

## **SYMPOSIUM ON MASS UNEMPLOYMENT IN FINLAND: AN INTRODUCTORY NOTE**

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Inaugurating a new annual series of conferences on important current economic issues, the Department of Economics of the University of Joensuu organized a *Symposium on Mass Unemployment in Finland* on April 24, 1992. About 40 participants discussed seven papers, five of which are published in this issue of Finnish Economic Papers. The papers went through the usual refereeing process. We are grateful to the Yrjö Jahnsson Foundation for a grant which enabled us to organize this Symposium.

The Nordic countries, including Finland, have traditionally been able to avoid very high rates of unemployment. In 1989–90 unemployment in Finland stood at 3.5 %. In the winter of 1991/1992, however, the rate of unemployment reached double digits, something quite extraordinary in the country's history. There was thus a certain sense of urgency when we selected mass unemployment as the first topic of our new series of conferences. But hardly anyone at the time could envisage that unemployment would approach rates close to 20 per cent by the end of 1992 – levels reached only by Ireland and Spain of all OECD countries during the postwar period – and that quite possibly Finland would set an OECD record during the course of 1993.

Finland lost roughly 10 % of its export markets when its clearing trade system with the Soviet Union collapsed in the early 1990's. This was the only unique shock hitting the Finnish economy. The unprecedented 6.5 % fall in GDP in 1991 was also caused by several factors common to many other countries.

There was a recession in the OECD countries, the international market for forest products was depressed, and a financial crisis followed the rapidly mounting (private, public and external) debt burdens. A hard currency policy was associated with a gradual erosion of international competitiveness. One can argue about the relative importance of these disturbances, but it should be noted that, except for the Soviet trade problem, for example Sweden has experienced very similar shocks, and its unemployment rate is rising to record heights as well.

It is extremely difficult to predict how this exceptional episode will evolve in the coming years. The Symposium tried to draw useful lessons from previous experiences with unemployment, both in Finland and elsewhere. While particular attention was paid to labour market policies, so successfully implemented especially in Sweden, strong doubts were expressed as to whether they would suffice this time – not only because of the financial burden they would imply, but also because of the limited means of demand management in small open economies. Consequently, it seems quite likely that the rate of unemployment in Finland would come down very slowly and settle at a level which is higher than before this crisis – just as in many other European countries in the 1980's.

This time, however, there are some important new factors at play which were not present in the post-OPEC disinflation periods. Public and external debts are still rising rapidly, and the severity of the banking crisis is only now

becoming apparent. At the beginning of 1993, the Finnish markka has depreciated by more than 30 per cent against the ECU since the November 1991 devaluation, without leading to any discernible inflation. It remains to be

seen what effect these factors will have on employment. In any case, there is no doubt that this crisis will provide plenty of interesting material for future research.