The Nature of Competition: Finnish Cartels in the Interwar Period

Mika Kallioinen
Department of Finnish History, University of Turku

Abstract

This article examines the use of the concept of competition by three Finnish cartels in the period between the two world wars. Cartels were designed to restrict the scope of competition in the economy by controlling it. Their existence rested on the concept of competition, underscoring the importance of defining their relationship with it. A distinctive vocabulary of competition evolved within cartels as part of an anti-competitive discourse reflecting the view that competition was fundamentally detrimental. First, competition was seen as a threat comparable to a disease, an idea reflected in value judgments branding it as "destructive", "depressive", "unhealthy" or "insane". But the cartels also employed moral judgements to legitimize cooperation, not justifying their position primarily on the basis of rational arguments, but stressing the "fairness" of excluding competitors from the market. The anti-competitive discourse was employed as a tool of the cartels' strategy to attain two objectives: first, to restrict competition in the domestic market and, eventually, to secure their own existence by legitimizing their monopolistic nature.

1. Introduction

Although the concept of competition has always been central to economic thinking, economic agents have generally accepted it as a given and historically have had, at least tacitly, to take competition and its implications into account. It could be argued that competition is not only a natural and objective concept of economics (or other academic fields), but also a subjectively determined notion whose meaning depends on the historical context in which it is used. It is a commonly recurring concept whose object, breadth and impact have been defined over and over again in innumerable everyday situations. Medieval merchants, early industrialists in the nineteenth century and, later, antitrust legislators, for example, viewed competition differently.

Nor has the concept of competition remained unchanged in academic circles. For Smith, competition was much like a race, which explains why a reduced supply of a good led to a higher price: competition would immediately begin among buyers, who would bid up the price. The first precise analytical treatment of competition between producers was provided by Cournot (1838), who showed that "the result of competition is to reduce price." In nineteenth-century mathematical economics literature, two contrasting views of competition prevailed, associated respectively with peace and war. In one view, competition is, independently of market structure, characterized by the peaceful price-taking conduct of consumers and producers, while in the other it is cast as an aggressive strategic interaction between producers. Later, Kirzner emphasized the role of entrepreneurial rivalry in competition, rivalry that is non-existent in a perfectly competitive equilibrium. Demsetz has proposed a concept of laissez-faire competition, in which freedom to move resources into any use is the linchpin.[1]

More recently, competition policy questions have become in-

[1] Dos Santos Ferreira (2012, pp. 854-860); Ekelund and Hébert (2007, pp. 524-525); Stigler (2008, pp. 55-56); Vickers (1995, pp. 3-5). The concept of competition has been surprisingly difficult to pin down. Stigler (2008, p. 51) defines competition as a rivalry between individuals (or groups or nations), which arises whenever two or more parties strive for something that all cannot obtain. This is of course a very loosely drawn definition, encompassing all sorts of forms, instruments, objects as well as types of rivalry. Competition is widely deemed to be important for productive efficiency. One natural idea is that competitive pressure makes organizations internally more efficient by enhancing incentives to avoid sloth and slack. Another is that competition causes efficient organizations to prosper at the expense of inefficient ones, and that this selection process is beneficial for aggregate efficiency. A third is that competition to innovate is the major source of gains in productive efficiency over time. Vickers (1995, p. 1). See also Case (2008, p. vii).

creasingly important, once again underscoring the central role of competition in economic theory. In antitrust economics, competition is generally seen as a public good that can be fostered by antitrust laws designed to maintain certain basic rules.[2] The historical development of the concept of competition in economics as its compass has broadened is beyond the scope of this article. However, the concept has expanded, as the logic of competition has gradually enveloped more and more functions in society. Today, the debate about competition is no longer restricted to economics. Cerny coined the concept of "competition state" to describe a process whereby contemporary states shift the focus of their attention to activities intended to ensure their international competitiveness in global markets. The present-day state was forced to act increasingly like a market player that shapes its policies to promote, control and maximize returns from market forces in an international setting, conceptualized by Cerny as a shift "from the welfare state to the competition state".[3]

To understand the use of the concept of competition in economic history, cartels are an illuminating case in point. They aimed if not to totally eliminate competition, then at least to restrict the scope of competition in the economy by controlling it. As Fear pointed out, one of the main misconceptions about cartels is that they halt competition and innovation. Instead, they reshape the rules of the game on which competition rests. A case could be made that the very existence of cartels was fundamentally based on the concept of competition, stressing the importance of defining their relationship with competition. The way cartels see competition may even affect their success. Van Driel suggests that the executives' views about the proper kind of competition determine, along with their group identification, mutual trust and social relations, whether or not a sustained collusion is actually realized.[4]

---

[2] Buccirossi (2008, p. xiii); Whinston (2006, p. 1).
[3] Cerny (1990, p. 220). See also Fougner (2006, pp. 166-167).
[4] Driel (2000, p. 402); Fear (2008, p. 269).

