

ENGLISH SUMMARIES

PAAVO OKKO: *Some Efficiency Aspects of the Public Sector.*

In the 1970's it was asked also in Finland, Can the Growth of the Public Sector Be Checked? (The Finnish Economic Journal 1977: 2) The taxation rate was really pushed down at the end of that decade. During the 1980's it increased again. The tax reform, started in 1989, has decreased the maximum marginal rates but left the average tax rate quite the same. And we are now once again interested in the same old question about the potential harms that the expansion of the public sector might do to the development of the economy. However, we are now more interested in efficiency aspects of the public sector than the aggregate level of the sector.

The development of the theory of industrial organization offers nowadays a good basis for the analysis of these questions. Anyhow the rationale for government intervention is a quite complicat-

ed argument and e.g. the transaction cost -considerations must be taken seriously in the real world with non-zero transaction costs. Incentive structures are also important factors of efficiency both in the public and private organizations.

Government subsidies to the firms and the local public goods are also taken into the consideration. It is often argued that we have been subsidizing our manufacturing sector only in a very moderate scale. From the efficiency point of view there are, however, good reasons to scrutinize the subsidy mechanisms. Because of the fact that Finland is a sparsely populated country the system of producing local public goods is a very important factor forming the regional structure of the country and the size of the public sector, too. In Finland the local administrative communities are quite small and the central government expenditure share is high. This system is commented from the point of view of the Tiebout model. It is quite obvious that this kind of structure is serving better equity than efficiency.

TUOVI ALLÉN: *The Welfare State Today — For or Against the Citizens?*

During the last few decades the public sector has been expanding rapidly in all industrialized countries. The share of public expenditures of gross domestic product has increased and the tax burden has grown. As a consequence of this expansion the debate on the efficiency and drawbacks of the welfare state has started up in many countries. This discussion is usually concerned with the financial problems of the welfare state, but it also reflects contradictory views on distributional judgements.

The most rapid expansion in public sector took place during the 70's. In Finland the expansion of the public sector and the welfare state has been far more moderate than in other Nordic countries and some European countries. However, in all industrialized countries the share of merit goods is greater than the share of collective goods and other public expenditures together. Merit goods include most

expenditures of the welfare state (i.e. education, health care, employment, housing and social services).

In the future the greatest pressure to continuing growth of welfare expenditures will be caused by the changes of the age structure of the population. During the next century the share of the ageing population will grow fastest in Finland among the OECD countries. This kind of development will increase both the pension expenditures and the health care expenditures.

The positive effects of the welfare state has usually been considered to be revealed from the equal income distribution. International comparisons show that the more expansive the welfare state, the more equal the income distribution among households. In Finland the highly equal income distribution has been achieved by relatively minor public expenditures than in other industrialized countries. From this point of view the Finnish welfare state seems to be comparatively efficient.

PERTTI AHONEN: *The Goals and Productivity of the Public Sector.*

The general view is that productivity in the public sector is lower than in the business world. This concept is backed both by attitudes and by reasons of ignorance and insufficient research.

If incorruptibility or concern for the legal rights of citizens, for instance, are made the goal of public administration, how can these be taken into account when we are measuring productivity?

According to the author, even a sophisticated system for monitoring productivity does not replace effectiveness, the attainment of goals and, in the broad sense, evaluation of social effects, all of which are an integral feature of work in the public sector.

The author asks, indeed, just how sensible it is to try to draw up a universally applicable set of in-

dicators on performance in the public sector, let alone a common gauge of measurement.

He proposes, however, that in the interests of public debate, it would be useful to devise some key indicator reflecting performance in the public sector more accurately than productivity does. In the author's view, the administration proper, production of services, training and research and the operations of commercial enterprises each need a gauging system based on the particular character of each area's operations.

There are several far-going projects under way to improve performance in the public administration: a reform of commercial enterprises, lightening up of the permit system, making opening hours more flexible, a budget reform, and revision of the State contribution system. The author points out, however, that training and staff advancement should be given high priority in developing the public sector.

JAN OTTO ANDERSSON: *Three Alternative Futures for the Welfare-state.*

The close connection between the fordist mode of development and the modern Nordic type welfare state is stated, and the relationship between the crisis of 'fordism' and that of the welfare state is discussed. Three different possible futures are presented: 1) a 'blue-red' neofordist mode of development; 2) a 'blue-geen' New Right alternative; and 3) a 'red-green' New Left alternative.

