

English summaries

ANTTI SUVANTO: *Banks in crisis?*

The banking industry in Finland is suffering from excess capacity and is therefore facing a major structural adjustment. Prolonged regulation of interest rates had led to provision of free, or vastly under-priced, liquidity services. As a result the service network, measured both in terms of the number of branches and in terms of the number of ATMs per inhabitant, is one of the densest in the industrialized world.

Deregulation of interest rates added to the difficulties of the banks by driving them to an *interest rate trap*. As the interest rates on bank lending were to a large extent linked to the official base rate, which for political reasons was not raised in line with accelerating inflation and rising market rates of interest, the rate of return on lending remained low in relation to increasing marginal cost of funding.

In addition, the continuation of tax-exemption of interest income on bank deposits meant that these rates remained regulated at a low level. In retrospect, the one-sided deregulation of interest rates gave a wrong sig-

nal by encouraging the banks to continue to grant base-rate-linked new loans at comparatively low rates of interest. This contributed, in part, to the very rapid credit expansion in 1988 and 1989.

The recent Finnish experience also shows some signs of a classical financial crisis. As the end of a long period of credit rationing coincided with a major cyclical upturn and strong income expectations, the demand for credit, not surprisingly, jumped up. The banks responded by supplying the credit and increasingly funded it in the wholesale market, exacerbating the maturity mismatch in their balance sheets. The vulnerability of the market rose, as an increasing portion of the credit was advanced to customers speculating in asset prices, which for a number of years had shown rapidly rising trends.

The downturn in asset prices, and in business conditions in general, led to a sharp curtailment in credit expansion in 1990, raising the risk of a *credit crunch*. Irrespective of the severity of an eventual credit crunch, credit losses are likely to rise still further in the coming years.

UNTO HÄKKINEN: *Equity and the net redistributive impact of health care in Finland*

The article examines vertical equity in financing of health care in Finland — i.e., the extent to which households with different abilities to pay make different contributions to the costs of health care. The net redistributive impact of health care is analyzed by combining households' financing of health care with their

utilization. The ability to pay is measured by pre-tax household income adjusted according to the equivalence scale recommended by OECD. The calculations were also made by means of an equivalence scale which was adopted from a study applying ELES (Extending Linear Expenditure Systems Using Dummies for different households) to Finnish household survey data. In empirical analyses of redistributive effects of financing and utilization, the indices of *Kakwani* (1977) and

Suits (1977) were used. The data used in this study are based on the Finnish Survey on Health and Social Security in 1987.

According to the results all public sources (state taxation, local taxation and sickness insurance contributions) of finance of health care were slightly progressive. On the other hand, the direct out-of-pocket payments by households were regressive and thus total financing was rather neutral: the value on the Kakwani index was -0.006 and the Suit index 0.004 using OECD-equivalence scale. The use of the ELESF-equivalence scale only

slightly changed the values of these indices.

Health care utilization was concentrated to lower income groups. The poorest 50 per cent of households consumed 56.3 per cent of all health care services and 58.3 per cent of health care financed from public sources. Because of the progressivity of utilization, also the total redistributive effect of the health care system was progressive. The value of the progressivity index of the net redistributive impact (developed by Lambert and Pfähler 1988) of health care was -0.0276 , which was mainly due to the redistributive impact of utilization.

JUHA KETTUNEN: *Reform of the unemployment insurance system*

Even though the unemployment rate in Finland is relatively low compared to many European countries, unemployment is still a serious problem. The average durations of unemployment have been nearly 12 months during recent years. This article studies the effects of the unemployment insurance on the functioning of the labour market.

Using Finnish microeconomic data it is shown that the benefits increase the duration of unemployment by 15 weeks on average. Furthermore, the benefits decrease the probability of regional and occupational mobility. However, there are many other explanatory

factors. Old people and persons who have been doing housework find it very difficult to get a job.