Cartels raise important questions regarding the risks and benefits of competition. Studies of historical cartels have devoted surprisingly little attention to competition, concentrating instead on the role of cartels in restraining production and raising prices. Research has focused on how cartels are formed, how they restrain production and raise prices, whether price-fixing agreements affect economic outcomes, and similar questions. The discussion of cheating and its prevention particularly dominates the theoretical literature. Several studies have sought to explain why collusive agreements risk being undermined by secret price cuts or other forms of opportunism, or why, in some cases, there have been cartels that have had success in solving the "cartel problem".[5]

This article examines cartels from a very different angle, namely the use of the concept of competition in their business strategy. It shares the basic idea of discourse analysis that language is central in shaping and creating meaning systems that dominate how we define our world. Cartel members and other economic agents in the past have not been powerless subjects of the forces of competition, but they have themselves aspired to determine how competition affects their activities. More importantly, they may have used the concept of competition as a tool to advance their agenda, for example, to limit competition's impact on business. Language does not develop in isolation, but in specific social contexts between people. Competition should be treated not merely as a neutral, naturally occurring phenomenon, but also as a socially constructed notion shaped in part by the agents' language. Accordingly, this study employs discourse analysis to examine the ways in which language bearing on competition was used in the documents produced by Finnish cartels in the 1920s and 1930s. The aim is to systematically analyse the discursive practices of the cartels, as well as those of the public debate concerning cartels, to explore what kinds of meaning were ascribed to competition, and secondly, how those discursive

[5] Grossman (2005); Kallioinen (2015, pp. 512-513); Levenstein and Suslow (2006, pp. 45-46); Peters (1989, pp. 419-420); Pindyck (1979, pp. 155-156); Suslow (2005, p. 705).

practices were employed in order to justify the existence of the cartels and especially their monopolistic restriction of competition in the Finnish economy.[6]

Cartels are defined here as formal or informal agreements between independent firms belonging to the same branch of economic activity that are designed to restrict production and raise prices. I examine three central cartels – those in sawmills, mechanical engineering and the cotton industry – that open a manifold empirical and comparative perspective on the use of the concept of competition in the Finnish economy in the interwar period. The Finnish Sawmill Owners' Association (FSOA), founded in the 1880s, sought to control the European market for sawn timber by setting uniform prices with foreign sawmill cartels, but this succeeded only intermittently. In the engineering industry, dozens of companies failed to establish a strong cartel, despite many attempts. However, the Finnish Mechanical Engineering Association (FMEA), formed in 1918, succeeded in setting quotas and sharing the production of certain products between firms. It also campaigned vigorously for higher import tariffs in order to ease the pressure of foreign competition in the domestic market.[7] Among the tightest cartels in Finland was that in the cotton industry. All six Finnish cotton companies started negotiations around 1900, leading to the creation of the Finnish Cotton Cartel (FCC) in 1903. After a number of vicissitudes, the Cotton Cartel ended up as a formal, solid cartel, the Sales Agency of the Cotton Companies (SACC), in 1933. From then on, the Sales Agency, and not individual companies, was responsible for all pricing decisions and sales. The new organization put an end to contract violations that were all too familiar in the former cartel. Although the Sales Agency dominated domestic production, it was far from having monopolistic control of the market because of intense foreign competition.[8]

---

[6] Cf. Angermüller (2013); Bargiela-Chiappini (2009); Blackledge (2008); Fairclough (2008).
[7] Olin (1938); Paloposki (1970).
[8] Kallioinen (2015).

These cartels and their participant firms have left extensive records of their board meetings, correspondence and confidential memoranda of the firms' CEOs, giving us a unique, detailed body of evidence about cartel behaviour, including the participant individuals' own preferences, concerns and analyses regarding competition. Subsequently, cartels were unlikely to produce such documents because of legal issues.[9]

2. The cartelization of Finland

Most Finnish industries were too weak and small to make a breakthrough in Western markets, which were regulated by strong national and international cartels, protected by customs tariffs and controlled by large multinationals. After the First World War, Finnish firms could be classified into two sectors. The first – the open sector – consisted of companies in the sawmill, pulp and paper industries. These industries competed in global markets, relying on cooperation and close connections to the government. Exporting over 80 per cent of their output, the wood-processing industries controlled the dynamics of the Finnish economy. The closed sector, on the other hand, led by the metalworking, textiles and food-processing industries, operated in the home market. Finnish engineering and cotton companies, among others, had to adapt to serving the very narrow domestic market for their products.[10]

During this period, cooperation was a typical mode of behaviour in both sectors. Cartels and broader interest groups, representing whole industrial sectors, emphasized the importance of self-sufficiency and the need for a more protective customs policy, becoming an integral part of Finnish economic policies. The export cartels in the wood-processing industry in particular became the key element

[9] The records of all three cartels are kept in the Central Archives of Finnish Business Records, Mikkeli, Finland.
[10] Heikkinen and Kuusterä (2001, pp. 31-32); Kuisma (1993, p. 256); Lamberg and Skippari (2001, p. 35).

of the national survival strategy. They gained the at least tacit approval of the state, as evidenced by the regular participation of the cartels' representatives in government-appointed trade delegations. Like many others in Europe, the Finnish government regarded cartels and interest groups as useful tools for the coordination of markets.[11]

The first cartels were established as sales associations in the 1880s and 1890s to compete in Russian markets. The various associations or cartels[12] were particularly important in finding new markets in the West to replace the Russian markets that Finland lost after gaining independence in 1917. Although detailed data are lacking, it is fair to say that all the major industries in Finland were cartelized by the 1910s or 1920s. According to Schröter's four-part classification, interwar Finland belonged to the top tier of highly cartelized states. This was, however, not exceptional in the European context. Indeed, the Finnish cartels were patterned mostly on the German model, though cartels were already widespread in the industrialized world during those years.[13]

