Growth in Time of Crisis: Lessons from Four European Countries

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Abstract: Within the European Union there are examples of countries virtuous who have been able to achieve growth rates of the Gross Domestic Product greater than the average. The four countries with the best performance are Austria, Poland, Slovakia and Sweden, whose economies - of different size and characteristics - have adopted different strategies and policies but have in common a greater resilience during the crisis.

Keywords: Resilience; Austerity policies; Market flexibility; Open economy; Competitiveness

JEL Classification: O43

1 Economic Growth in the European Panorama

On the European scene we are experiencing in recent years a breathless search for viable way to exit the financial and economic crisis by European Union institutions and the Governments of the individual member Countries. The political and economic agenda, in some Countries in particular, is dominated by activities aimed at consolidation of public budgets, with necessary measures for compliance with the Community parameters of the deficit and the Public Debt, but that involve enormous sacrifices for States and their citizens, going to affect negatively on growth and employment. Reiterating the importance of focusing on improvement of the determinants of competitiveness in medium to long term (Man, Lau & Chan, 2002) from the analysis of the results obtained by individual member countries in the last decade, it is possible to identify some success stories in terms of growth and development, in order to highlight those strategies and policies that have proved to be successful, which can be a source of inspiration. A research (TEH-A, 2013) conducted by The European House - Ambrosetti and presented at the 2013 edition of the Forum "Today and tomorrow scenario for competitive strategies" at Villa d'Este in Cernobbio (Italy) showed that within the European Union there are examples of countries virtuous who have been able to achieve growth rates of the Gross Domestic Product greater than the average, also superior to the United States, over the past 10 years as well as during the most recent years of crisis. More specifically, the graph below (fig, 1) shows the average annual compound growth rate (CAGR) of GDP in twenty European countries - for better comparability and increased availability of data the following 20 EU countries members of the OECD were considered: Austria (AT), Belgium (BE), Czech Republic (CZ), Denmark (DK), Estonia (EE), Finland (FI), France (FR), Germany (DE), Greece (EL), Hungary (HU), Ireland (IE), Italy (IT), the Netherlands (NL), Poland (PL), Portugal (PT), Slovakia (SK), Slovenia (SI), Spain (ES), Sweden (SE), United Kingdom (UK)

- measured over the last decade (2002-2012) on the horizontal axis - in order to evaluate the results of growth in the medium to long term - and during the crisis years (2008-2012) on the vertical axis - to measure the resilience, or the ability to deal with the difficult international economic situation, shows that countries that have been able to achieve a positive performance during both time horizons were only four: Poland, Sweden, Austria and Slovakia. By comparison, even the United States (US) were included.

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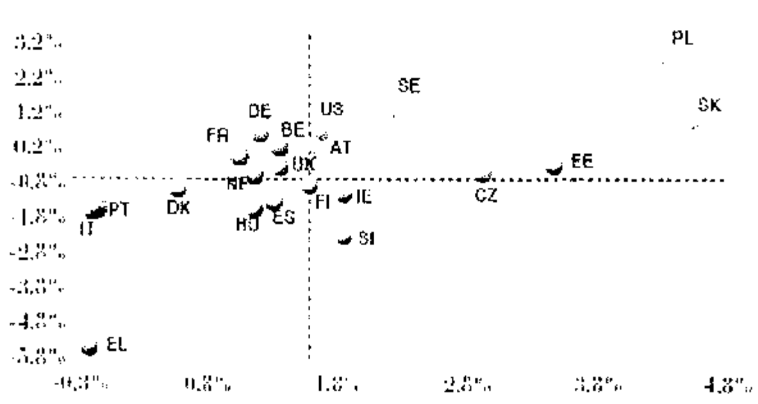
Figure 1. Average Annual Rate of Growth



(Source: re-elaboration on OECD 2014)

In addition to the performance of the GDP, the study focused about a dozen of economic and financial indicators related to the labor market, public budgets, investments attractiveness, innovation, entrepreneurship, etc, measured over the last decade and during the crisis years. The twelve indicators analyzed are: employment rate, labour cost, productivity rate, public debt, exports, international openness index, foreign direct investment, manufacturing value added, research & development expenditure, venture capital, startup costs, tax burden.

