatial integration, municipal sovereignty and voluntary regional co-operation would apply – raises concerns over the long-term prospects of integrated governance of the region. Projected social outcomes based on the emerging socio-economic differences are not desirable,

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as the city of Helsinki would end up with a disproportionately large share of the region's poor and needy households. Although the trends are not yet dramatic, they are clear enough to cause concern given the large role that local governments play in providing social services. Immigrants dependent on social support and other allowances would tend to be concentrated, with attendant social problems, in the city, although they would be spread throughout its neighbourhoods, without any distinctive ethnic area or subculture emerging. Espoo and Kauniainen and some other parts of the region would become progressively wealthier and more entrenched enclaves for the affluent, especially highly-paid workers in the IT economy.

Evidence from the current status quo foreshadows greater fragmentation.

It could be argued that this may be a positive development allowing more competition and more diversity within the area that could contribute to the overall competitiveness of the area. In western Europe however, this sort of dynamism has most of the time led to declining services, wasteful competition between areas and increased fragmentation, making public policy less efficient. Dynamics of "secession of the rich" can develop quite quickly and lead to very negative unintended effects in terms of sustainable development, social integration and economic development. In this light, attempts at regional co-operation would meet with mixed success, with issues of tax equity, social housing, cultural life, and economic development as nagging sources of political friction. Indeed, if the interdependence of problems within the metropolitan region seem on the rise (from immigration to economic development and housing), the co-operation between municipalities remains limited to a large extent.

Functional advantages of consolidation are appealing…

At the other extreme, a consolidation scenario would have the four municipalities of the Helsinki Metropolitan Area merge into a single municipality, if the municipalities themselves and their inhabitants are in favour of the scenario. If power could be shifted upward to the metropolitan area, it would simultaneously be shifted downward to the neighbourhood or *arrondissement*. Land use planning in the metropolis would become more politically and administratively streamlined, as would social housing. Spatial mixing

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of immigrants and other minorities over a larger geographic area would be more easily accomplished.

... but merger would be seriously hampered by a lack of political legitimacy.

The functional advantages of this second alternative must be assessed against existing political realities. The proposal runs directly counter to the country's strong tradition of local autonomy. To be sure, the relative similarity of service levels and tax rates within the Helsinki region would make merger less disruptive in terms of service levels and windfall gains and losses than might be the case with amalgamation of cities in other countries. However, the merger of the municipalities would deprive the area of the benefits of local fiscal competition that serves as a constraint on the monopoly power of large governments and provides incentives for municipalities to provide services cost-efficiently. Those positive benefits combined with strong expected political opposition to merger argue against municipal merger at this time.

Intermediate solutions warrant serious consideration given the weaknesses inherent in the status quo or municipal merger proposal.

There is a wide array of possibilities between business-as-usual and formal municipal merger. The two requirements for dealing effectively with problems of the region are an ability to pursue the interests of the whole region – not simply the interests of the individual municipalities – and ensuring that new modes of regional governance are fully accountable for decisions that impinge on the sustainable development of the GHR. Action should be directed to those two issues which are currently the most contentious: 1) to assure that social housing is distributed in a fair and efficient way initially throughout the Helsinki region, and over time throughout the GHR and 2) to develop and implement a regional strategy for the coherent and balanced economic development of the region, with attention to the quality of the environment as well as to the economy.

A municipal consortium could overcome the danger of fragmented decision making and improve and enlarge co-operation.

A stronger system of regional governance could be achieved through incentives and voluntary co-operation. However, reliance on voluntary co-operation would not prohibit municipalities from opting out of projects, seriously weakening any prospects for regional co-ordination. A consortium of municipalities in the GHR could overcome this deficiency if members were bound to decisions on the

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basis of pluri-annual contracts. Light institutionalisation of municipal co-ordination could go a long way in compelling autonomous local governments to collectively articulate and implement a vision for the entire region. Indeed, the degree of co-ordination that might be achieved at low organisational and fiscal cost is particularly persuasive if the threats of greater fragmentation identified above do not materialise.

Threats of greater fragmentation warrant consideration of bolder alternatives able to tackle the unique problems of metropolitan areas…

Unfortunately, those urban development problems that most require a co-ordinated, regional approach are the same problems that most frustrate efforts for greater inter-municipal co-ordination. Specifically, land use and housing are inherently contentious issues. The range of possible contingencies warrants consideration of the net benefits of a new regional authority. Issues of regional social equity could be addressed more easily and expeditiously if municipalities yielded power on issues of housing policy and location of social housing to a new super-agency. This new regional authority might also co-ordinate and manage land use and other matters, such as transportation, economic development and environmental sustainability. The economic competitiveness of the region could be potentially increased by the agency's management of land use and housing development. To attract and retain a balanced labour pool, industry sectors, such as IT, will require increased regional co-operation in matters of tax rates, housing, transportation, culture, education, etc.