The founding of the first cartels profoundly altered existing economic structures. Entrepreneurs who had sworn by free trade and competed with each other moved behind closed doors to agree on prices and to share markets. Liberal economic policy was supplanted by a new model called "organized capitalism", "cooperative capitalism" or the "organized market economy". The relatively rapid change in the industrial organization caused numerous problems. First of all, companies had to adjust their production to the quotas jointly decided in the cartel meetings. In some cases, there were al-

[11] Eloranta (2009, pp. 27-28); Kuisma (1993, p. 258); Lamberg (1999, pp. 59-76); Lamberg and Skippari (2001, pp. 37-38); Ojala and Karonen (2006, pp. 107-108).
[12] None of the known Finnish cartels called itself a "cartel", but rather went by the name of "association", "pool", "ring", or "office". Originally the Finnish Cotton Cartel, for example, was called "Cotton Ring"; Kallioinen (2015, pp. 516, 520). As Fear argues (2008, p. 270), it is difficult to generalize about cartels because they display such a variety of forms, objectives, and effectiveness. What constitutes a cartel is by no means an easy question.
[13] Alfthan (1920-1921); Schröter (1996, pp. 134-141).

most unending struggles for quotas. Cartels were also said to have impeded technological development because their member companies were passive, satisfied with the status quo rather than inclined to seek innovative ideas.[14]

The interwar period turned out fairly favourably for the Finnish economy, although it is impossible to assess the role of cartelization in the country's overall economic development. Industries experienced a breakthrough, rapid growth and rising productivity. Finland's process of "catching up" with the leading European economies began during this period, which, for most countries, was one of slow growth. During the period 1920-1938, Finland's economy grew at an average annual rate of 4.6 per cent, a very respectable figure. Even the Great Depression, although severe in some sectors, was shorter and, measured by GDP, not as deep as in some other industrialized countries.[15]

Even if cartels gained at least tacit approval of the government, no legislation was passed to protect the Finnish cartels along the lines of the Norwegian Trust Law of 1926 or the Dutch Business Agreements Act of 1935.[16] On the other hand, there were no regulations controlling or even restricting Finnish cartels in the interwar period. In Finland, the adoption of antitrust policies proceeded slowly and was not completed until the 1980s and 1990s. The first competition law was passed in 1958, in the same decade as in various other European countries. This law, however, did not prohibit cartels or seek to prevent them, but aimed to make them public by requiring certain cartels to notify the authorities of their existence and to register themselves. Thus, in Finland, a deep tradition of collaboration was created that lasted for a century and resulted in extensive cooperation within industries.[17]

---

[14] Ojala and Karonen (2006, p. 108); Rinne (1948, pp. 29-30).
[15] Fellman (2008, pp. 156-157).
[16] Bouwens and Dankers (2010, pp. 751-752, 754); Sandvik and Storli (2011, pp. 233, 245-246).
[17] Fellman (2008, p. 179); Virtanen (1998, pp. 229-230, 240-265).

3. Competition within cartels

For the most part, cartels in all industrialized countries have sought to establish horizontal control over similar product markets in order to avoid ruinous competition.[18] In Finland, the by-laws of all three cartels under examination made it clear that their purpose was to restrict and regulate competition. In the engineering cartel, the aim was "to try to accomplish measures in order to stop the unhealthy and destructive competition".[19] The cotton cartel aspired to regulate competition between the Finnish cotton companies "as far as possible" by means of an agreement on prices and other terms of sale.[20] Similarly, the goal of the sawmill industry was to unify both the pricing and the terms of sale, in order to avoid "unhealthy mutual competition".[21]

The by-laws adopted by the meetings founding cartels or re-establishing them after a hiatus show that what was perceived as "unhealthy" or "destructive" competition was the driving force behind cooperation. Despite their explicit goals, the Finnish cartels were unable to put an end to the competition between their member companies, which continued to strive for high profits even at the expense of other companies. It was a challenge for the cartels to reconcile their collective interest with those of individual member firms.

This was especially true in times of economic recession. When companies' order books were fast being depleted, the temptation to maximize sales was often too great, even if this meant infringing the newly signed contracts. Companies could make subtle distinctions in deciding whether to pursue their own immediate interests or to give priority instead to the common needs of the cartel and in so doing possibly achieve better or at least longer-lasting results. Cartels had to invest a great deal of time in monitoring and supplementing contracts, in order to keep competition in check. Their records

18 Fear (2008, p. 272).
19 FMEA, Board, 11 Nov 1918, 3 March 1936.
20 FCC, Board, 14 Oct. 1911; FMEA, Board, 11 Nov. 1918, 3 March 1936.
21 FSOA, Board, 14 Dec. 1918.

contain repeated references to the undesirability of mutual competition.

