

BULLETIN

No. 51 (384) • May 16, 2012 • © PISM

Editors: Marcin Zaborowski (Editor-in-Chief), Katarzyna Staniewska (Executive Editor),
Jarosław Ćwiek-Karpowicz, Beata Górka-Winter, Artur Gradziuk, Beata Wojna

Growth and Jobs in the Policies of the EU Nordic Countries

Lidia Puka, Patryk Toporowski

Despite the fact that growth has been highly-valued in EU policies of the last decade, actions towards its generation have not yielded the expected results. At the same time, the Nordic solutions in supporting entrepreneurship and export, developing research, innovation and science, and shaping social and employment policy, place the countries of Northern Europe at the forefront of global ranking of competitiveness and welfare. Poland should emulate the Nordic solutions to modernise its economy, and to shape the EU growth agenda.

The current economic crisis has slowed down the pace of growth, especially in euro-zone countries. Actions aimed at reducing their national debts were the initial reaction to the low economic performance of the EU. The agenda for the stimulation of the EU's long-term growth and competitiveness has only recently gained importance, during the Danish Presidency of the Council of the EU. Together with Finland and Sweden, Denmark's economy, is among the most competitive in the world, as underlined in the "Doing Business" report (2012), and the "Global Competitiveness Report" (2011/2012).

The Economic Model of the EU Nordic Countries. The growth and jobs agenda, and good state of public finances are the pillars of the development of the economies of Denmark, Finland and Sweden. Their significance has been underlined at the highest political level this year, i.e. in the parliamentary address delivered by the Swedish foreign minister, in the first speech of the president of Finland, and in the speech of the Danish prime minister marking the start of the Danish presidency.

The growth is generated by export (with a GDP share of 38% in Denmark, 25% in Finland, and 30% in Sweden), which includes exports to non-EU countries (about 40%), with a large share of the service sectors. As a result, these sparsely populated countries generate GDP per capita 50% higher than the EU average. The competitive advantage is built on human capital, largely based on innovations, and supported by welfare. On the one hand, public investments stimulate the development of innovations through extensive research and development expenditure, public assistance in sharing the risks associated with those investments, including in small and medium enterprises (SME), an efficient public-private partnership system, and public education adjustments to reflect globalisation.

On the other hand, labour efficiency results from shaping labour law and social policy to provide a high level of protection. This includes participation of the labour unions in the establishment of employment conditions (which has historical reasons), control of the application of the law in practice, a high standard of the health and safety regulations, flexible models of employment, and adjustment of the social system to reflect social realities. At the same time, there are differences between the labour markets of the Nordics, i.e. the Danish *flexicurity* model provides for flexibility and security of employment. In practice, this means the availability of a well-developed social security service as well as more flexible regulations that make it easier for employees to change or leave their jobs. What is common to the economic models of the Nordics is that they require a high level of public investment, and generate high costs of employment (€39 in Sweden and Denmark, and €30 in Finland, for an hour of work, compared to around €7.5 in Poland).

The Nordic Countries Response to Economic Crisis. As a result of the global recession since 2008, these states have recorded a drop in exports and a rise in unemployment (in 2011 this

amounted to 7.4% in Denmark, 8.4% in Finland and Sweden). At the same time, economic growth forecasts for 2012 are moderate (around 0.8% for Finland, 1.1% for Denmark and 0.3% for Sweden), resulting from a slowdown in the EU countries, which are the main recipients of the Nordic countries' exports.

In order to improve their economic position, these countries have limited their budget expenditures on social benefits, including through pension reforms. Simultaneously, they have begun to attract new markets and promote native export in emerging countries. In 2010, the level of exports amounted to 96% in Sweden, 92% in Denmark and 86% in Finland, compared to 2008. Denmark and Finland also introduced public packages to boost growth in the areas of transport, health, education, infrastructure and green technologies. Sweden supports the flexibility and development of small and medium enterprises. The high importance of maintaining competitiveness based on innovation, and of human capital, for Denmark, Finland and Sweden, is proved by the fact that, despite cuts in general public spending due to the recession, in 2009 the level of expenditure on research and development in relation to GDP have risen (3% in Denmark, 4% in Finland and 3.4% in Sweden, compared to the EU-15 average of 2.1% in 2009). They also strengthened their cooperation on matters of growth and employment in regional forums: through the Nordic Council of Ministers the Baltic Development Forum, and a high level political representation during the second summit of the Northern Future Forum.

Conclusions and Recommendations. The Nordic EU countries' high positions in competitiveness rankings, and increases in exports, mean that the "growth, employment and financial discipline-friendly" policy is an alternative to the current model of crisis management in the EU. Although such specific conditions as dependence on exports and capital limit the possibility of direct implementation in other EU countries, this does not exclude the adoption of particular solutions. The next informal meeting of government leaders and heads of state, on 23 May, prior to the European Council of 28-29 June, should clearly define areas of possible pro-growth solutions.

In the case of Poland, the only EU country to have preserved positive growth during the crisis, competition is based on relatively cheap labour, and current growth is clearly dependent on structural funds. Poland is in the middle of the competitiveness rankings, and expenditure on research and development are less than 1% of GDP. An additional threat to Poland's well-being is the fact that, with the launch of the climate-energy package in 2013, economic growth in Poland is likely to be suppressed.

Thus, the Polish government should immediately and definitely reinforce efforts to improve national competitiveness, and to support and initiate regional or EU-level actions for long-term growth. The Nordic countries are natural allies. Their practical solutions can serve as a model in the reform of the education and labour markets, developing research, innovation and entrepreneurship (especially in the SME sector), pro-export policy, digitisation of the economy, and increasing the efficiency of public administration. For the reception of good practice in these areas, the active participation of Poland in the forums of regional cooperation, and interaction between governments to create a project with the Nordic countries is required. Cooperation with Denmark, which began in the trio presidency framework, should be continued in regards to creating a digital services market, or to lifting the internal market barriers.

In order to profit from the EU Horizon 2020 fund for innovation, competitiveness and society (with a proposed budget of €80 billion for 2014-2020 across the whole EU, which is about a quarter of the total amount for the cohesion policy), the Ministry of Science and Higher Education should provide formal support for scientific research institutions and innovative companies wishing to implement projects under the fund. Such measures should include the establishment of a national website, campaigns promoting Horizon 2020, and facilitating the networking with foreign research centres. To use the resources effectively, the Polish players must establish cooperation with potential partners in the EU Nordic countries, starting now.

Poland should also strengthen the growth agenda at EU level, taking into account the needs to modernise the national economy. Of Polish exports overall, 80% currently reach the EU, so growth in these countries will therefore ensure better sales of Polish goods. Consequently, this will have a positive effect on the level of prosperity of Polish citizens, and allow Poland to build additional political capital and trust. Poland's image as an effective organiser, gained during the Polish presidency, is the starting point for shaping the agenda for and practical work towards growth and employment at the EU forum. But this is not possible without adequate measures to improve national competitiveness.