

ENGLISH SUMMARIES

PERTTI SORSA: *On the Economic Implications of the Demographic and Labour Force Development in Finland in 1990s.*

Unemployment in Finland has decelerated very fast in the course of the second half of the 1980s reaching 88 000 people in 1989 or 3,5 % of the labour force. However, the inflation rate and the deficit on current account have clearly worsened simultaneously. Furthermore, it can be argued that the rapid productivity development in the 1980s and the significant improvement in the terms of trade should have allowed, indeed, a more pronounced fall in the unemployment rate.

On the other hand it can be shown that the relative performance of the Finnish economy has improved in the 1980s. Compared to the 1970s Finland's unemployment rate has been lower than the OECD average while at the same time the inflation differential has narrowed and the deficits on the current account in relation to GDO have been smaller, too. This notwithstanding the conclusion must be drawn, however, that with the current Finnish economic structures the sustained low unemployment rate (less than 4 percent) will not be possible because of the emerging inflationary and current account pressures.

To maintain let alone to further improve the achieved good employment situation comprehensive structural policy measures are therefore called for. Labour market policies should be activated giving special emphasis on adult education. The still remaining differences between the private and public pay and pension schemes should be eliminated

PEKKA YLÄ-ANTTILA: *Investment, Growth and Economic Equilibrium in a Nordic Perspective.*

The article gives an overview of the macro economic performance of the Nordic economies in the 1980s and discussed the prospects for balanced growth in the early 1990s light of the structural changes of the past decade. Finland and Norway showed, internationally compared, strong economic performance in the 80s, while the performance of the Swedish and Danish economies was less out-

standing. The cyclical developments of the four countries have in recent years diverged significantly: Norway and Denmark recorded a strong slowdown in economic activity in the late 80s due to a tightening of economic policies after some years of excessive growth, which led to serious external imbalances. Domestic demand has declined recently in these two countries in response to tight policies, while in Finland and Sweden domestic demand has been growing rapidly in relation to exports, thus causing problems in the current account. Hence,

in order to enhance labour mobility. As the Finns seem to be the OECD nation which works hardest taking into account the participation rate, the share of part-time workers and the actual working hours the policies that improved job security and working conditions would seem to be very desirable, indeed. The would supposedly slow down unexpectedly widespread early retirement and accordingly enhance labour supply which is otherwise expected to show only a marginal increase in the 1990s.

A definitely more restrictive stance in fiscal policies than in the 1980s is also a must in order to radically restrict the increase in public employment. It can be argued, indeed, that the much applauded Swedish employment policy has relied too much on public recruitment schemes with the result that the productivity and labour supply to the open sectors have suffered fostering imbalances in the economy. Finally, it can be envisaged that the epoch of large centralized incomes policy settlements has come to an end and the trend in the 1990s will be towards more decentralized incomes policies that would take place on trade union or even on enterprise level. Considering the changing economic and manpower environment in the 1990s this kind of development would be probably a desirable one from the point of view of containing inflationary and current account pressures. This favourable outcome on the highly unionized Finnish labour markets may be supported quite innovatively by the companywise wage earner funds which are now being established according to the recently adopted legislature.

the outlook for Finland and Sweden is characterized by fiscal restraint and the urgent need to improve the external imbalances. Denmark and Norway who faced the same problems a couple of years earlier seem to be moving toward more balanced, though fairly slow growth.

It is evident that the open sector of the economy in all Nordic countries has become too small or inefficient to support the continuous rise in living standards. The economies have a tendency to hit the external constrain in the early phase of an upswing — the export capacities are not able to keep pace with the fast growing imports.

Looking at the industrial transformation in the Nordic area during the past decade reveals that Finland has shown the most favorable developments

among the four: manufacturing productivity has been growing fast, technical change has been rapid and within-industry structural changes have been significant. This lends support to the argument that the growth and exports generating capacity of the manufacturing sector is developing more favorably in Finland than in Sweden, implying better longer term prospects for the Finnish economy to solve the problem of worsening external equilibrium. However, the investment behavior of industrial firms in both countries shows a significant increase in investment abroad, notably to the EC area, at the expense of domestic capital spending. Hence, export capacity might be increasing quite slowly during the first half of the 1990s.

MARKKU PUNTILA: *Integration and Monetary Economy in Finland.*

The worldwide integration in general and especially the European Integration is causing direct pressures to the environment of the Finnish monetary economy. The most clearcut areas where the integration is leading to the strong pressures to harmonize, are the financial legislation, and the taxation of financial capital and capital income.

If the integration is widened to the exchange rate system it brings about the strong need to coordinate

and harmonize also the economic policies. The author considers the current Finnish exchange rate system as being not very far from the optimal system. He argues that the EMS might bring about the alienation of this optimum in the sense that the adaptation to the big swings in the terms of trade due to the different structure of the Finnish economy would require painful adjustments in the price level and employment. In addition, a risk for regional problems would increase. The common monetary unit would put still more limits to the sphere of the national economic policy.