Mutual competition was usually denounced as “unhealthy”. In the sawmill industry in the 1920s, there was a concern about the possibility of running out of forests and the related increase in the price of timber. The president of the Finnish Sawmill Owners’ Association argued for cutbacks in the production of sawn timber, in order to stop the increase in the yard price. In the future, the Association could reduce “unhealthy competition” only through joint voluntary restriction of production.[22] In similar terms, the domestically oriented cotton industry also condemned competition. When the cotton cartel decided to strengthen its organization during the depression of the early 1930s, it spoke of the demoralizing impact of contract violations and unhealthy competition. Once a new organization was introduced, the cartel stated, the “paralyzing mutual competition” could finally be ended.[23]

In the engineering industry, the early 1920s brought a slump in demand compared with the years before the Great War. According to the industry leaders, “unhealthy competition gives rise to difficulties in the domestic industry”. As a solution, the cartel planned for each member company to specialize in specified suitable products, in order to avoid “overly harsh competition” among the members. The cartel admitted that some degree of competition was appropriate, or at least could be accepted as a necessary evil, provided it did not endanger companies’ profitability. After the market had improved by the mid-1920s, the cartel referred to “unhealthy” competition less frequently than before, and it even observed that companies had been able to “avoid painful competition, which had not been the case in previous years”.[24]

Together with “unhealthy”’, “destructive”, “painful” and “paralyzing”, “disloyal” was another evaluative expression commonly

[22] FSOA, Board, 23 May 1928.
[23] FCC, Annual Report 1935.
[24] FMEA, Board, 28 April 1921; Annual Report 1926.

used to characterize mutual competition. In the cotton cartel, in 1908, a firm was found to have sold its products more cheaply than had been agreed upon, a relatively common breach. The CEO of another member firm asked the president of the cartel why this kind of "disloyal" competition had been possible in the first place. Compared to the Cotton Cartel, collusion in the engineering industry was less highly organized. Some members were annoyed that there was no way to interfere with mutual competition, having instead to trust each other's willingness to avoid "unnecessary" competition. However, if a member company had committed such "disloyal acts", the others had the right to initiate measures to bring pressure to bear on it.[25]

"Disloyal competition" implied a specific manner of competing with other companies in the same industry that was distinct from normal or "unhealthy" competition. When a firm was found guilty of "disloyal" activities, it was for violating the jointly agreed rules. Competition of that kind was not only considered "unhealthy" or "destructive", but was stigmatized by a more severe moral verdict. As Table 1 indicates, the cartels examined in this article used five different expressions to characterize competition. It is worth noting that the cartels operating in the domestic market employed a more diversified vocabulary than the export-oriented sawmill industry cartel.

TABLE 1
Expressions used by the Finnish cartels to describe competition, 1919-1939

	FCC	FMEA	FSOA
Unhealthy	4	9	4
Destructive	3	5	1
Painful	-	2	-
Paralyzing	2	-	-
Disloyal	5	3	-

Source: The annual reports and the board protocols of the Finnish Cotton Cartel (FCC), the Finnish Mechanical Engineering Association (FMEA), and the Finnish Sawmill Owners' Association (FSOA), 1919-1939, Central Archives of Finnish Business Records.

[25] FCC, Board, 12 Dec. 1908; FMEA, Board, 24 Feb. 1938.

On moral grounds, the cartels condemned domestic companies that had not joined them. This was a particularly severe problem in the Finnish Sawmill Owners' Association. There were always almost as many firms outside the cartel as there were in it. The Association tried to force outsiders to join the "ring" or at least to follow joint pricing, because outside competitors effectively depressed prices in Britain and other leading export markets. In the 1920s, several new small sawmills were established in Finland by "speculators", according to the cartel.

The quality of the products of these new competitors was alleged to be poor: "Usually these sawmill owners do not fulfil the standards that are expected from those who can successfully carry on export trade". The market was flooded with "irregular" products, forcing the cartel's members to pay attention to this "provocative factor in the regular Finnish market of wood products".[26] The cartel referred to its competitors with such terms of disapprobation as "speculator" and accused them of turning out products of poor quality ("irregular products"), even though the competitors had in fact succeeded in export markets by lowering prices. Invoking moral standards, the cartel divided market players into two distinct groups: cartel members, operating "in the regular markets of wood products", and outsiders, producing shoddy goods. Although it was never explicitly stated, only production based on the terms laid down by the cartel itself was considered acceptable and respectable.

Within cartels, a strong consensus on the necessity of cooperation generally prevailed. In the sawmill industry, it was hoped that all Finnish sawmill owners would recognize the benefits of cooperation. This was especially important during the hard times of the 1920s, when the high prices of timber and "mindless" Russian competition lowered the profit margins of Finnish companies. The sawmill owners engaged in lively discussion about the need for "intimate cooperation", suggesting that the Finnish sawmill industry could only prosper if all the firms unanimously adhered to the prices

[26] FSOA, Board, 5 July 1921; Annual Report 1922.

set by the Sawmill Owners' Association.[27]

In the cotton industry, too, the importance of cooperation was repeatedly stressed, even though the cartel was more solid than the collusions practiced in the engineering or sawmill industry. Within the cartel, the members deliberated on the nature of cooperation and competition. One member of its board, Kaarlo Rautio, contended that within the industry the only option was "organized competition", which could be expected to guarantee the highest profits for the entrepreneurs, but in such a wide field that there would be room for private initiative. Competition had to be fair, and it had to strengthen the public image of the industry. For Rautio, organized competition should not prevent healthy, dynamic development. Failing an enduring consensus on cooperation in the cotton industry, the result, Rautio warned, would be "free competition with all its destructive and moral consequences. Moreover, the struggle would be harsh and bitter, and it would harm the positive image of our industry for a long time to come. Our country is too small for our kind of big industry to prosper without cooperation."[28]

Interestingly, Rautio did not aim to ban competition outright. Competition had to be organized, but the arrangement should not abolish all the incentives for success that competition offered firms, nor should it prevent the "healthy" progress of the industry. Above all, competition had to be "fair." Accordingly, the cartel members were allowed to compete with each other under certain conditions, but they were not to harm other firms by employing "dubious methods" and above all not to violate joint agreements restricting competition. Rautio's comments corroborate the idea that cartels did not abolish competition, but rather rechannelled it. Many historical cartels did not seek to eliminate competition totally. Competition persisted within the cooperative framework through a number of mechanisms, especially competition for quota share.[29] In the eco-

[27] FSOA, Board, 20 Feb., 24 Aug. 1928, 11 Oct. 1930.
[28] FCC, Correspondence, Rautio to Johan Henrik Ek, 25 Oct. 1933.
[29] Fear (2008, pp. 283, 286); Peters (1989, p. 430).

nomic literature, cartelization is almost universally decried as a phenomenon that demoralizes competition and is detrimental to economic performance.[30] The cartels of the interwar period clearly identified this problem, and they even sought to solve it, though open competition was of course out of the question.

