

GENERAL AGREEMENT ON TARIFFS AND TRADE

RESTRICTED

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Working Party on Structural Adjustment
and Trade Policy

RECORD OF DISCUSSION ON COUNTRY CONTRIBUTIONS
RELATING TO EXPERIENCE WITH STRUCTURAL ADJUSTMENT

Finland
(Spec(82)6)

1. The representative of Finland stated by way of introduction that the relative lack of direct government intervention in the activities of enterprises, in particular the lack of government subsidies to industry, had benefited structural adjustment and foreign trade in his country. The high degree of self-reliance that this policy entailed had been one of the reasons behind a relatively favourable development with respect to rationalization, specialization and intensified sales efforts abroad as well as the ensuing beneficial effects on the external balance. All important economic interest groups shared the opinion that maintenance of the international competitiveness of Finnish products constituted the key to continued prosperity.

2. Turning to a number of questions addressed to his delegation with regard to the Finnish trade régime, the representative of Finland pointed out that tariff protection had decreased very markedly in Finland, like in most other comparable countries, from 16 1/2 per cent in the late 1950's to only 1.4 per cent in 1980, taken as a sum of tariffs and similar payments in relation to total imports. Quantitative restrictions continued to exist mainly for agriculture and fuel products but it would be wrong to assume that these had substituted the tariff as a protective means. With respect to structural adjustment policies, only economy-wide measures had been employed. Specific assistance to industries or other sectoral adjustment policies relating to individual sectors or enterprises had deliberately not been applied nor had trade policy measures been used. As to the few cases of government intervention in the adjustment process mentioned on page 28 of Spec(82)6, they referred mainly to small-scale regional policy measures which had been in accordance with international norms, and the moving forward of certain orders already placed by the government with individual firms. The question which sectors had been affected, either in a positive or in a negative way, by structural adjustment was hard to answer. Some sectors might be expanding and some contracting, but because of increased levels of income and productivity in the overall economy, all sectors stood to gain from successful structural adjustment in the long run; the alternative was to completely phase out non-profitable activities. In response to a question as to the cost-efficiency of structural adjustment measures taken, the representative of Finland emphasized that rather than intervening in individual cases, the policy of the government was to create favourable conditions for the economy in general. It was therefore difficult to answer the question of cost-effectiveness of structural

measures, especially since the measures taken, particularly in the framework of regional policies, had not been the subject of studies as was the case in some other countries.

3. Structural adjustment in agriculture had been very rapid: from 1959 to 1980 the number of farms had decreased by one third and the agricultural labour force decreased by two-thirds. Mechanisation and capital-intensive production methods had been closely linked with adjustment and productivity had increased considerably. In the 1960's costs had made up about 40 per cent of gross return and two decades later about 75 per cent. Rapid specialization was also typical of Finnish agriculture. The adjustment process had implications for agricultural production, prices and farm income as well as for farm structure. At the time of food shortage at the end of World War II self-sufficiency became the first goal for agriculture, which for some basic foods had been achieved quite rapidly; towards the end of the 1960's, agricultural production exceeded domestic consumption. Since then supply control had been an essential element in Finnish agricultural policy. In curbing excess production, price policy and other measures played an important rôle. The costs of supply control measures changed from year to year: in 1980 budgetary expenditure was Fmk 165 million, in 1981 Fmk 142 million. Price policy attempted, above all, to safeguard the development of farm income, but simultaneously it controlled the development of both producer and consumer prices. Price policy and target prices were based on Agricultural Income Acts which had been passed since 1956. The mechanisms of these Acts had been adjusted several times. Whereas farm income had previously been linked with the general wage level index (the 1962 - 64 Act) or the wage level index of farm workers (the 1972 - 74 Act), the present Act, expiring in 1983, was a "Negotiation Act", i.e. it did not set up specified goals for the development of agricultural income. On the other hand it obliged farmers to participate in costs caused by marketing of excess production. Finnish agriculture was based on family farms. In spite of improvements in farm structure, small farms were still dominant. More than 50 per cent of farms had 10 hectares or less arable land. The average size per farm was 12 hectares arable land and 35 hectares forest. Structural policy included objectives to enlarge farm size, to increase productivity and to improve the viability of agriculture. The structural policy measures were carried out mainly under the Farm Act. It defined the provisions for acquiring land or enlarging a farm unit. The present policy favoured the establishment of larger than average size farms although smaller farms and part-time farms were also eligible. Under the Farm Act loans (state loans or interest-subsidized loans) could be granted for the following purposes: land purchases, buying out of co-heirs, buildings, housing, basic improvements, roads, water supply, moveables and electrification. In certain less-favoured areas also investment aids could be granted. In 1981 the loans under the Farm Act totalled Fmk 900 million.

4. In reply to a question as to whether quantitative restrictions applied by Finland affected agricultural products in any important way, the representative of Finland recalled that his delegation had annually notified for circulation to contracting parties a booklet entitled "Import System of Finland", containing an exhaustive list of all quantitative restrictions applied. Most of these quantitative restrictions affected agricultural products, together with oil and other fuels. He could not, however, give a quantitative assessment of the impact of these restrictions.

5. Responding to a question about the share of trade in the GNP, the representative of Finland stated that exports and imports combined had accounted for more than one third of GNP in recent years, typical of small open economies.

6. In reply to the question whether Finland had encountered trading problems as a result of rigidities elsewhere in the world economy the representative of Finland stated that the growth of the volume of world trade had stagnated in recent years and even turned negative in 1981. In these circumstances the rigidities in the world economy had accentuated and the efforts to protect domestic production had been intensified. This general economic environment had affected also Finnish foreign trade. The problem as regards direct effects stemming from rigidities was that trade obstacles were not always transparent. Hence it was difficult to know precisely to what extent such trading problems had been encountered. But it was obvious that Finland had not experienced any major problems which could have been identified. He emphasized, however, that the transparency of trade and other related policy measures would have to be increased if a sustained economic growth was to be resumed and consequently a more healthy world economy restored.

7. The replies given by the Finnish Delegation to a number of questions of a statistical nature are contained in Spec(82)6, Suppl.1.