

English summaries

JUKKA RANTALA: *The Occupational Pension system in Finland.*

The article explores the long-run prospects of the mandatory occupational pension system for the Finnish private sector employees (abbreviated TEL). The prospects are considered over a period of the next 40 years.

The TEL system is managed by private sector pension insurance companies, pension funds and foundations. The full pension is 60 % of earnings and it can be achieved in 40 year. The pensionable age for the old-age pension is 65. The costs of the system are paid by the employers alone. At present 50 % of the pension costs are paid from reserve funds or from their investment return.

The biggest problems of the TEL-system are due to the age structure of the Finnish population. The generations entering the labour force are much smaller than the generations retiring. At present the situation is still favourable but the change after 2000 will be dramatic. The number of people in the labour force will decrease by half a million — by nearly 20 % — between the years 2000 and 2030. A feature worsening the situation is that, thanks to the quite liberal early retirement possibilities, the actual average retirement age is about 58, one of the lowest in the OECD countries. The share of the population over 65 years of age will clearly be below the OECD average still in 2005 but already by

2020 Finland will rank above the OECD average. Hence the growth of the aged population in Finland is one of the fastest.

It is estimated that if present trends continue the pension expenditure in relation to the private sector payroll will increase to 35—45 % in 2030. This is more than three times the present figure. The rise in the costs means that the current average contribution rate of 16.9 % of the payroll should be doubled even if the funding rate were lowered in the future.

The author discusses different alternatives to increase the funding in the 90's in order to lighten the premium burden of the employers when the pension expenses are at their highest. The author asserts that the growth of pension expenditures should be slowed by measures increasing the average retirement age. But even this will not suffice to prevent the decline in the number of the working population. For that purpose an active immigration policy is needed after 2000.

The author also believes that an increase in the funding rate would have favourable economic effects and recommends more funding in the 90's. This could be for example done by introducing employee contributions into the system.

By these measures there would be no need to increase the contribution rate over 25 % of the payroll in the next 40 years.

JOUKO PAUNIO: *Trade cycle theory and the economic developments in western Europe during the 1980's.*

In the first part of the paper recent developments in trade cycle theory inspired by the new classical macroeconomic theory is discussed against the backdrop of older theories. It is emphasized that the new ideology is theoretically interesting but of limited empirical relevance. The second part

scrutinizes some features in Western European economic developments from the point of view of trade cycle theory. The analysis carried out is based on the assumption that investment activity is the main determinant shaping the cyclical nature of the actual economic process. This view receives support from the analysis.

Key words: trade cycle, investments, dynamic process, European economy

TUIRE SANTAMÄKI-VUORI: *Wage differentials and employment mobility in the Finnish labour market.*

The positive macro-economic impacts of corporatism have been widely recognized. Nevertheless open questions remain concerning the potential effects on relative wages. This paper considers three main issues. First, what are the trends in inter-industry wage dispersion in Finland? Second, to what extent do these differentials reflect actual changes in relative wages or allocatively effective adjustments of the wage structure? Third, has employment mobility decreased and what are the factors contributing to changes in employment mobility?

The wage dispersion of employees between the main industries shrank considerably in the 1960s and 1970s in Finland. Thereafter relative wage differentials have slightly increased. Similarly, manufacturing wage differentials for men and women taken separately have increased. The overall wage differential in manufacturing has remained quite stable, however, reflecting a closing of the gap between men and women.

International comparisons have not supported the notion about any systematic relationship between changes in wage dispersion and in employment. This is partly due to the fact that changes in wage dispersion capture the wage restructuring in an inadequate way. Moreover, the relevance of

the relative wage variability for the labour market equilibrium depends on the determinants of industrial wage changes. Owing to imperfections in the labour market, wages may reflect sector-specific influences even in the long run, which is not compatible with an allocatively effective wage structure. Recent studies suggest that this is particularly true in the United States, while in Finland, Sweden and Norway industrial wage differentials seem to reflect more closely compensating differences in the qualifications of the employees and in working conditions. By international comparison, the labour market seems to perform quite well in Finland.

Has employment mobility decreased since the early 1970s as a result of narrowing wage differentials between industries in Finland? Our analysis suggests that the individual propensity to move has not declined. Due to demographic developments and changes in labour market inflows, however, job tenures have lengthened in Finland. As far as structural imbalances in the labour market are concerned, there is no strong evidence of any trend towards growing regional or occupational mismatches. Yet in the future the economic restructuring calls for greater employment and job mobility among the labour force participants. Even though the potential benefits of redesigning jobs may not be underrated, it is obvious that a sound social adjustment strategy requires heavy subsidisation of adult training.

KARI PUUMANEN: *Industrial policy and public expenditure.*

Economic integration will reduce the scope for interventionist industrial policies. With free movement of capital and labour competition among European countries will shift from the product markets to factor markets. In the longer run national industrial policies will be in the same position as local and regional industrial policies are now. The emphasis will be on promoting the advantages of a country from the point of view of productive capital and qualified labour rather than on the marketing of nationally produced goods. The integration of factor markets may in fact reduce trade volume to the extent that earlier comparative advan-

tages have been based on obstacles to the flow of factors and technology.

Competition in factor markets is more restricted than in product markets and is more difficult to manipulate by interventionist policies. To be successful, a country or area should be both an advantageous location for productive capital and a good place for people to live and work. Finland, being far from the major markets and raw material sources and having an aging population, faces the risk of losing ground on both fronts.

Given the present unemployment in Europe and the reserve of professional labour in Eastern Europe, the tightening of the European labour market will, not, however, yet be a source of great concern. On the other hand, the present decade is likely

to be the decisive one for the reallocation of productive capacity in Europe. This would suggest that Finnish economic policy should now give priority status to structural and institutional changes that strengthen the country's industrial infrastruc-

ture and increase its ability to attract direct investment. The implication is that further improvements in the standard of living and social security will have to wait.

VISA HEINONEN: *Playfulness as the Researcher's Source of Inspiration — an interview with Pentti Pöyhönen.*

Pentti Pöyhönen was one of the first econometricians in Finland. His dissertation (published in 1955) was an econometric study of the pricing of building sites. In 1959 Pöyhönen was appointed Professor of Economics at the University of Helsinki. In 1960's he with his colleagues Lauri af Heurlin, Matti Leppo and after 1966 Jouko Paunio revamped the teaching of economics. It was based on new modern textbooks, and several research groups began to work under the leadership of Pöyhönen and Paunio.

Pöyhönen has made his perhaps most important studies in the field of trade theory. He published two articles in 1963 in which he presented his gravitation model of foreign trade. In 1964—1965 Pöyhönen spent a year in the United States at the University of Stanford, where he took part in the seminars at the research center of Kenneth Arrow

and Mark Nerlov. There he met many top-notch american economists and got ideas for research and teaching of economics.

In the beginning of the 1970's Pöyhönen was the leader of the ERGI group that was formed to study the economic consequences of the European integration process for Finland. The group consisted of young economists who had possibilities to get training in research work and to write their dissertations and master's theses. The group published research reports. The research project was financed by the Finnish Academy. It aroused public attention at a time when Finland was negotiating the free trade agreement with the EEC.

During his career as an academic economist Pöyhönen has taught many persons nowadays holding leading positions in Finland. In his research work he stresses playfulness as a source of inspiration. He doesn't believe in political or any other than pure intellectual interest as a guideline of scientific research.