4. The campaign against foreign competition

The Finnish cartels, apart from the cotton cartel, were unable to control all domestic production, and were vulnerable to imports. They did not exercise truly monopolistic control over the domestic market or, in the case of the sawmill industry, the export markets. After World War I, the cotton and engineering industries, operating behind a rather low tariff barrier, were relatively unprotected in the face of mounting foreign competition. In the interwar period, economic policies, the export-oriented sawmill industry and other forestry industries played a central role, and the industries oriented to the domestic market had to come to terms with this reality. By the 1920s, safeguarding the competitiveness of the wood-processing industries became the cornerstone of what could be called the economic nationalism of the time. The export sector and the cartels in these industries, including the Finnish Sawmill Owners' Association, pursued low tariff barriers with good success, because, in return, the Finnish firms could expect tariffs also to be low in their leading export markets, most notably Germany and Britain.[31] On the other hand, the policy of favouring the export sector and the low tariffs this entailed posed a serious problem for industries selling mainly on the home market, one clearly reflected in their views on foreign competition.

Uncontrolled imports were considered harmful to the domestic industries. In engineering, as in cotton, the demand to ban free im-

[30] See, for example, Grossman (2004, p. 1).

[31] Lamberg (1999, pp. 38-39, 70, 126-127); Lamberg and Skippari (2001, pp. 41-42). See also Heikkinen and Kuusterä (2001, pp. 31-32); Kuisma (1993, p. 258).

ports was grounded on the fact that these industries had to compete with foreign overproduction.[32] The foremost argument was that foreign firms would sell their products in Finland below cost. It was normal to refer to "unhealthy" dumping each time Finnish cartels and their member companies lost out in their domestic market. The cotton industry was particularly concerned about the dumping of Japanese and Czech fabrics and yarn, while in engineering the main threat came from imports from Germany. By referring to dumping, the cartels pushed the government to raise import tariffs, usually with scant success.[33]

From the early 1920s, the Finnish Mechanical Engineering Association demanded that the government impose import tariffs to protect domestic industry from "foreign competition and dumping" – a revealing statement, in that the cartel identified foreign competition with dumping in general. At the same time, dumping by foreign companies was used as a justification for the cartelization of Finnish industries. The engineering industry expressly stated that companies had agreed on pricing and sharing production because this was the best way to resist dumping.[34]

A strong sense of injustice was evident in the arguments put forward by the home-market industries, whose firms, it was argued, were unable to compete fairly with foreign companies as foreign overproduction poured into Finland at cut-throat prices. The finger of blame pointed at the Finnish government for failing to raise tariffs sharply enough, at exchange rates that gave foreign companies an overwhelming competitive advantage, but also at cooperation among foreign firms and the resulting threat to Finnish industries. The Mechanical Engineering Association singled out German cartels for especially fierce criticism, asserting that the Germans had made an agreement with the company that would make the cheapest offer in exports to Finland, so that "the domestic industry will remain out of work or at least will be pressed below the break-even point". The

---

[32] FMEA, Board, 14 Feb. 1919; FCC, Board, 14 Feb. 1921.
[33] FCC, Board, 6 Sept. 1923, 9 June 1938.
[34] FMEA, Board, 17 Dec. 1920, 20 Nov. 1928, 28 April 1930.

sawmill industry, on the other hand, condemned as "immoral" the fact that British buyers of sawn timber were able to lower prices by their mutual cooperation.[35] Thus, within their own ranks, Finnish cartels considered cooperation and pricing agreements part of the natural state of things, but similar practices were deemed undesirable and harmful when foreign competitors engaged in them.

Although the export-oriented sawmill industry considered cooperation among British firms to be immoral, its attitude towards foreign competition differed substantially from that of the industries doing business mainly in the home market. In export markets, it faced competition at least as fierce as that in the Finnish market for cotton products and machinery and equipment. In the 1930s, drastic overproduction in the sector led to a campaign for an international arrangement embracing all the major European timber producers (Finland, Sweden, the Soviet Union, Poland, Czechoslovakia, Romania and Yugoslavia) as well as the largest importer, Great Britain. The upshot was the European Timber Exporters Convention of 1935, which limited the production quotas of all European producers. Until then, Finland, Sweden and the Soviet Union in particular had been competing aggressively in the important markets of Central and Western Europe.[36]

Considering that competition was a constant in the sawmill industry and that there had been no international cartels before 1935, the industry was more inclined to accept it as natural than were the home-market industries. The Finnish sawmill industry paid much attention to improving its own competitive advantages, so that the Finnish exporters could "successfully compete with the other countries". It focused on the systematic and effective purchase of timber and on improving the quality of sawn timber, considered to be one of the foremost competition strengths of the Finnish sawmill industry in the world market.[37]

---

[35] FMEA, Board, 20 Nov. 1928; FSOA, Board, 3 Oct. 1930.
[36] Kuisma (1993, p. 256).
[37] FSOA, Annual Report 1921, 1923.