2 The Four Countries "Growth Champions"

The four countries "growth champions" identified above are frequently placed among the best in Europe, sometimes uniformly on some indicators, sometimes each on specific parameters: this suggests that their economic growth performance - measured by GDP - are related both to some elements in common, both to specific strategic choices they have taken, that have focused on different factors of competitiveness depending on the structural characteristics of each. In other words, there seem to be several ways to find the growth. Before summarizing the commonalities and differences between the four countries, we briefly describe the performance of each of them and the aspects that seem to have led to their success.

2.1 Poland: a proper balance between austerity policies and incentives for growth

The start of the period of economic growth in Poland dates back more than 20 years ago, but it is especially since accession to the European Union in 2004 that the Polish economy has registered a phase of sustained development. In fact, thanks to the process of privatization, the opening of the market of goods and services, the increasing exports, the inflow of EU structural funds and the increase of the investments from abroad, GDP Polish scored strong growth, with growth rates above 6% in 2006-2007 and remained at values very positive even in the years of the most acute global crisis (4.5% in 2011 and 1.9% in 2012), the only case among European Union countries. An important role for the success of the Polish economy has been played by the rigor of the choices of macroeconomic policy oriented to contain the depreciation of the currency and to keep under control the Public Debt, by important structural reforms (such as the recent increase in retirement age) and by prudent regulation of the financial system, which led to a banking industry that today appears much more solid than in the past. These policies, however, were offset by measures for growth of domestic demand and for stimulating investment (particularly in infrastructure) and by tax incentives and administrative strategies for attracting foreign direct investment (such as the establishment of Special Economic Zones for manufacturing facilities of sectors with high technological content). Finally, the EU structural funds represent a further element on which Poland will continue to base its economic development (especially in the future they will be used to stimulate research and innovation), which has led it to increase its GDP by almost 50% since the access to the European Union today.

2.2 Sweden: a mix of flexibility and stability that leads to competitiveness and wellness

The Swedish economic model, known for being called a "third way" between liberalism and socialism, is based historically on generalized welfare programs, high tax burden, labor market policies aimed at increasing labor mobility and extended training programs, low market regulation, reduced barriers to free trade and efficiency and transparency of public administration. This has undoubtedly allowed the country to lay the foundations for sustainable growth and made it firmly one of the most competitive economies in the world. Sweden has achieved an average growth rate of 2.2% during the period 2002-2012 and, most importantly, a rapid recovery after the hardest years of the economic and financial crisis: GDP set equal to 100 in 2007, at the end of 2012, the Sweden appeared at 105.2, with the European average at 99.3, 103.7 in Germany, 93 in Italy. A crucial factor in explaining the resilience of Sweden to the crisis that began in 2007 is the policy of fiscal consolidation implemented from the end of the nineties. Since 1997 Sweden has been able to reduce by 18 percentage points in public spending, down from 67% of GDP to 49% today and bring down the deficit up to 0.3% in 2013, without facing any particular problems of cohesion social and reduction in the quality of public services. This cutting spending has also allowed a considerable reduction in tax rates: the one applied to enterprises, in particular, has decreased from 26.3% to 22%, thus stimulating investment and job creation. Has been added to this a prompt recapitalization of troubled banks (but less problematic) and the nationalization of insolvent ones that made it possible to obtain a high financial credibility for the Country. Finally, the prerogative of Sweden is to create the necessary conditions for an innovation-based growth, as demonstrated for example by the data of investment in Research & Development: Sweden spends on R & D more than any other country in the world (3.6% of GDP), especially in the field of medicine, biosciences and climate.