ANDERS VREDIN: *The Choice of Exchange Rate Policy: EMS or Policy Autonomy.*

The article surveys the arguments for and against retaining the possibility to conduct independent monetary policy in a small open economy. It is emphasized that independence cannot be an end in it-

self. The possibility of independent monetary policy crucially depends on the exchange rate regime and the theory of the optimal choice of the exchange rate regime is reviewed. Drawing on this discussion the paper ends with a discussion whether Sweden should join the EMS.

SEIJA PARVIAINEN: *EFTA countries' foreign direct investment — the straightest way to the common market?*

The article presents some trends in EFTA countries' foreign direct investment, especially in its regional

distribution. Related issues e.g. foreign direct investment's relation to research and development activity, foreign trade, economic structure and labour market are discussed shortly.

The annual flow of international foreign direct investment has more than doubled in the 1980s. In

addition, the roles between traditional investors and receivers have changed. The present EFTA members' share of OECD's foreign direct investment flows has grown from below 4 per cent in the 1960s to around 8 per cent in the 1980s. At the same time their share of inward flows has diminished.

The EFTA economies are at different stages of their internationalization processes. In the 1980s Switzerland and Sweden covered around two-thirds of EFTA's outward direct investment flows and four-fifths of the stock. Sweden has reached the same level of net outward flows as Switzerland in the latter half of 1980s. Also Finland has recently strongly increased its foreign investment. Norway's direct investment abroad diminished during the last years, mainly due to a reduction in its foreign shipping investment. The flows abroad from Austria are still relatively low.

After 1985, when the White Paper on the internal market was published, EFTA companies have largely redirected their investment towards the EC. The UK, Germany, Netherlands and France have been the most important host countries. For Finland, Sweden and Norway investment in other Nordic countries is important as well. Sweden and Switzerland are EFTA's most EC-oriented investors, whereas Finland is the most EFTA-oriented one.

Switzerland is also EFTA's most important host country for direct investment received from abroad. It receives more investment than all the other EFTA countries together. Sweden and especially Finland have attracted few foreign investors, partly because

of the many restrictions in their legislation limiting foreign ownership. EC's share in EFTA's inward direct investment has increased. However, Finland, Sweden and Norway still receive foreign investment to a great extent from other Nordic countries.

The discrepancy between outward and inward foreign direct investment has been the largest in Finland and Sweden. In the 1980s their flows abroad were four times bigger than the flows they received from abroad. Only in Austria the direct inward investment flows have been clearly bigger than outward ones. The balance has been the best in Norway.

In the end of 1980s EFTA-based companies employed over 1½ million people abroad which is around 10 per cent of the total labour force of EFTA. At the same time the unemployment rate has been low in all EFTA countries and there has been labour shortage in many sectors. Foreign direct investment can in some cases be seen as an alternative to importing labour from abroad.

EFTA countries' investment in the EC has been motivated by prospects of a dynamic market with 320 million people and high economic growth, combined with uncertainties concerning EC's policies vis-à-vis non-EC companies. If the EES agreement secures EFTA companies' position on the internal market, the need for more direct investment in the EC might diminish, which will once again change the regional distribution of EFTA countries' foreign direct investment flows.

ILKKA PATOLUOTO: *Progressive Characteristics in the Finnish 18th Century Economics.*

It is argued that both *Adam Smith* and *Antti Chydenius*, the first Finnish thinker to argue for the superiority of free markets and a contemporary to Smith, were both strongly influenced by the

thoughts of *Samuel von Pufendorf*, a Swedish philosopher and political scientist. Pufendorf's theory of natural justice was taught in University of Turku at the time Chydenius was studying there. The link between Smith and von Pufendorf was *Gershon Carmichael*, a Scottish philosopher, whose chair Smith inherited.

JUKKA PEKKARINEN: *Incomes Policy at a Crossroad.*

This talk given at the 1990 annual meeting of the Finnish Society for Economic Research first shortly surveys some recent theoretical arguments for in-

comes policies in an imperfect market environment. Results of a comparative study sponsored by WIDER show that the corporatist countries, especially the Nordic countries, display the greatest efficiency of labour markets in terms of (high) employment rates and (low) degrees of wage disper-

sion. This achievement is traced back to the non-exclusive, highly representative nature of the corporatist institutions of these countries.

Finland forms a weak, although strengthening case among the Nordic group of corporatist »star performers». Inherent characteristics of the Finnish corporatist system are, first, a central role of the state in its management and, second, a high de-

gree of independence of individual unions in wage negotiations. After indicating some tendencies for instability these features may involve in the Finnish corporatist system, an argument is made for a wage bargaining system with more remote government involvement and a greater degree of centralisation and harmonisation among the negotiations of individual unions.