Using search theoretical models it can be shown that a waiting period before entitlement to benefits has a very low positive effect on the re-employment probability. One way of improving the welfare of unemployed persons is to remove the waiting period. Furthermore the system can be improved by increasing the allowance for relocation and job training. The re-employment probability can be increased by limiting the maximum period of the basic unemployment allowance and reducing the earnings-related unemployment allowance after a fixed spell of unemployment.

MARTTI HETEMÄKI and MARKUS SOVALA: *Maker of Economic policy — the interview with Erik Törnqvist*

Erik Törnqvist (born 1915) is one of most influential state officials in post-war Finland. He graduated from Åbo Akademi in 1937. During the war he worked in price regulation administration. In 1949 he became head of the Economics Department of the Ministry of Finance. During the 1950's he worked with deregulation of the post-war economy implementation of counter-cyclical policies and

laying the groundwork for the first forms of the incomes policy. In the late 1950's Erik Törnqvist's work focused on Nordic economic integration. He was Finland's main negotiator when there was an attempt to form a Nordic tariff union. Again in the 1960's he led the Finnish delegation in the Nordek negotiation round. Törnqvist was employed by the UN in 1957—63, first in the European Economic Council and then in several organizations in Latin America. Törnqvist was Finland's Ambassador to Mexico during 1972—78.

PEKKA TIAINEN: *Demand and supply of labour force to the year 2000 and evaluations to the year 2030. Analysis of the results of the Labour Force 2000-project*

The paper is based on the results of the Labour Force 2000-project (Finland, February 1991).

The boom at the end of the 1980's raised expectations regarding the continuation of strong demand for labour. The recession has changed these expectations. According to the basic calculations of the working group, the average rate of increase in output in the 1990's will be 2.5 %. Due to the recession, however, growth will be clearly slower in the early 1990's. Because of the prevailing trade conditions, the unemployment is forecasted to increase sharply in 1991 and 1992. The production and productivity trends have been estimated by branch in accordance with the basic estimate of the supply of manpower. Thus it will be possible to reach a 1.5—2 per cent increase in output after the year of 2000. The normal domestic supply of work contribution allows such a pace of growth, in case the rate of unemployment off at 2.5 levels per cent in the year 2030, and the increase in productivity slows down slightly. According to the basic calculation, the reduction of the working hours will slow down to approx. half of the trend in the last three decades, i.e. the working hours will shorten by an average of 0.4 % per year in the total national economy.

According to the basic calculations, the number of employed persons will increase by barely 40,000 in the 1990's, the corresponding increase in the 1980's being 140,000 persons. With regard to production and employment, the proportion of primary industries will decrease, while the proportion of tertiary industries will increase. With regard to employment, the proportion of secondary indus-

tries will decrease, but with regard to production, the proportion will remain the same. When measured by production, agriculture is the only decreasing sector. Forestry and certain individual industrial branches constitute very slowly growing sectors. Business services, data communications, the metal industry and the paper industry are among the branches growing more rapidly.

The timing of the increase in the labour force supply is problematic. In the 1980's the supply of labour force increased by approx. 120,000 persons. During the recession the supply has begun to decrease, but it is estimated to increase by 60,000 persons during the 1990's as a whole. The amount of manpower in the 1990's would be sufficient for a more rapid economic growth than the one seemingly taking place.

From the year of 2000 the supply of manpower will begin to decrease, in case the trends regarding the population growth comply with the forecast of the Central Statistical Office. The most rapid decrease would take place during the first half of the 2010's, when the large age classes retire and the shrinking age classes reach the ages where labour force participation rates are high. Recent birth rate trends suggest that the population forecast slightly underestimates population growth rates. The working group has not, however, amended the population forecast, but has separately estimated the effects of demographic factors.

Finland will not be able to sustain an average annual growth rate of about 2.5 % into the next millennium without the help of additional utilization of the domestic labour or the foreign labour force, or a more rapid increase in productivity, which are the alternatives to the slowdown in growth, caused by insufficient work contribution in the future. Even a slower growth rate will promote welfare.