The 1992-project, as interpreted by e.g. Jacques Delors, and the so called 'Third Way' -policies, as implemented by the Swedish socialdemocrats, are seen as possible neofordist options. If these efforts succeed the traditional type of welfare-state can be maintained and even strengthened. If they fail the 'blue-green' and the 'red-green' options become the main alternatives.

PEKKA KORPINEN: *On the Future of the Welfare-state.*

The article is based on a recent book by Pekka Korpinen (*State and the Growth of Freedom*, Hanki ja jää, 1989, in Finnish). In his book Korpinen is generalizing the experiences of the Soviet Union for

The New Right project is based on the neoliberal critique of the welfare-state. It can be combined with a 'green' vision of a society that cannot afford to maintain government responsibility for the welfare of all. It would tend towards a 'two-speed' society.

The New Left project is built on three main ideas: 1) a democratization of economic life, and a greater responsibility for the productive activities of the citizens; 2) a citizenship income scheme and a social service scheme; 3) a radical change in the patterns of production and consumption (i a by use of the pricing system) in order to achieve a sustainable economy. These three principle ideas are discussed with some detail, and a suggestion for the proportion of taxes and citizenship income transfers is presented.

the developed welfare states. His main thesis is that the growth of the public sector as a producer of services is only transitory. Direct state intervention in the field of basic needs is necessary when income differentials are large and needs are simple and homogenous, in a later stage of development income differentials become small and needs become

complex and individual. Production state has to be transformed to transfer state. Through an extensive citizenship income scheme public sector command economy can be split into competing and self-

supporting units. Instead of giving support in the form of kind government is redistributing money and let services charge, full cost recovery.

HEIKKI OKSANEN: *Approaches to Economic Reforms in Socialist Countries.*

Numerous attempts to adopt market-oriented economic reforms have taken place in socialist countries in the past decades. All of these have failed and decision making has gradually been recentralized. The present reform may, however, lead to persistent changes, since now the economies in Eastern Europe need more drastic reforms than ever before, and since economic reforms are accompanied by emergence of political democracy.

Indebtedness of the Eastern European countries has grown to a very high level. In Poland, Hungary, and Bulgaria it shows up as a large foreign debt. Serving this debt makes it necessary to improve efficiency and competitiveness in the western markets. In the Soviet Union indebtedness of the state is mainly domestic. The growing budget deficit has been monetized. This has recently caused the same type of problems as hyperinflation in some other countries. The people hoard all kinds of store-

able products, since they do not trust in the purchasing power of the rouble.

Decentralization of the political system supports the ongoing economic reforms as it makes decentralization of the economic system credible. It remains to be seen, whether the new governments feel strong enough to make the painful economic policy decisions which are necessary to get the economies out of the present crisis.

The route to a welfare state is very long. Some privatization of production seems to be necessary for a proper functioning of the market mechanism. However, it is understandable that state property cannot be immediately be transferred to private hands, as there is no entrepreneurship and private capital which would take over the functions of management and ownership.

The ongoing reforms are so demanding that in practice they most likely will not proceed steadily. Experiences from both socialist and market economies can partially be utilized in solving the inevitable crises. However, at the same time the problems are unique, and therefore no ready solutions are available.

ANDRES ROOT: *Will there be IME (a miracle) in Estonia?*

The article concerns the present situation of the so-called IME project (IME comes from the first letters of the Estonian words for Economic Reform; it is also an Estonian word for a miracle). The author states that a miracle in itself already has happened in the sense that a year ago nobody dared even to hope for economic independence.

The political changes happen with such a speed that the analysis may become hopelessly out of date in a month. As to the economic changes, this does not apply.

In the article the author stresses the practical difficulties they have in Estonia in trying to make the economy more market oriented. As an example he mentions the new economic legislation. At

the end of last November they estimated the number of new documents needed to be more than 200. There is a huge lack of economic experts to prepare these documents. The universities are lacking professors, while books and other material of economic knowledge are also scarce. The lack of personnel makes it difficult to realize the plan for personal taxation. Even the higher positions in the ministry of finance are difficult to fill. Low wages in state offices are hindering the progress of IME.

The present economic situation in Estonia is largely a result of the inefficiencies associated with the economic system of the USSR. The author states that the changes take time and may cause social upheaval before the Estonian people can taste the fruits of IME.