2.3 Austria: labour market flexibility and open economy

The macroeconomic data for the years after the crisis for Austria indicate a good recovery of GDP, an unemployment rate that now stands at the lowest level in Europe (4.9%), a decrease in public spending and the increase of domestic demand and investment. The banking sector, very exposed to the markets of Eastern Europe, is coming at a good level of capitalization and manufacturing, specialized in sectors with high added value and quality, it is particularly competitive and rewarded in terms of exports. The causes of the positive performance of Austria for economic growth, employment and social compact must be sought first of all into the international economy relies heavily on exports and capable of attracting foreign investors in the excellent educational system, which has produced a workforce motivated and prepared, in excellent infrastructural facilities and in a particularly flexible labor market, thanks to the role of the social partners who have undertaken the responsibility to submit reforme projects to the government, beyond the traditional role of negotiators in the field of wages and working conditions. The Country seems to be able to recover quickly after the most acute phase of the financial crisis thanks to its solid foundation and the fact of not having particular structural problems that afflict many peripheral economies instead. In addition, it has concentrated its efforts in bridging the gap with European more innovative economies by encouraging investment in research and development and has introduced a tax system especially favorable for businesses. However, in the near future Austria will face different challenges, as a necessary reform of the pension system and the uncertainty of economic recovery in many countries importers of its goods and services.

2.4 Slovakia: the ability to exploit the opportunities of accession to the European Union and of the Euro adoption

Slovakia is the European country that has grown the most over the last decade (4.5% per year on average). In addition, thanks to the resilience of the economy during the crisis years, the ability to attract foreign investment and political stability, Slovakia is in many ways the country with the best performance in the Central and Eastern European. Slovakia has certainly benefited from a strategic geographical position that sees located in the heart of Europe, including Hungary, Austria, Czech Republic, Poland and Ukraine and neighboring Germany. But it should be emphasized above all the political far-sightedness that has led the

European Union on 1 May 2004 and Eurozone on 1 January 2009. The adoption of the euro, in particular, has been a determining factor in the attraction of foreign investors (Schadler, 2005), attracted by the opportunity to neutralize currency risk unlike other countries in the area such as Hungary and the Czech Republic. Among the competitive factors that have enabled Slovakia to achieve good growth rates even in times of crisis should be reported the strong international openness of the economy (exports of goods and services account for about 90% of GDP), a level of corporate taxation advantageous (although recently grown from 19% to 23%) and a favorable business environment. The challenges are instead mainly related to the fight against corruption and the need to fill some gaps in infrastructure.

3. Conclusion: some indispensable condition, but different ways for growth

The analysis of the economic performance of the four countries “growth champions", and of the main factors that have led to its success, allows us to conclude that there are no ready-made solutions to export outright in other European countries, but rather different pathways for growth, although there are some common factors that seem to represent the preconditions for their growth strategies, based on the characteristics of each country. Starting from these elements in common, it is evident that all the analyzed cases have paid particular attention to fiscal consolidation and expenditure restraint (all these countries have a public debt as a percentage of GDP less than 80%) and the restructuring of financial sector as a result of the crisis. Another factor present in all economies observed is the strong international openness, embodied in promoting foreign trade and in offering the best conditions for foreign investors. No doubt Austria, Poland and Slovakia have benefited from the close proximity with Germany, a rich and stable market, but have been able to leverage various competitive factors to exploit this opportunity. Coming to the differences, Sweden and Austria have distinguished themselves for growth policies in the areas of education and innovation, in order to achieve productivity gains and specialize their economy on the production of goods and services with high added value, and improving flexibility of its labor market. Slovakia and Poland, on the other hand, have focused mainly on creating conditions and tax treatment favorable to businesses (Engelschalk, 2005) associated with a cost of work already very profitable, and rapidly improve bureaucracy and regulations related to the "doing business". It should be noted finally as Slovakia and Poland have distinguished themselves for their ability to exploit the opportunities of accession to the European Union, the first with the adoption of the Euro, the second through the use of European structural funds, used profitably in areas that create the foundation for future growth.

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