Sawmill owners had thus come to the conclusion that improving their competitiveness hinged on their own initiative. Evidently the sawmill industry was used to operating in the more open competitive environment of foreign markets, which could not be influenced by Finnish economic policies in the form of protective tariffs or other governmental measures. Sawmill owners could advance their business primarily by improving their companies' performance, and this made their outlook more liberal and anti-protectionist than the views of the domestically oriented business elite.[38]

5. Public debate about cartels and competition

The Finnish cartels in the 1920s and 1930s were at least relatively successful in their ambition to restrict competition. Finland attained a high GDP growth rate in the interwar period, and industrial output grew even faster than GDP. In spite of the Great Depression, demand on the home market was quite stable, and industries generally were profitable. In the absence of more accurate evidence, it is fair to conclude that the cartels established in Finland exhibited a substantial monopolistic potential, despite foreign imports, of which consumers, political actors and even the cartels themselves were not fully aware.[39]

Before World War II, public debate about cartels and their role in the economy was confined to surprisingly narrow circles. Consumers were evidently satisfied with market conditions, most likely because the Finnish market continued to be reasonably exposed to foreign competition. Some academic writers criticized cartels and defended free competition, but their arguments fell on deaf ears among both the public at large and policymakers. The first academic text that dealt with problems caused by cartels was published in the journal of the Economic Society of Finland in 1913. Bank manager

---

[38] C.f. Kuisma (1993, p. 256).
[39] Virtanen (1998, p. 234).

Rune Grotenfelt protested “disloyal competition”, which he identified with various kinds of “entrepreneurs’ associations”. In his view, competition was beneficial to the national economy because it provided people with an incentive to “enter into their work with eagerness”. Competition was also the only guarantee that consumers would get a wider range of goods and better quality products. Almost a decade later, Ferdinand Alfthan, the owner of a major merchant house, opined that “every monopoly carries with it the seed of malpractice”. Like Grotenfelt, Alfthan stressed that it would not be in the interest of the national economy if “the cartels operating in the home market totally suppressed competition”. In his view, however, the export cartels did not pose a problem at all.[40]

Apart from articles in academic journals with only limited circulation, the first instance in which public attention was called to the “cartel problem” in Finland was a 1928 communiqué of the meeting of representatives of the Central Union of the Consumers’ Cooperative Societies (CUCCS), an organization chiefly devoted to protecting the interests of the urban working class. The communiqué called on the government to place “rings and trusts” under state control. The government was also urged to undertake an official investigation with a view to proposing necessary legislation and other measures to prevent future abuses. However, the communiqué rejected the idea of banning cartels outright.[41]

Opposition to cartels was confined almost exclusively to the working population. The left-wing parties stressed the importance of competition as a remedy against cartels and other monopolies detrimental to consumers. For example, in 1929 *Suomen Sosialidemokraatti*, the organ of the Social Democratic Party of Finland, advocated lowering the import tariffs on cotton products in order to undermine the Finnish cotton cartel and foster competition: “High import tariffs have always tended to hinder technological progress within the industries they were supposed to ‘protect’. They

[40] Alfthan (1920-1921, pp. 330-331); Grotenfelt (1913, pp. 304, 306-307).
[41] Rinne (1948, pp. 4-5, 101-106).

discourage the progress of production and hold up the implementation of better, more advanced machinery and working methods. Behind the customs barrier, the domestic producers will gain a dominant position where competition will not press them, and they will therefore not give a damn whether their production plants will remain in up-to-date condition or not. Solid, healthy competition is an important incentive of productive progress."[42]

The few attempts to call cartels into question did not lead to legislative or regulatory proposals. It is surprising that competition policy issues got so little attention, considering the lively debate on cartels and competition that had taken place in many countries of Western Europe, not to mention the anti-trust movement in the United States in the late nineteenth century. Arguably, the Finnish cartels simply had not succeeded in gaining dominant market positions, despite their monopolistic potential. The Finnish market was relatively open to foreign competition, and the wholesalers of many consumer goods marshalled sufficient market power to exert a countervailing force against the producers' cartels, which may also explain why there was almost no public debate on cartels.[43] On the other hand, the export cartels in the forestry industries were not considered a problem because they were not players in the domestic market for consumer goods. In the interwar period, companies were allowed to organize their activities as they saw fit, and it was therefore not in the public interest to regulate economic cooperation and competition.

6. Conclusion: the vocabularies of competition

The records of the cartels examined in this article and, to a much lesser degree, public debate indicate that competition played a very distinct and more restricted role in interwar Finland than nowadays.

---

[42] *Suomen Sosialidemokraatti* 5 Nov. 1929.
[43] Tamminen (1958, p. 2).

Discussion of competition was restricted almost exclusively to the sphere of business; the concept was not part of the vocabulary of the public sector. Similarly, the use of the concept of competition in economic decision-making and in promoting the interests of Finnish industries was left almost entirely to companies and particularly to the cartels that represented them. Public debate about competition issues was remarkably rare, and neither the government nor the political parties participated in it.

