

ECONOMIC IDEAS AND RETRENCHMENT POLICIES

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Policy ideas & economisation

- Policy ideas: influential problem definitions that steer policy makers to particular solutions
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- In Finland, a "sustainability gap" in public finances & "competitiveness gap" in exports have framed policy debate in recent years by *economising* it
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- Common traits in both ideas:
 - Derive from economics, put constraints on social policies
 - Contain several assumptions and uncertainties, but are usually treated as neutral facts in policy discussions
 - Imply that it is necessary to weaken labour's bargaining position to maintain the welfare state

Finland's competitiveness gap

- Finland faced prolonged economic hardship in 2009-15
- Hegemonic view of the problem: excessive unit labor cost growth since 2008 made exports uncompetitive.
 - “Finnish ULCs 10-15% weaker than key competitors SWE, GER”
 - But: ULC indices measure changes, not levels; FIN levels alright
 - Were the changes due to growing wages or declining productivity?
- A tripartite competitiveness pact (a wage freeze) was the remedy of choice for the Sipilä Govt during 2015-17
 - ULCs have decreased as a result of the policies. The implication is that the wage share of GDP declines, too.
- Finland has enjoyed good export growth since 2016
 - But is this due to world demand picking up or labour cost issues?

Sustainability gap in public finances

- The SG concept seeks to render visible that aging will cause a permanent negative shift in public finances.
 - This sounds neutral, but the SG is a theoretical construct
- Estimates of its scope vary, but FM's €10bn / 5% of GDP (2015) was adopted by the current Govt.
 - *With given assumptions about growth, demographics and expenditures, how much net public outlays must decline relative to GDP to balance the budget in the long run?*
- A combination of structural reforms, expenditure cuts & austerity, and growth policies is being pursued → more growth, less cuts
- Growth policies aim to raise the economy's "inflation free growth potential" by moderating real wage demands (weakening unions; benefits & social security); demand side issues mainly dismissed

Questions

- What is the relevance of ideas in policy formation and implementation – how important are they?
- How do dominant policy ideas modify the scope for welfare state reforms in the Nordic countries?
- If the framework of conducting social policy becomes increasingly "economised", would it be advisable to devote more critical analysis to economic thinking itself?