… constituted by a more formal mechanism of regional governance.

To be sure, the co-operation between the four municipalities of the Helsinki area is on the increase. However, institutionalising these mechanisms of co-operation at the metropolitan area level is suggested by the autonomy of municipalities, the representation of the pressure of competition and because the incipient trends that pose the risk of greater fragmentation may materialise in the future. A new regional authority would provide the opportunity to constitute a more formal mechanism to govern, and articulate the networks within an integrated perspective. The focus on the integration of different policy networks for instance paves the way for the reintroduction of politics, legitimacy, and collective choice.

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Combating substantial long-term unemployment will benefit from a locally adapted labour market policy.

The benefits of local adaptation could also improve centrally implemented policy. Unemployment stands out as the decisive factor inducing spatial polarisation within the GHR. Long-term unemployment that was practically non-existent in Finland at the beginning of the 1990s increased rapidly during the downturn and accounted for about 30% of all unemployed people by the mid-1990s. Many traditional industries that had supported the prosperity of southern urban areas were hit hard. These same industries did not participate fully in the robust recovery in Helsinki and its surroundings, which has contributed to greater spatial disparities in unemployment rates. Labour market policy has largely functioned as a welfare support system that secures a basic livelihood to the unemployed. The disincentives for the unemployed to find work under this system have progressively shifted the policy focus from passive labour market measures to active labour market programmes such as labour market training and subsidised employment. However, these efforts have been hampered by the centralised formulation of labour market policy that is implemented within local jurisdictions that do not correspond to functional labour market areas. A regionally diversified employment policy would contribute to helping Helsinki and other municipalities apply locally adapted measures to their local priorities and integrate different policy instruments into a more place-based employment and development strategy.

Embracing multiculturalism constitutes the other principal challenge for social policy.

Since the 1970s, housing policy has been based on the concept of social integration. Special attention has also been paid to the spatial dispersion of ethnic minorities. However, not until recently have immigrants been a visible presence and begun to stress, or at least challenge, the social welfare system. The policy to date has been to integrate immigrants by spatially integrating them in the community and immediately offering the full benefits of the welfare state. Achieving social equity through spatial integration seems to be a particularly fundamental goal and high priority. However, it comes at the inevitable cost of suppressing or at least diluting ethnic and other subcultures that might otherwise flourish. The major problem with ethnic communities is that they can become enclaves

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of a disadvantaged and alienated underclass. In contrast to many metropolitan areas in other OECD countries, Helsinki has been able to prevent the emergence of significantly deprived neighbourhoods. Accordingly, Finland should be cautious about reconsidering its policy of spatial integration. On the other hand, there may be moderate policies and practices that allow immigrant cultures and enterprise to survive more intact spatially.

Moderate policies to increase the "positive marginalisation" of more disadvantaged neighbourhoods could contribute to the area's attractiveness while ameliorating spatial differentiation.

The aforementioned spatial differentiation has strong parallels with the residential patterns of recently arrived foreign immigrants – *i.e.* highly educated immigrants tend to settle near the high-tech agglomerations while those without qualification are concentrated in the eastern and northern parts of Helsinki. Policy initiatives will be most effective if they exploit untapped or unused potentials rather than dilute external economies of localisation. Thus, policy should not be directed to dispersing high technology employment to more disadvantaged neighbourhoods but to more fully valorising the sources of "positive marginalisation" of these neighbourhoods. New urban design and planning tools such as urban design codes – *i.e.* prescribing desired architectural types, building materials, street types, etc., as opposed to zoning codes, which proscribe building type, building bulk and land use – would work toward promoting desired outcomes rather than prohibiting undesired outcomes. New or hybrid types of housing that are associated with both greater affordability and greater community interaction should be encouraged in these areas such as live-work housing (units that combine work and residential space), accessory units (rental units attached or adjacent to primary dwelling units), lofts (converted industrial space), and co-housing.

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Planning should guard against increased auto-dependency to meet sustainability objectives and reinforce competitiveness of new sectors that are increasingly dependent on interaction.

Although planning in the region is generally of a very high standard, sustainable development of high growth areas will require a stronger commitment to compact development principles. Specifically, development and redevelopment should be dense, socially diverse, mixed use, walkable and transit-oriented, rather than sprawling, auto-dependent, single-zoned development that is socially and economically homogeneous. Redevelopment of unused and under-utilised urban land, especially obsolete industrial sites, is consistent with these principles and projects (Herttoniemi and Ruoholahti are good existing examples of such redevelopment). New communities on the urban periphery, such as the proposed new town at Marja Vantaa, should also be developed, preferably on rail lines. Espoo Centre is a good existing example of such new towns. It is located on a rail line that allows easy commuting to central Helsinki and its town centre is dense, low-rise, mixed-use, walkable and has pedestrian-scaled public spaces.