A distinctive vocabulary of competition had evolved within its limited sphere in business life. Generally speaking, an anti-competitive discourse existed. Cartels were unable to put a stop to competition, although they were largely created for this purpose. Not only did they face harsh foreign competition, but the members of the cartels competed with each other, especially for quota shares. The protocols and other documents of the cartels reveal a deep-seated belief that competition was fundamentally detrimental and undesirable. This is shown in the cartels' by-laws that defined the restriction of competition as their primary reason for being. The discourse adopted by the cartels reflects a business ideal according to which the cartels were to control all activities and the companies did not have to take competition into consideration. The cartels put forward a simple tenet: the goal was the abolishment of free competition. The desired state was the opposite of free competition, one the cartels usually referred to as "organized" or "intimate" cooperation.

Within the anti-competitive discourse, two sub-discourses can be identified. They both were aimed at legitimizing cooperation in the Finnish industry and keeping foreign competitors out of the Finnish market. We can call these sub-discourses competition as a threat and moral resistance to competition. The former is reflected in value judgements such as "destructive", "depressive", "unhealthy" and "insane" competition. Cartels often resorted to different kinds of metaphors when characterizing competition. While metaphors allow us to structure the surrounding world and so are an invaluable part of thinking and communication, adopting a specific metaphor entails selection, and metaphors therefore represent only a certain part of reality.[44]

The expressions used by the cartels of the interwar period – e.g. "depressive", "unhealthy", "insane" – convey the idea that competition is a disease, even a manifestation of insanity. This discourse reveals the real state of affairs as the cartels viewed it. Competition was a threat comparable to disease and should therefore be kept at bay in every possible way. The metaphors, on the other hand, do not touch the economic aspects, particularly the role of competitiveness and efficiency. Because cartels operating in the domestic market were apparently not efficient enough to compete with foreign firms, it was sensible for them to condemn competition as a disease.

Moral resistance to competition reflects a different kind of subdiscourse. Moral judgements were employed as a means to legitimize resistance to competition. The cartels did not seek to ground their position on rational arguments, but stressed the fairness of excluding competitors from their market. This moral legitimation was based on the national interest: if foreign competition could be avoided, there would be more work and welfare in Finland. The cartels therefore portrayed themselves as patriotic in promoting cooperation among domestic firms even as they condemned similar cooperation arrangements among foreign firms, notably German cartels.

The cartels examined in this article argued that Finnish industries could not compete with imports, because foreign competitors dumped their products below cost. The moral argument of "unfairness" was also used in connection with internal competition within the cartels. In contrast to "fair" competition, the cartels referred to "disloyal" competition, which was much more blameworthy than "destructive", "hard" or even "insane" competition. A company was found guilty of disloyal competition when it violated the jointly agreed rules, which was considered a particularly grave infringement.

[44] Bulte (1994).

The cartels in the interwar period were well-adapted to cooperation, despite occasional contract violations. Along with cooperation, they had developed a distinct discourse intended to restrict competition. Plausibly, their anti-competitive discourse was employed as an instrument serving a competitive strategy having two objectives: to restrict competition in the home market and, eventually, to secure the cartels' existence by legitimizing their monopolistic nature. From the cartels' point of view, competition plainly meant an aggressive and strategic struggle between firms and especially between Finnish and foreign companies ("war"), not interaction between peaceful price takers.[45]

The reasoning based on the anti-competitive discourse was built on three elements: threat, promise and conclusion. First, competition (and particularly foreign competition) posed a threat to the existence of the domestic industries and, ultimately, to welfare in Finland. Second, the cartels made a promise that if (foreign) competition were restricted and the cartels were left to control the domestic industries by themselves, general well-being would increase. Finally, the cartels came to a simple conclusion: it was justified to restrict competition that was fundamentally detrimental. Notably, they did not concern themselves with the effects of restricting competition, such as the blunting of incentives and the discouragement of productive efficiency. The cartels made innovative use of the discourse they had created to advance their own interest, namely profitable business based on steady cooperation.

Bibliography

Alfthan F. (1920-1921), "Finländska karteller", in *Ekonomiska samfundets tidskrift*, pp. 283-323.

Angermüller J. (2013), "Discourse analysis in Europe", in S. Bonnafous and M. Temmar (eds.), *Discourse Analysis & Human and Social Sciences*, Bern, pp. 9-23.

45 Cf. Dos Santos Ferreira (2012).

Bargiela-Chiappini F. (2009), "Introduction: Business discourse", in Id. (ed.), *Handbook of Business Discourse*, Edinburgh, pp. 1-17.

Blackledge A. (2008), "Discourse and Power", in J.P. Gee and M. Handford (eds.), *The Routledge Handbook of Discourse Analysis*, London, pp. 616-627.

Bouwens B., Dankers J. (2010), "The invisible handshake: cartelization in the Netherlands, 1930-2000", in *Business History Review*, no. 84, pp. 751-771.

Buccirossi P. (2008), "Introduction", in Id. (ed.), *Handbook of Antitrust Economics*, Cambridge, pp. ix-xxii.

Van den Bulte C. (1994), "Metaphor at work", in G. Laurent, G.L. Lilien and B. Pras (eds.), *Research Traditions in Marketing*, Boston, pp. 405-425.

Case J. (2008), *Competition: The Birth of a New Science*, New York.

Cerny P.G. (1990), *The Changing Architecture of Politics: Structure, Agency, and the Future of the State*, London.

