

English summaries

JUHA KETTUNEN: *The Effects of Financing Unemployment Insurance on Unemployment*

This article surveys some of the major theoretical and empirical issues relating to unemployment and the financing of unemployment insurance in Finland. Unemployment has risen sharply in Finland from 3 to 18 per cent during the last three years. During this same period the unemployment contribution paid by the employers as a percentage of wages has risen from 0.6 to 6 per cent. Contribution rates have placed a heavy financial burden on firms, in many cases threatening their very survival.

The federal legislation of the United States offers an appealing alternative whereby firms'

RIITTA WAHLSTRÖM: *Promoting environmental awareness in the studies of economics*

Taking the environmental viewpoint into account during the whole production process from planning to marketing is not only ecologically sensible but also economical. Therefore, attention should be paid to the formation of environmental knowledge and attitudes already at the stage of undergraduate studies in economics. The present research project interviewed experts in the field of economics who had taught environmental topics and/or conducted environmental research (N = 14) in Finnish institutions of higher education. The experts were inquired about their views on the starting points, implementation, obstacles and methods of environmental education and its integration with the rest of studies. Knowledge of the basics of ecology and discussion of the human-environment relation were regarded as impor-

contributions are based on their past lay-off behaviour. Introducing a system based on this type of experience rating also in Finland could be a tempting way of reducing lay-offs and unemployment.

The trade unions seek to maximize workers' income. Having the benefits financed by general taxes increases the incentives of trade unions to raise also the unemployment benefits. The concern of trade unions about the high unemployment is low. From the point of economic theory it could be argued that the contributions paid by the workers should be increased and the tax-based financing decreased.

tant, in addition to teaching topics related to environmental economics. As for teaching methods, the experts had tried out very few alternative methods which encourage critical reflectivity, even though the formation of environmental awareness, with its connections to values and attitudes, calls for a multi-disciplinary and problem-centred educational model. According to the interviewees, the aims of environmental education can best be attained through integration, although separate courses were also considered important. Successful integration requires teacher training and direction of research towards questions of environmental economics. Teachers' attitudes were regarded as obstacles to environmental education; environmental issues are not considered important. Among other obstacles mentioned were inadequate research and knowledge, unfamiliarity with suitable teaching methods, lack of professorships and posts in the field, and

problems posed by the university culture. Research on environmental economics is inadequate and integration of teaching is therefore difficult. There is an urgent need to establish

VISA HEINONEN: *Foreign Trade Strategies of the Nations - A Review of the Discussion on Protectionism and Economic Integration*

The article is a review of the economic theories of foreign trade and integration from the 1950's until the 1980's. One lesson of this survey is that even old truths can be questioned or at least challenged. The principle of comparative advantage formulated by *David Ricardo* (1772-1832) has been a central explanation for the utilities gained from mutual exchange. Ricardo's ideas were the theoretical justification for the supporters of free trade. From Ricardo onwards until the 1980's, the theory of foreign trade emphasized competitive advantage instead of returns to scale as explanations for trade. The foreign trade theory based on the idea of competitive advantage was further developed by *Eli Heckscher*, *Bertil Ohlin* and *Paul Samuelson* during this century.

The freedom of trade has also been opposed with a variety of arguments. The infant industry argument presented by *Friedrich List* (1789-1846) is one of the most important. According to this argument the trading nations cannot mutually benefit from the trade if they are not at the same development level. List stressed the importance of protecting a nation's developing industries with the aid of customs. Later some writers have written even about exploitation or about wealthy nations getting wealthier while the poor countries are getting poorer as a result from the liberalization of trade. The infant industry argument was often used in the discussions of development economics in the 1950's. At that time economists wrote about stabilized growth and import substitution as a suitable growth strategy for the developing countries. In international trade the

one or more professorships in environmental economics in Finland. Further education was also considered important.

free trade supporting countries have, themselves, intermittently been pursuing protectionism and limitation of free trade.

The classic work on the theory of economic integration in the 1950's was *Jacob Viner's* book *The Customs Union Issue*. In this book Viner presented his central concepts *trade creation* and *trade diversion*. Viner's work was continued by *James Meade*, *Richard Lipsey* and *Bela Balassa*. They examined economic integration and its consequences with the aid of the Vinerian concepts.

One can look to modern economic theory for support on both free trade and protectionism depending on the issues emphasized or considered of importance. The importance of increasing returns to scale and restrictions on competition are the corner stones of the so-called new theory of international trade. Such phenomena of the real world as product differentiation and restricted competition have been taken into account in this approach. The examination leads to the conclusion that a country can benefit from restrictions on competition when supporting its important industries. In the late 1980's, a discussion on strategic trade policy emerged: individual regions or countries can actively pursue their own interests by supporting their developing industries with industrial policy. Nowadays the weapons of trade policy are, instead of customs duties, other measures such as licences, export and import quotas and legislation.

In modern economic theory economic integration in the form of reducing customs and trade restrictions is found beneficial because it raises economic efficiency. Integration can signify participation in a free trade area, customs union or common market. The advantage gained from integration depends on,

whether it leads to Vinerian trade creation or diversion. According to the new theory of international trade, the advantages of integra-

tion are based primarily on the economies of scale resulting from the growth of trade.

PEKKA AHTIALA: *Finland's 1975 Economic Reform Policy*

In 1975 Finland's current account deficit was 8 per cent relative to GNP and inflation 22 per cent, while the GNP of the OECD countries declined by 2 per cent. Since the country was facing a supply shock the supply side competitiveness received major attention in reform plan. Breaking the wage-price spiral was a top priority. Excess demand was squeezed out of the economy by coordinated tightening of fiscal and monetary policies. With the help of a number of measures affecting price and employment expectations the labour unions

were persuaded that settlement at the 12 per cent level would maximize take-home pay after a year. In the following contact talks a restrained settlement was bought with a tax cut. Tight demand management policies eventually increased unemployment to 6 per cent and broke real wage rigidity. At this point unions conceded to not demand full cost-of living compensation for devaluation in return for an improvement in employment. Thus it became possible to improve the real exchange rate with a devaluation, which was carried out in three small increments in 1977 and 1978. This made it possible to return to stimulating demand management policies in 1977.