Long-term regional competitiveness requires a more focused strategy of diversification brought into the mainstream of policy.

The strategic challenge for the Finnish ICT cluster that should be reinforced by all levels of government is to evolve a lower-risk/high-return strategy by developing ICT activities beyond the current cluster scope (*e.g.* use of learning and positive externalities in forestry and biotechnology, learning transfers in online banking and new media). However, instead of remaining peripheral, these objectives could be integrated into explicit and bottom-up territorial policies of related diversification focusing on developing competencies in the research, design and development phases of the product life cycle across a range of product areas. Such an approach, however, requires greater focus on private and international risk capital, profitable commercialisation, and – most importantly – profitable new business formation. These requirements, in turn, are necessary to create new and renew old strategic advantages in the Finnish ICT cluster, just as they make it necessary to better facilitate the transition of the macroeconomy from top-down centralisation to bottom-up decentralisation.

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More aggressive promotion of high-tech entrepreneurship is a key element of a diversification strategy.

In Helsinki and Finland, high-tech entrepreneurship and start-ups have yet to achieve prominence. In particular, relatively few Finnish start-ups have achieved a global market position, despite highly favourable conditions. First, Finland's well-developed and commercially focused higher education system and an institutional and financial commitment to supporting commercially oriented research provides a key source of potential new technologies upon which high-tech start-ups may be based. Second, through the National Technology Agency, the National Fund for Research and Development and other institutions, Finland currently provides substantial support for start-up companies. Drawing on this and the managerial resources of Finland's larger companies in the high-tech and more traditional sectors, mentoring and guidance programmes will increase the probability that high-tech start-ups succeed. Third, venture capital/initial public offering/merger activity has developed rapidly in recent years in Helsinki with increasing availability of local venture capital funding and some external investment. Fully exploiting this potential will require making entrepreneurship and start-up activity a central policy objective with a clearly defined entrepreneurship strategy to counter the "conservative entrepreneurship" which characterises Finnish society. Key issues that might be addressed in the formulation of this strategy include measures to develop and strengthen the "enterprise culture", development of materials publicising successful entrepreneurship, development of physical and virtual business incubators, promotion of measures to encourage mentoring and other forms of expertise transfer from larger companies to smaller firms, strengthening of support arrangements for high-tech start-ups, and further support for venture capital development.

Reforms to the intergovernmental aid system would promote intelligibility and accountability...

Although the current intergovernmental aid system is in some ways quite carefully designed to assure that municipalities have the revenue capacity to meet the service needs of their residents, it lacks intelligibility and also dilutes accountability by separating taxing decisions of local governments from service level decisions of Parliament. One or more foundation programmes of intergovernmental aid – assuring that each local government provides a target level of service at a reasonable tax rate – replacing

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the existing combination of sector-specific subsidies and tax base equalisation could remedy these problems. This foundation aid approach is quite similar in spirit to the current system. In contrast to that system, however, in which sector specific subsidies may be offset by equalisation payments, this approach would more clearly link government aid to each municipality's fiscal needs in that policy area relative to its revenue raising capacity.

... while being more consistent with the aims of the Finnish welfare state.

Intelligibility is enhanced as the proportions of local taxes devoted to each broad functional area and the level of aid in each area from the central government could be a part of the public record understood by citizens. Accountability would be enhanced, as any expansion of social services, for example, would require Parliament to explicitly specify the required minimum local tax rate and appropriate sufficient funds for subsidy to provide the target level of service. Perhaps most importantly, a system of foundation aid would be a fairer way to finance the Finnish welfare state, as subsidies would come primarily from the national progressive income tax. Thus taxpayers throughout the country would be asked to pay their fair share of the costs of the subsidies based not on the revenue-raising capacity of a jurisdiction in which they happened to live but rather on their own ability to pay taxes.

Summing up

The process of structuring a mode of governance of the Greater Helsinki Region should be encouraged by the central government. Managing the growth of the Helsinki region is crucial in the long term to avoid urban sprawl and the waste of resources. However, in the new system of rules, conflicts between municipalities seem not to be solved by elaborating constructive solutions. A proactive role of central government, encouraging GHR thinking, remains essential. With priorities for the GHR identified, there is room to negotiate a general agreement for several years between the central government and municipalities of the GHR. For instance, under the current system of fiscal equalisation it does make sense to transfer some resources from the richest municipalities in the south to finance the rest of the country because the south benefits from workforces trained elsewhere. The interdependence between

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the Helsinki region and the rest of the country should be made more apparent. But that makes sense if the central government agrees to finance major infrastructures which are crucial for sustainable economic development in the Helsinki region and therefore for the whole country. This agreement should also receive large publicity and raise a debate in Parliament as the goal is to reassess both the role and the dependence of Helsinki upon the rest of the country, *i.e.* how can Finland develop as a whole by making better use of the motor, Helsinki.

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