Dos Santos Ferreira R. (2012), "Two views of competition: "Is it peace or war?", in *The European Journal of the History of Economic Thought*, no. 19, pp. 852-867.

van Driel H. (2000), "Collusion in transport: group effects in a historical perspective", in *Journal of Economic Behavior & Organization*, no. 41, pp. 385-404.

Ekelund Jr. R.B., Hébert R.F. (2007), *A History of Economic Theory and Method*, Long Grove.

Eloranta J. (2009), "Rent seeking and collusion in the military allocation decisions of Finland, Sweden, and Great Britain, 1920-38", in *Economic History Review*, no. 62, pp. 23-44.

Fairclough N. (2008), "Critical discourse analysis", in J.P. Gee and M. Handford (eds.), *The Routledge Handbook of Discourse Analysis*, London, pp. 9-20.

Fear J. (2008), "Cartels", in G.G. Jones and J. Zeitlin (eds.), *The Oxford Handbook of Business History*, Oxford, pp. 268-292.

Fellman S. (2008), "Growth and investment: Finnish capitalism, 1850s-2005", in S. Fellman et al. (eds), *Creating Nordic Capitalism: the business history of a competitive periphery*, Basingstoke, pp. 139-217.

Fougner T. (2006), "The state, international competitiveness and neoliberal globalisation: is there a future beyond the competition state?", in *Review of International Studies*, no. 32, pp. 165-185.

Grossman P.Z. (2004), "Introduction: What Do We Mean by Cartel Success?", in P.Z. Grossman (ed.), *How Cartels Endure and how They Fail: Studies of Industrial Collusion*, Heltenham, pp. 1-8.

Grotenfelt R. (1913), "Den illojala konkurrensen och dess bekämpande", in *Ekonomiska samfundets tidskrift*, pp. 304-319.

Heikkinen S., Kuusterä A. (2001), "Finnish Economic Crises in the 20th Century", in Jorma Kalela et al. (eds.), *Down from the Heavens, Up from the Ashes. The Finnish economic crisis of the 1990s in the light of economic and social research*, Helsinki, pp. 25-51.

Kallioinen M. (2015), "Cartel success and institutions. The Finnish Cotton Cartel, 1903-1939", in *Business History*, no. 57, pp. 512-527.

Kuisma M. (1993), "Government Action, Cartels, and National Corporations – the Development Strategy of a Small Peripheral Nation during the Period of Crisis and Disintegration in Europe (Finland 1918-1938)", in *Scandinavian Economic History Review*, no. 41, pp. 242-268.

Lamberg J.-A. (1999), *Taloudelliset eturyhmät neuvotteluprosesseissa. Suomen kauppasopimuspolitiikka 1920-1930-luvulla*, Helsinki.

Lamberg J.-A., Skippari M. (2001), "Endogenous and exogenous variables in trade agreement policy", in *Scandinavian Economic History Review*, no. 49, pp. 28-45.

Levenstein M.C., Suslow V.Y. (2006), "What Determines Cartel Success?", in *Journal of Economic Literature 44*, no. 1, pp. 43-95.

Ojala J., Karonen P. (2006), "Finnish Business: Rooted in Social Capital over the Centuries", in J. Ojala, J. Eloranta and J. Jalava (eds.), *The Road to Prosperity. An Economic History of Finland*, Helsinki, pp. 93-125.

Olin C.-E. (1938), *Suomen metalliteollisuus ja Suomen metalliteollisuusyhdistys 1918-1938*, Helsinki.

Paloposki T.J. (1970), "Suomen Sahanomistajayhdistys 1895-1970", in Id. (ed.), *75 vuotta sahateollisuuden yhteistoimintaa*, Helsinki, pp. 11-126.

PETERS L.L. (1989), "Managing Competition in German Coal, 1893-1913", in *The Journal of Economic History*, no. 49, pp. 419-433.

PINDYCK R.S. (1979), "The Cartelization of World Commodity Markets", in *The American Economic Review*, no. 69, pp. 154-158.

RINNE A. (1948), *Monopolistiset yritysyhtymät kuluttajain vaarana*, Helsinki.

SANDVIK P.T., STORLI E. (2011), "Confronting market power: Norway and international cartels and trusts, 1919-39", in *Scandinavian Economic History Review*, no. 59, pp. 232-249.

SCHRÖTER H.G. (1996), "Cartelization and Decartelization in Europe, 1870-1995: Rise and Decline of an Economic Institution", in *Journal of European Economic History*, no. 25, pp. 129-153.

STIGLER G.J. (2008), "Competition", in S.N. Durlauf and L.E. Blume (eds.), *The New Palgrave Dictionary of Economics*, Vol. 2, New York, pp. 51-57.

SUSLOW V.Y. (2005), "Cartel Contract Duration: Empirical Evidence from Inter-war International Cartels", in *Industrial and Corporate Change*, 14, no. 5, pp. 705-744.

TAMMINEN M. (1958), "Kartellilain voimaan astuessa", in *Kansataloudellinen Aikakauskirja*, pp. 1-28.

VICKERS J. (1995), "Concepts of Competition", *Oxford Economic Papers*, no. 47, pp. 1-23.

VIRTANEN M. (1998), *Market Dominance-Related Competition Policy. An Eclectic Theory and Analyses of Policy Evolution*, Turku.

VISCUSI W.K., VERNON J.M., HARRINGTON JR. J.E. (1992), *Economics of Regulation and Antitrust*, Lexington.

WHINSTON M.D. (2006), *Lectures on Antitrust Economics*, Cambridge.