

English Summaries

TIMO LÖYTTYNIEMI: *EC directives and the price differences between share series.*

EC directives give substantial power to the limited voting power shares in corporations with a dual-class share structure. EC directives, when and if enforced in Finland, would give decision power to the limited voting power share class and thereby increase the value of this share class. Average price difference between the superior and limited voting power shares listed on the Helsinki Stock Exchange is 82 per cent. This average price difference is high compared to other European countries. Therefore, the adaptation to EC directives will have economic significance. The Second, the Third and the Fifth Directives will regulate the decisions concerning the dual-class share companies. The Second Directive increases the decision power of limited voting power shares in share issues. The Third Directive deals with mergers. Merger decisions would be decided within each share class separately. This would be a considerable change from the law now prevailing in Finland. The proposed Amendment to the Fifth Directive would be a decisive step towards a one share — one vote structure.

JUHANA VARTIAINEN: *Does unemployment Dampen Wage Inflation?*

Most economists and policymakers believe that an increase in unemployment dampens wage inflation because it weakens the bargaining power of workers. This paper uses bargaining theory to argue that when workers are organised in unions and wage determination is seen as a result of bilateral bargaining, there may be no such causal relationship between unemp-

loyment and wages. The contract wage is determined by the payoffs and threat points of the firm and its workers, unrelated to the overall level of unemployment in the economy. It is possible, however, that periods of high unemployment and low wage increases coincide without the former in any way being the cause of the latter.

JAANA KURJENOJA: *Can Wages Determine the Effort Level of Workers — Efficiency Wage Hypothesis as an Explanation for Labor Productivity.*

Efficiency wage models provide an explanation for involuntary unemployment and rigid wages. Firms find it profitable to pay wages above workers' reservation wages, since high wages are assumed to increase labor productivity. If the optimal strategy of a firm is to set wages above the market-clearing Walrasian equilibrium, it will lead to a lack of jobs. The unemployed prefer to work at the going wage but firms have no reason to hire them. At a lower wage the employees would not be efficient and at a going wage the labor demand is already satisfied. The profit-maximizing firm offers a real wage satisfying the »Solow condition»: the elasticity of effort with respect to the wage is unity.

Four different microeconomic foundations for the efficiency wage model are described in the article. In the labor turnover model firms offer high wages in order to discourage employees from quitting. Workers will be more reluctant to quit the higher the relative wage paid by the current firm and the higher the aggregate unemployment rate. In adverse selection models it is assumed that ability and

workers' reservation wages are positively correlated. With high wages a firm attracts more able employees. If a firm faces a fall in demand, it will not cut wages, since its best workers would quit. It may instead lay off workers. In sociological models the effort level of a worker depends on e.g. group work norms and wages paid compared with a so-called fair wage. A firm can succeed in raising group work norms and average effort levels by paying workers a gift of wages in return for their gift of effort. In many shirking models it is assumed that it is impossible to monitor individual performance on the job perfectly. A wage in excess of market-clearing is a way for firms to provide workers with the incentive to work rather than shirk, since there is a cost to being fired.

The article provides also a description of three categories of empirical work on efficiency wage models. The tests of the micro-economic foundations fall into the first category. The two others are the studies of inter-industry wage structures and of wage drift. In the end the article addresses what should be done in order to reduce unemployment if the efficiency wage hypothesis holds.

VISA HEINONEN: *Economy, Institutions and Culture — an Interview with Philip Mirowski.*

Philip Mirowski is a professor of economics as well as history and philosophy of science at the University of Notre Dame in the United States. He wrote his Ph.d. thesis on business cycles prevailing in Britain in the 18th century at the University of Michigan. He has published several articles and some books on history of economic thought and economic history.

Mirowski published a book entitled 'More Heat than Light' in 1989. He had published already in mid-1980's some articles dealing with the same theme. He maintained in these works that the timing and the intellectual content of the genesis of neoclassical theory can be explained by parallel developments in physics in

the mid-nineteenth century. He proposed as well that the core of neoclassical economic theory is an adaptation of mid-nineteenth century physics as a rigid paradigm. Mirowski had noticed that in studies on history of economics the classical writers such as Smith, Ricardo and Marx were well presented but there was very little research on neoclassicism. When he began to read the texts of the early neoclassicals he found out that they were imitating physics and they even admitted this appropriation.

'More Heat than Light' received considerable attention. Mirowski was surprised at the reaction of some readers: they wanted to try their analogies of physics or biology on him. Mirowski himself does not support imitation of any other science as a guideline for the economic research. Anyway he thinks in the same way as some anthropologists like Mary Douglas that in western and most other cultures as well there exists a pattern of naturalist explanations which is very hard to overcome.

Philip Mirowski confesses that he is a very unusual institutionalist economist. He believes that the only legitimate economics would be one which is intentionally a social theory and which understands that there exists a tension of naturalist explanations and projection of scientific metaphors from the natural to social sphere. But at the same time he wants to resist this kind of theory to the extent that it is feasible. He is interested in the how cultures think of their social life.

Currently Professor Mirowski is working on the issue of empiricism in economics. He is writing a book to be entitled 'Who's Afraid of Random Trade?' He sees neoclassical economics as a purely deterministic system which does not have good dynamics. In many disciplines there is a larger cultural movement to assert that the world is more indeterministic. This can be seen very much as a 20th century phenomenon. According to Mirowski that movement has been largely resisted by neoclassical economists. Mirowski asks which probability theory one would choose if one knows that there are different sorts of possibilities? He mentions arbitrage theory, arguments about the significance of expectations and pre-

dictions, subjective notions of probability, chaos theory, social constructions of notions of order and the cultural definition of risk as some themes which have been discussed. Until recently they have not been discussed in relation with the important question: what is an economy?

Philip Mirowski sees time as a central problem of economics but he thinks that so far it has not been dealt with in a satisfactory way. The problems of non-uniqueness and dynamics are left unsolved, and so ultimately there are no dynamics in the neoclassical economic

theory. There is still the question of whether the economy behaves in such a way that everything works out just like in the physical notion of equilibrium?

The issues of the rhetoric of economics and determinism and invariance are dealt with in the interview as well. Mirowski is in favor of not only bringing in more history into economic theory but also bringing in aspects like accounting and legal relations. He is in favor of a more anthropological approach, but he sees that there has been only one dominant construction of what an economic explanation is in our culture.