More and more support is being given to the opinions that IME is not radical enough.

SEPPO HONKAPOHJA: *Competition Policy and the Theory of Strategic Competition.*

The economic and analytical underpinnings of competition policy lie in a field called industrial organization or industrial economics, which the last two decades has seen many scientific advances. The so-called New Industrial Economics is firmly founded in microeconomic analysis, and the methodology of game theory has been used in the development of new theories of strategic competition. This paper provides an introductory and non-technical presentation of some topics in the theory of strategic competition including some remarks about its implications for competition policy.

The first part of the paper focuses on strategic competition in given and stable market situations. The new theory has brought light to the basis of dynamic cartel formation using the notion of tacit collusion. According to it cartel-type outcomes may result in dynamic competition even without possibilities for explicit cartel agreements. Extensions of the basic setup lead to models of a variety of phenomena like price wars, strategic product differentiation, reputations buildup and so. Normative and policy aspects of these kinds of dynamic competition are problematic. Fluctuations due to strategic behavior under imperfect information necessitate the weighting of different outcomes in different time periods. Tacit collusion and cooperation means that traditional methods of registering etc. are insufficient to account for practices to restrict competition.

UNO MERESTE: *Economic Reform in the USSR and the Economy of Estonia.*

The author describes the difficulties of implementations of the widespread economic reform in Estonia, and the phases of the program. The important topics of the reform are e.g.:

- Retaining the entity of the Estonian economy. Ninety percent of the state-owned enterprises in Estonia are under the jurisdiction of 42 different ministries in Moscow. The budget of Estonia does not get any revenue from them, but they place a heavy burden on the infrastructure and environment of the country. All the efforts to improve the structure of the Estonian economy are inefficient if the local government cannot have any influence

The second part of the paper focuses on entry and exit in the market. The new models suggest the idea of strategic creation of mobility barriers to limit the effects of entry and potential competition. Examples of these are additional production capacity, advertising, product differentiation, unused patents, and product standards. The common element of these practices is the commitment value of the instruments. Policy evaluation of such behavior is problematic, since such decisions can also be innocent, i.e. made for reasons other than limiting competition. Pricing behavior as a tool for strategic competition to influence mobility is particularly complex, since as such prices have low commitment value. This view is, however, based on the hypothesis of symmetric information. In other situations limit pricing and other strategic behavior involving prices can be justified, since the incumbent firm may use prices to signal about its information (e.g. costs) and thereby influence entry (or exit) decisions. The policy implications of these models are unclear at the moment, but the models suggest traditional cost test for predatory pricing are not necessarily justified.

In conclusion, it is suggested that New Industrial Economics does not yet give a systematic approach for the practices of competition policy. The field needs much more empirical research, utilizing novel methods, to assess the importance of the theoretical arguments and possibilities before such an approach can emerge.

on the activities of such a big portion of the economy.

According to the program the big companies should in principle act as multi-nationals paying taxes to the local government, respecting the local laws concerning environmental questions, etc.

- Getting rid of the so-called double supervision in the administration. All the Estonian ministries are under the jurisdiction of on the one hand, the Estonian board of ministers and on the other hand the same bodies on the SSSR level. This causes inefficiency.

- Finding out ways of guaranteeing the availability of raw materials and machines that are not made in Estonia, i.e. to revive the wholesale market of factor inputs.

— Developing the domestic market in Estonia. The problem here is also the protection of these markets during the period when there is a huge lack

of many consumer durables in USSR. Their own currency and debit cards are regarded as important means for this protection.

ANTTI TALVITIE — CATHARINA SIKOW:
Analysis of Technology of Highway Construction Using Translog-Cost Functions.

The article surveys the research that analyzes the technology of highway construction in the Highway and Waterway Administration (Finland) using the translog cost function. The estimated function is used to study the productivity of the highway construction during the past ten years. Based on these results policy suggestions are made to improve the efficiency and to reorganize the Highway Administration.

According to the estimation results highway construction in Finland is not efficiently organized. Economies of scale are lost because the number of the suborganizations (13 districts), which carry out the practical work along the guidelines given by the central administration, is too big, and their size is too small.

The cost efficiency could be increased by increasing the volume of the output of the districts, and also by taking into account the number of the employees and the time used for construction and maintenance.