

## **Economic Policy Panel Meeting hosted by the Bank of Finland and the Ministry of Finance on 20<sup>th</sup> October 2006**

**Ms. Sinikka Salo, Member of the Board**

### **Opening words**

I am very pleased to welcome you to the 44<sup>th</sup> Economic Policy Panel Meeting, which the Bank of Finland and the Ministry of Finance are hosting. We are indeed happy and proud of hosting this important forum here in Helsinki.

Economic Policy Panel and Economic Policy Journal celebrated its 20<sup>th</sup> anniversary very recently. It is therefore appropriate and interesting to look back at the previous two decades. Europe and the whole world have changed. European integration has taken huge leaps while globalisation has accelerated.

In the European Union we have single market since 1992, single currency was successfully adopted in 1999, and the Union has grown from a community of six countries in five successful enlargements to a community of 25 countries. With its 25 member states the European Union has approximately 460 million inhabitants and it is considered as a single entity that represents the world's largest economy by GDP.

These steps were hardly even in the dreams of the founding fathers when the Rome Treaty was signed nearly 50 years ago. The road to the current situation has not been straightforward and there have been many drawbacks – European integration is difficult by definition as countries give up sovereignty through negotiation. Nevertheless, integration has always progressed – sometimes slower, sometimes taking huge leaps as during the past 20 years. As we now are in Finland, let me take the opportunity to illustrate successes of the integration by referring briefly to my country.

Before Finland entered the monetary union in 1999, many economists feared that the stance of the single monetary policy could be at times grossly inappropriate for the Finnish economy, as they considered Finland to be too 'asymmetric' for the European monetary union. We now have almost eight years' experience of the monetary union. Interestingly, many of the asymmetric shocks feared before the EMU have already been realised over this relatively short period. In particular, there has been a strong

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boom-bust cycle in the ITC sector which plays more dominant role in Finland than in other euro area countries. Secondly, the exchange rate of the euro vis-à-vis the dollar, which is also more important for Finland's exports than on average for euro area, first depreciated nearly 30% and then appreciated 50%. Moreover, the price of oil has multiplied during the existence of the euro.

In spite of these asymmetric shocks, the stance of the single monetary policy has been broadly appropriate for the Finnish economy. Employment and output have grown well in comparison to most of the other euro area, and except for the initial period, Finland's inflation has remained for the most time within the range of the ECB's definition for price stability. Government finances are in balance or in surplus year after year even when adjusted for the surplus shown by the occupational pension system. This achievement is not because Finland wants to be the "best student in the class" in the EU context. The virtues of monetary stability and sound public finances are widely understood and supported by political decision makers and by the public at large.

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Enormous progress has, indeed, taken place in Europe, but we tend to forget this when we encounter problems and see sluggishness. If we complain that integration is too slow and inefficient, it is wise to remember that progress in this kind of unique setting like the EU takes time. Europe cannot progress beyond the will of its citizens.

Therefore, Europe progresses through discussions. In the discussions for changing Europe for better there is a unique role for economists and researchers. I very much like the slogan of Mr. Tommaso Padoa-Schioppa, the very experienced "true" European, former Member of the ECB Board and Governing Council, currently the Minister of Finance of Italy. He says "Keep hopes high and illusions low!" Our role as economists and researchers is to focus on the latter, i.e. to keep illusions low by pointing to "facts" – through thorough analysis of the economic challenges ahead. Nevertheless, also ambitious goals and a certain degree of idealism may have their place and time. The important thing is to maintain appropriate balance between realism and idealism.

I have been referring mostly to European issues but of course Europe is not an isolated island despite its huge size, and many of its challenges are common to all – accelerating globalisation has made all countries and economies increasingly dependent on each other. Like integration, globalisation is an

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issue that raises worries among citizens and policy-makers and many prejudices towards it exist. Tommaso Padoa-Schioppa's slogan applies well also in this area.

Integration and globalisation have brought about very profound changes and have had profound implications for economic policy – and continue to do so. Academic research has been quick to address the new challenges. But as always is the case, the research reacts with a lag and it usually takes some time before the theories and models have been adapted to a new environment. It nevertheless appears that the reaction lag from new policy challenges to new research efforts has diminished.

Or is this just an optimal illusion? If not, then I think one could quite safely argue that the new ways to organise the interaction between academic research and policy-making has contributed to this outcome. Economic Policy Panel presents an innovative way to organise this interaction. It has succeeded in making the results of theoretical and empirical research accessible to decision makers and to their advisors especially in Europe. We therefore have all reasons to congratulate the 20 year-old network and all of you who made it possible.

When I now look at the agenda of our panel, it seems to me that we shall again get useful food for thought. The topics are most interesting and topical touching many current economic policy problems relevant for both EU countries and other countries. Today's topics cover gender wage discrimination, aid agencies and individual accounts in social insurance. While I look forward for thought-provoking discussions I once again welcome you to this Panel and to the Bank of Finland.